Welcome! Below are a few housekeeping items to review before we get started.

If you can’t get the audio through your speakers or by VOIP, try dialing in using your phone.

We have a number of participants on the call, so your phones are muted to ensure the best audio quality for everyone.

To ask a question, you can type it into the questions box (pictured to the right) at any time. Questions will be addressed at designated intervals.

This webinar is being recorded. The slides and full recording will be provided to attendees. An email will follow with further instructions.
NFF Webinar Series
Part 3: Tools for Strategic Decision Making

Scenario Planning

Presented by:
Kate Crisalli
Associate Director, Advisory Services

June 5, 2018
NFF envisions a world where capital and expertise come together to create a more just and vibrant society. We unlock the potential of mission-driven organizations through:

- Tailored investments
- Strategic advice
- Accessible insights
2018 National Webinar Series: Strategic Financial Management Tools

Financial Literacy

Part 1: Basics of Nonprofit Finance

- Webinar 1: The Big Picture
- Webinar 2: Reading Financial Statements
- Webinar 3: What Every Board Member Should Know About Nonprofit Finance

Financial Communication

Part 2: Tools for Managing the Day-to-Day and Stakeholder Communication

- Webinar 4: Budgeting Basics
- Webinar 5: Strategic Budgeting
- Webinar 6: Cash Flow Planning
- Webinar 7: Dashboard Development
- Webinar 8: Telling your Financial Story

Financial Planning & Reporting

Part 3: Tools for Strategic Decision Making

- Webinar 9: Program Economics
- Webinar 10: Untangling Multiple Views of Cost
- Webinar 11: Scenario Planning
- Webinar 12: Planning for Growth
- Webinar 13: Building Long-Term Financial Health to Manage Risk and Leverage Opportunities
- Webinar 14: Partnerships and Collaborations
GOALS

Understand the purpose of scenario planning and its utility in identifying strategic options and consequences.

Learn how to develop a scenario plan and the key stakeholders to engage among staff, board, and others.

Explore examples of scenario planning in practice and identify the strategic options each model informs.

Take home scenario planning model.
Scenario Planning Defined

Scenario planning is the process of **visualizing, analyzing and communicating:**

- Future conditions or events;
- Their consequences or effects; and
- How to respond to them.
How do we mitigate Risk

Source: https://thornleyfallis.ca/wp-content/uploads/2013/10/risk.jpg
What Risks or Opportunities Do You Face?

- Program Related Risk
- Potential Funding Loss
- Leadership or Staff Turnover
- Growth/Contraction
- Strategic Partnerships

What triggers should prompt action, what will you do, and what will be the impact?
## Decision Matrix

Prioritizing Risks and Opportunities

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>Time Horizon Affected</th>
<th>Financial Impact</th>
<th>Mission Impact</th>
<th>Degree of Control</th>
<th>Likely to Occur?</th>
</tr>
</thead>
<tbody>
<tr>
<td>RISKS/OPP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Sample Decision Matrix
Prioritizing Risks and Opportunities

<table>
<thead>
<tr>
<th>RISKS/OPP</th>
<th>CRITERIA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Time Horizon Affected</td>
</tr>
<tr>
<td>Partner for advocacy</td>
<td></td>
</tr>
<tr>
<td>Increased demand for existing services</td>
<td></td>
</tr>
<tr>
<td>New program focused on immigrants</td>
<td></td>
</tr>
<tr>
<td>Key gov’t contract not renewed</td>
<td></td>
</tr>
</tbody>
</table>
The Scenario Planning Process

1. **Identify the team** to ensure diverse perspectives from all levels of your organization

2. **Define the scenarios** to articulate the risks, issues or opportunities in question

3. **Gather key financial data** on revenue, expenses, cash reserve, etc.

4. **Isolate the financial drivers** and levers that result in change

5. **Develop the base case and scenarios**
   - Articulate the assumptions you are making within each scenario
   - Assess scenarios to identify headlines, trends and insights

6. **Create an actionable plan** with timeline, benchmarks, actions and clear objectives/priorities

7. **Revisit the scenarios and actionable plan as needed**
Types of Scenario Plans

- **Best/Worst Case Budgets:** “What if’s” of one budget year

- **Go/No-Go Analysis:** Cost-benefit of a strategic decision

- **Detailed Multi-Year Scenario Plan:** Quantifies the effects of choices/events over time and reveals important inflection points, trends or financial drivers

- **Back of Envelope/High Level Analysis:** For low-stakes decisions or to gauge general financial impact; easier to do but may be inaccurate
## Case Example: Best/Worst Case Budgets for Multiple Changes

### Numbers in 000s

<table>
<thead>
<tr>
<th>Budget Description</th>
<th>Best Case</th>
<th>Worst Case</th>
</tr>
</thead>
</table>

### Unrestricted Revenue

<table>
<thead>
<tr>
<th>Description</th>
<th>Best Case</th>
<th>Worst Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Giving</td>
<td>$150</td>
<td>$150</td>
</tr>
<tr>
<td>Foundations</td>
<td>$75</td>
<td>$75</td>
</tr>
<tr>
<td>Department of Education</td>
<td>$250</td>
<td>$250</td>
</tr>
<tr>
<td>Individual Contributions</td>
<td>$15</td>
<td>$55</td>
</tr>
<tr>
<td>Special Events</td>
<td>$55</td>
<td>$55</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$545</strong></td>
<td><strong>$440</strong></td>
</tr>
</tbody>
</table>

### Earned Revenue

<table>
<thead>
<tr>
<th>Description</th>
<th>Best Case</th>
<th>Worst Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership Dues</td>
<td>$10</td>
<td>$8</td>
</tr>
<tr>
<td>Parent Fees</td>
<td>$15</td>
<td>$15</td>
</tr>
<tr>
<td>Facility Rental Income</td>
<td>$30</td>
<td>$25</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$55</strong></td>
<td><strong>$48</strong></td>
</tr>
</tbody>
</table>

### Total Revenue

- **2015 Budget**: $600
- **Best Case**: $658
- **Worst Case**: $488
- Change from Budget Revenue: $58

### Expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>Best Case</th>
<th>Worst Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive Director</td>
<td>$55</td>
<td>$55</td>
</tr>
<tr>
<td>Youth Team Leaders</td>
<td>$105</td>
<td>$105</td>
</tr>
<tr>
<td>Early Childhood Providers</td>
<td>$70</td>
<td>$70</td>
</tr>
<tr>
<td>Tutors</td>
<td>$60</td>
<td>$55</td>
</tr>
<tr>
<td>Site Supervisor</td>
<td>$45</td>
<td>$75</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$335</strong></td>
<td><strong>$325</strong></td>
</tr>
</tbody>
</table>

### Program & Operations

<table>
<thead>
<tr>
<th>Description</th>
<th>Best Case</th>
<th>Worst Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>$75</td>
<td>$75</td>
</tr>
<tr>
<td>Professional fees</td>
<td>$50</td>
<td>$35</td>
</tr>
<tr>
<td>Supplies</td>
<td>$80</td>
<td>$80</td>
</tr>
<tr>
<td>Building Maintenance</td>
<td>$15</td>
<td>$10</td>
</tr>
<tr>
<td>Interest</td>
<td>$18</td>
<td>$18</td>
</tr>
<tr>
<td>Misc</td>
<td>$15</td>
<td>$15</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$253</strong></td>
<td><strong>$233</strong></td>
</tr>
</tbody>
</table>

### Total Expenses

- **2015 Budget**: $588
- **Best Case**: $638
- **Worst Case**: $558
- Change from Budget Expenses: $50

### Surplus/Deficit

- **$12**
- **$20**
- **-$70**
# Thinking Through Financial Levers of Change

<table>
<thead>
<tr>
<th>Budget Levers</th>
<th>Balance Sheet Levers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenses</strong>: What is within your control? What’s easier or harder to change? What most affects outcomes?</td>
<td><strong>Cash &amp; Reserves</strong>: Under what circumstances should you access reserves? Are they Board Designated?</td>
</tr>
<tr>
<td><strong>Revenue</strong>: What new opportunities can be pursued? Can earned income fees be adjusted? Are there funders who can release funding earlier? Can you hold a special fundraiser?</td>
<td><strong>Cash flow</strong>: What is the timing of your cash? Should you look into a line of credit? Can you renegotiate repayment terms with vendors?</td>
</tr>
<tr>
<td><strong>Profitability</strong>: What is our goal? Can we absorb a deficit or MUST we at least break even?</td>
<td><strong>Capital expenditures</strong>: Can you accelerate or delay any facility projects, if necessary?</td>
</tr>
</tbody>
</table>
Conducting the Go/ No-Go Analysis

- High-level Cost vs Benefit Analysis - Create a model to determine the projected costs (expenses) and benefits (revenue) of the Go option.

- Considerations
  - Non-financial benefits (mission/impact goals)
  - Validity of assumptions in costs and benefits
  - Completion risk for new projects or facility projects
  - Liquidity risk for property ownership
## Case Example: Go/No-Go on a New Line of Business

### Theater Group
#### New Line of Business

<table>
<thead>
<tr>
<th></th>
<th>2015 Budget</th>
<th>Description</th>
<th>Off Season Rental</th>
<th>Description</th>
<th>Full Season Rental</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundations</td>
<td>$75</td>
<td></td>
<td>$55</td>
<td></td>
<td>$55</td>
</tr>
<tr>
<td>Contributions</td>
<td>$100</td>
<td></td>
<td>$75</td>
<td></td>
<td>$75</td>
</tr>
<tr>
<td>Special Events</td>
<td>$105</td>
<td></td>
<td>$105</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$280</td>
<td></td>
<td>$235</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Earned Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ticket Sales</td>
<td>$230</td>
<td></td>
<td>$230</td>
<td></td>
<td>$210</td>
</tr>
<tr>
<td>Membership</td>
<td>$75</td>
<td></td>
<td>$75</td>
<td></td>
<td>$75</td>
</tr>
<tr>
<td>Class Fees</td>
<td>$60</td>
<td></td>
<td>$60</td>
<td></td>
<td>$60</td>
</tr>
<tr>
<td>Studio Rental</td>
<td>$0</td>
<td>fees for studio rental</td>
<td>$60</td>
<td>$60</td>
<td>$90</td>
</tr>
<tr>
<td>Equipment Rental</td>
<td>$0</td>
<td></td>
<td>$0</td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$365</td>
<td></td>
<td>$425</td>
<td></td>
<td>$460</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$645</td>
<td></td>
<td>$660</td>
<td></td>
<td>$695</td>
</tr>
<tr>
<td><strong>Change from Budget Revenue</strong></td>
<td>$15</td>
<td>$15</td>
<td>$50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Expenses

#### Personnel
- Executive Director: $65
- Development Director: $45
- Finance Director: $45
- Studio Theater Instructor: $35
- Program Managers: $80
- Program/Admin Assistance: $30
- **Subtotal**: $300

#### Program & Operations
- Building Maintenance: $100
- Professional Fees: $25
- Program Supplies: $130
- Utilities: $60
- **Subtotal**: $330

#### Total Expenses
- **$630**

### Change from Budget Expenses
- **$15**

### Surplus/Deficit
- **$15**
- **-$10**
The Multi-Year Scenario Planning Process

1. **Identify the team** to ensure diverse perspectives from all levels of your organization

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6. **Create an actionable plan** with timeline, benchmarks, actions and clear objectives / priorities

7. **Revisit the scenarios and actionable plan** as needed
## Case Example: Multi-Year Growth Plan

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate donations</td>
<td>130,000</td>
<td>150,000</td>
<td>200,000</td>
<td>250,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Foundation grants</td>
<td>30,000</td>
<td>50,000</td>
<td>75,000</td>
<td>100,000</td>
<td>125,000</td>
</tr>
<tr>
<td>Individual donors</td>
<td>5,000</td>
<td>7,500</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Fee for service</td>
<td>-</td>
<td>20,000</td>
<td>35,000</td>
<td>60,000</td>
<td>80,000</td>
</tr>
<tr>
<td><strong>Total Operating Revenue</strong></td>
<td>165,000</td>
<td>227,500</td>
<td>320,000</td>
<td>420,000</td>
<td>515,000</td>
</tr>
<tr>
<td>% rev growth</td>
<td>-</td>
<td>38%</td>
<td>41%</td>
<td>31%</td>
<td>23%</td>
</tr>
<tr>
<td><strong>Operating Expense</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>280,000</td>
<td>355,000</td>
<td>405,000</td>
<td>450,000</td>
<td>450,000</td>
</tr>
<tr>
<td>Program expense</td>
<td>10,000</td>
<td>15,000</td>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Marketing &amp; Outreach</td>
<td>15,000</td>
<td>22,500</td>
<td>25,000</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Business Development</td>
<td>20,000</td>
<td>20,000</td>
<td>15,000</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Total Operating Expense</strong></td>
<td>325,000</td>
<td>412,500</td>
<td>465,000</td>
<td>510,000</td>
<td>510,000</td>
</tr>
<tr>
<td><strong>Operating Surplus/Deficit</strong></td>
<td>(160,000)</td>
<td>(185,000)</td>
<td>(145,000)</td>
<td>(90,000)</td>
<td>5,000</td>
</tr>
<tr>
<td>Surplus/Deficit % of Expenses</td>
<td>49%</td>
<td>45%</td>
<td>31%</td>
<td>18%</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Capital Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth Capital</td>
<td>350,000</td>
<td>350,000</td>
<td>300,000</td>
<td>150,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Capital Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Curriculum development</td>
<td>50,000</td>
<td>30,000</td>
<td>25,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Website/Online platform</td>
<td>75,000</td>
<td>50,000</td>
<td>50,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Outreach campaign</td>
<td>50,000</td>
<td>50,000</td>
<td>30,000</td>
<td>25,000</td>
<td>-</td>
</tr>
<tr>
<td>Impact measurement platform</td>
<td>10,000</td>
<td>25,000</td>
<td>25,000</td>
<td>10,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Surplus/Deficit</strong></td>
<td>5,000</td>
<td>10,000</td>
<td>25,000</td>
<td>25,000</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Capital Reserve</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Readiness Fund</td>
<td>350,000</td>
<td>360,000</td>
<td>385,000</td>
<td>410,000</td>
<td>415,000</td>
</tr>
</tbody>
</table>
The Multi-Year Scenario Planning Process

1. **Identify the team** to ensure diverse perspectives from all levels of your organization

2. **Define the scenarios** to articulate the risks, issues or opportunities in question

3. **Gather key financial data** on revenue, expenses, cash reserve, etc.

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5. **Develop the base case and scenarios**
   - Use multi-year budgets for the base case and separate versions of that budget for the scenarios
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   - Assess scenarios to identify headlines, trends and insights

6. **Create an actionable plan** with timeline, benchmarks, actions and clear objectives / priorities

7. **Revisit the scenarios and actionable plan as needed**
Creating an Actionable Plan

Create an actionable plan to help determine what decisions you will make, when, and how, including:

- Clear objectives/priorities
- Roles and responsibilities
- Timeline & benchmarks
- Adjustments in spending, revenue strategies or other financial strategies
- Other actions needed to achieve objectives

The following questions may be useful in creating a plan:

- What are immediate, concrete next steps?
- Who is charged with executing the plan and what decisions need to be made?
- What triggers will lead to Plan B, Plan C, etc.?
- What is the communication strategy?
Take Home Tools/
Additional Resources

✓ Decision Matrix
✓ Scenario Planning worksheet
✓ Scenario Planning budget tool
✓ Action Plan Template
2018 National Webinar Series: Strategic Financial Management Tools

Part 1: Basics of Nonprofit Finance
1: The Big Picture
2: Reading Financial Statements
3: What Every Board Member Should Know About Nonprofit Finance

Part 2: Tools for Managing the Day-to-Day and Stakeholder Communication
4: Budgeting Basics
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11: Scenario Planning
12: Planning for Growth
13: Building Long-Term Financial Health to Manage Risk and Leverage Opportunities
14: Partnerships and Collaborations
NFF Would Like to Thank the Following Organizations for Their Partnership

Forefront
Engaging for impact

MARYLAND NONPROFITS

KENTUCKY NONPROFIT NETWORK

HANO
Hawaii Alliance of Nonprofit Organizations

Massachusetts Nonprofit Network

m.n.a.
Michigan Nonprofit Association

NEO
CREATIVE, INSPIRED PHILANTHROPY

cultural ALLIANCE

greater philadelphia

NATIONAL PERFORMANCE NETWORK

Human Services Council

THE RAPIDES FOUNDATION

Center FOR NON-PROFITS
Helping organizations build a better New Jersey
Thank You!
To Stay Connected...

Learn More  nonprofitfinancefund.org
Twitter  twitter.com/nff_news
Facebook  facebook.com/nonprofitfinancefund
Our Blog  philanthropy.com/blogs/money-and-mission
Sign Up  nonprofitfinancefund.org/sign-up
RSS  nonprofitfinancefund.org/news/feed
Get in Touch!  webinars@nff.org
WORKSHEET: Steps for Scenario Planning

1. **Identify the team:** Ensure diverse perspectives from all levels of your organization.

2. **Define the scenario:** With your team, define the question, event or risk that the scenario is exploring? Define the scope and depth of your analysis.

3. **Gather key financial data:** How will revenue and expenses be affected? By how much? Will there be one-time and/or ongoing costs? What revenue or expense are tied to each other or drive changes across the board, for ex., ? Will you need to use cash reserve, debt or other balance sheet resources?

4. **Isolate the financial drivers** and levers that result in change

5. **Develop a baseline or base case:** What is most likely financial picture without the scenario? This might be a single or multi-year budget. Make note of the assumptions you are making to build this base case. For example, which funders are you assuming will continue to support you in the future? Are you assuming a flat budget or growth? What programs will you be running? How are costs escalating over time? It’s a good idea to make conservative assumptions and test them with others.

**Develop scenarios, including financial adjustments:** How will the financial picture change from your “Base Case” if the event, risk or opportunity takes place? Budget line by budget line, make your best educated guess on how revenue, expenses and balance sheet will be affected. Document your assumptions and your confidence level with those assumptions. It’s a good idea to make conservative assumptions and test them with others.

**Assess the scenarios:** Compare your base case with your scenarios. Articulate the headlines, major trends and insights. Note important events, decision points or risks. Complex models may benefit from a narrative or graphs.

6. **Create an actionable plan for each case:** Develop a realistic plan that defines financial objectives, actions, timeframes and benchmarks. Assign responsibilities and decision rights.

7. **Revisit the scenario plan as needed:** Monitor key risks and opportunities and adjust your plan as needed.