CASE 19:
NON-PROFIT REVENUE DECLINE

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Firm Style	Interview Round
All	1

Case Question:

Non Profit organization has seen declining profitability and has asked for our help in determining the reasons for the decline and ideas to improve.

Clarifying Questions & Answers

Provide the following answers only if the interviewee asks the corresponding questions.

Question	Answer
Sources of revenue	• Membership dues • University subsidy • Fiscal sponsorship revenue for accounting services
Costs	Costs have been steady across the organization (approximately $1 mil for the entire organization). If an interviewee is interested, the major costs for the organization are almost entirely fixed: labor, rent and utilities, printing a magazine, software licensing, and postage for mailings
Changes in revenue	• Subsidy ($200,000) and Membership ($300,000) have been steady and fixed. The fiscal sponsorship revenue has seen a decline ($500,000-400,000) • No product mix changes

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Framework / Structure

This is a profitability case. The analysis may include, but is not limited to, the following areas:

- Analysis of the causes of profitability decline
  - The first key insight should be that the declining revenue has led to declining profits since the costs are unchanged and service mix has not changed.
- The candidate should then ask for the details of fiscal sponsorship so as to come up with potential causes of revenue decline in this area:
  - **Fiscal sponsorship can follow several different models but in this case operates as a fee for service model, providing tax-deductible gift processing and accounting services for other organizations within the university community. Fees are based on a percentage of assets held under management. Revenue has declined from $500,000 to $400,000, and the fee is based on 50 basis points of assets under management.**
  - **The interviewer can then ask the candidate to come up with potential causes of fiscal sponsorship revenue decline. Some answers can be:**
    - Fewer clients
    - The same client with less assets
    - Deterioration of asset value without withdrawal (decline in investment value)

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- **The client has seen a significant decline in asset value due to significant investment losses. What is the net value of the asset markdown?**
  - \$100,000/.005 = \$50,000,000
  - The original value must have been \$250 mil under management and is now down to \$200 mil, which means the client needs to acquire \$50 mil in additional assets to manage.
- **In what ways do you think the client could boost revenue to compensate for the asset losses? – This is a good place to ask "what else?"**
  - New clients (ask where)
  - Additional funds from currents clients
  - Other sources of revenue:
  - Magazine ads
  - Rental space
  - Increase membership donations
  - Try to increase membership participation through marketing
  - Direct donations
  - Increased subsidy

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- **The client has discovered the possibility of extending fiscal sponsorship beyond the current client base. What issues do you think need to be considered before they open their services?**
  - Revenue – within the community, the client believes it can obtain an additional 20 clients who bring approximately $1.5 mil each for the client to manage.
  - Cost – The acquisition costs are minimal, but the client would have to hire an extra analyst ($50,000 fixed) to help manage the new clients' accounts.
  - Capacity – the client's current staff would be insufficient and would require hiring a new analyst at $50,000 (see cost)
  - Legal – the client is allowed to offer its services to other non-profits whose mission fits with its own
  - The new project would bring in $1.25 mil * 20 = $30 mil in assets, which would produce .005 * $30 = $150,000 in revenue.
  - The new project would cost $50,000.
  - The net result is an additional $100,000, which compensates for the revenue lost.

Additionally, since the client revenue is tied to invested assets, hopefully these assets will provide positive returns in the future and additional revenue growth.

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Recommendation

The recommendation should include the following:

- The answer – The client has seen a decrease in profitability driven by a decrease in revenue associated with fiscal sponsorship. This is in turn because of the decrease in asset value due to significant investment losses. To counter this decrease, the client needs at least $50 million in additional assets to manage. The client should increase the current client base to gather additional assets to manage – the costs are manageable and the client will be able to salvage lost revenue. Additionally, this approach will potentially provide long-term future returns.