

The NonProfit's Guide to Making Data-Driven Decisions

5 Steps to Increase Outcomes,
Raise More Money, and
Improve Cash Flow



Nonprofits Should Be Run Like For-Profits

...with Actionable Financial Intelligence.



Just like a *well-run business*,
a nonprofit also needs

Actionable Financial Intelligence

to help management and the board
make better decisions
that will create outcomes to
“fulfill the mission.”

Start with the end in mind

- What decisions do you need to make?
- What are the drivers of those decisions?
- What data do you need to measure and monitor those drivers?

A nonprofit's board and stakeholders should be looking at **management reports** with **actionable financial intelligence** to make data-driven decisions.



The Five-Step Framework

Learn how to get **actionable financial intelligence** out of your accounting system using a **Five-Step Framework**.

Your decisions will be backed by Key Performance Indicators (KPIs) and management reports that provide powerful insight into your organization's sustainability and growth.



Define Your Mission

Understanding why your organization exists and documenting the desired outcomes makes it clear as to what it takes to fulfill the mission.

Start with goals that are in writing and clearly defined. For many nonprofits, the top three goals focus on how you:

- *Serve more people*
- *Create better outcomes for the people you serve*
- *Get more donors to contribute towards those outcomes*



Focus on the Core Program Decisions Matrix

To be a successful nonprofit, you need to make many decisions that steer the organization in the right direction.

There are **four core areas of decision-making for nonprofits** that are key to organizational success...



What Decisions Do You Seek To Be Successful?



Which **programs** do you stop, start, or continue?

When should you hire **staff**?

Whom should you serve – what defines the right **client**?

How do you get the biggest ROI from **development**?

If you get the core decisions right, you will improve the quality and the quantity of your **outcomes**.

So how do you make those decisions? What are the drivers of those decisions?

Identify the outputs that drive outcomes...

Identify the Outputs that Drive Outcomes

What do your programs or services produce in numerical form? These are your outputs.

For Example: # of meals served, counseling sessions, clients served

Review your **outputs and outcomes** in two ways:

1. Measure the efficacy of each program
(non-financial metrics)
2. Measure the economics of each service unit
(what does it cost to do what you do?)



Measuring the Economics of Each Outcome

+ Program Income
Direct Labor
Direct Materials
- Cost of Services (COS)
= Gross Profit or Loss
- Indirect Expenses (Overhead)
= Net Operating Income or Loss

Unit economics is the relationship between revenue and costs. **Gross Profit is the most important concept in understanding unit economics.**

By understanding your unit economics, it allows you to compare your outputs for your:

- **PROGRAMS**
- **CLIENTS**
- **SERVICE UNITS**

It's also important because it allows you to show your donors the ROI on their investment.

Design a Management Reporting System



Design a reporting system to show you the unit economics for each of the drivers of your decisions.

Typically your primary drivers are the outputs. Track the economics of your outputs – **Your outputs are programs, clients, service units...**

Change Your Chart of Accounts

#1 Track Cost of Services (COS)

- › *Include Cost of Services (COS) to get your Profit or Loss for each Program, Service Unit and Client*

#2 Separate Development Income & Expense

- › *Move development income and expenses accounts below your "Net Operating Income" accounts*
- › *This allows you to see the amount of money you need to raise and the profitability of your development activities.*



What reports should you be looking at?

Putting Development Income and Expenses side by side like this also allows you to see the profitability of each Development activity.

This makes it easy to see which fundraisers provide the best ROI.

A Caring NonProfit P&L By Class	Programs						Cost Centers	
	Total	Day Habilitation Services	Home Community Services	Residential Services	Transportation	Thrift Store	Development	Administration
+ Program Income	X	X	X	X	X	X		
Direct Labor	X	X	X	X	X	X		
Direct Materials	X	X	X	X	X	X		
- Cost of Services (COS)	X	X	X	X	X	X		
= Gross Profit or Loss	X	X	X	X	X	X		
- Indirect Expenses (Overhead)	X	X	X	X	X	X	X	X
= Net Operating Income or Loss	X	X	X	X	X	X	X	X
+ Development Income	X	X	X	X	X		X	
Restricted Grants	X	X	X	X	X		X	
Unrestricted Grants	X	X	X	X	X		X	
- Development Expense	X						X	
= Net Development Profit or Loss	X	X	X	X	X		X	
= Net Income or Loss	X	X	X	X	X	X	X	X

This format also tells you which programs and services bring in the most and contribute the most to the fundraising goal.

Profit & Loss by Program

Program Income includes the money earned from delivering your products or services.

You divide this by the number of outputs to show economics per output
Drill down to clients and services.

P&L By Programs	Programs					
	Total	Day Habilitation	Home Community Services	Residential	Transportation	Thrift Store
+ Program Income	X					
Direct Labor	X	X	X	X	X	X
Direct Materials	X	X	X	X	X	X
- Cost of Services (COS)	X	X	X	X	X	X
= Gross Profit or Loss	X	X	X	X	X	X
- Indirect Expenses (Overhead)	X	X	X	X	X	X
= Net Operating Income or Loss	X	X	X	X	X	X

Profit & Loss by Service Unit

Service unit economics allows you to measure **financial effectiveness** across each program and compare programs to see which are most effectively using your funds.

Knowing your desired outcomes, and how much it costs to get there, allows you to show an ROI and raise more money.

P&L By Service Unit	Residential Program				
	Total	Housing	Meals	Nursing	Fitness
+ Program Income	×	×	×	×	×
Direct Labor	×	×	×	×	×
Direct Materials	×	×	×	×	×
- Cost of Services (COS)	×	×	×	×	×
= Gross Profit or Loss	×	×	×	×	×
- Indirect Expenses (Overhead)	×	×	×	×	×
= Net Operating Income or Loss	×	×	×	×	×

Total cost of meals served / the number of meals served = cost of meals

Profit & Loss by Client



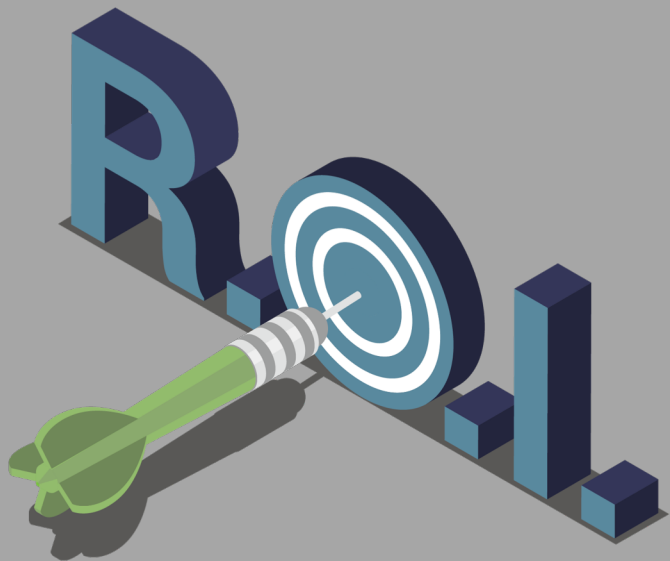
1. Track time & do Job Costing to get an actual P&L

The best run service organizations track the time of their people. **It's the only way you can see the "true" costs of the services you deliver.** This allows you to see actual labor costs for each program, client or service.

2. Average economics

If you don't track time, you can get an average P&L by client by taking your P&L by program and dividing by the number of clients served. **That's a great way to understand your client economics and show the funding needed to run each program.**

Making Data-Driven Decisions



By building a **management reporting system** that provides data to drive better decisions, you're ensuring that your programs are optimized and your development dollars are getting the best ROI possible.

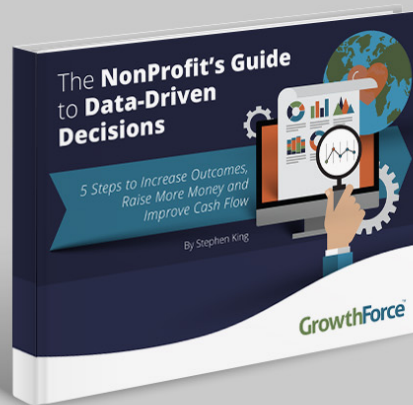
You'll be able to answer the questions in the **Core Four Decision Matrix** on **Programs, Staff, Clients** and **Development**.

Financial Intelligence to Help You Fulfill Your Mission

The **Five-Step Framework** helps you understand the KPIs that drive impacts, and gives you **actionable financial intelligence** to help you make data-driven decisions.

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