

ALIGNING THE PIECES

*National Cost Benchmarks for Nonprofit
Strategic Plans and Business Plans*



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INTRODUCTION

With a strong advocacy partnership of more than 300 nonprofits and a funding community that communicates and collaborates regularly, Pittsburgh is a unique region for nonprofits. But the capacity building needs of many organizations in this region are the same as those faced by agencies throughout the country. Through its Management Assistance Grants, The Forbes Funds is committed to strengthening the capacities of agencies in the greater Pittsburgh region as efficiently and effectively as possible, while simultaneously informing the national dialogue around philanthropy and nonprofit capacity building.

The Forbes Funds undertook this benchmarking project in order to assess how the cost of its expectations for strategic planning and business planning compared to those of funders and consultants throughout the country. Additionally, it was important to gauge how these expectations compared to the nonprofit capacity building work being done nationally in these areas.

This project stemmed directly from the new evaluation system at The Forbes Funds, which is designed to assess the functional aspects of the capacity building process and provide a number of key opportunities for learning. As a piece of this system, Core Component documents for strategic plans and business plans have been developed to align consultants, agencies, and The Forbes Funds around a common definition of high-quality deliverables and to frame the capacity building engagements. The development of these documents was guided by leaders in the field, as well as a committee consisting of stakeholders from nonprofit leadership, foundations, law, academia, and consulting. For the purposes of this project, simplified versions of the Core Components for strategic plans (Appendix A) and business plans (Appendix B) served as a standard from which project costs were derived.

Benchmarking is a process of assessing the activity of your organization in relation to others involved in similar activities.

METHODOLOGY

A total of 11 foundations and 10 consultants from throughout the country participated in this project. The size of the foundations ranged from under \$25 million to more than \$5 billion. The consultant group includes a mix of national consulting firms, independent consultants, and Management Support Organizations (MSOs). All sources, except for one consultant, were contacted via approximately half-hour to one hour long phone calls and, in all cases, the definitions of strategic plans and business plans were either provided electronically or explained verbally. Due to circumstances, one consultant was communicated with only via email, and was provided the same information. 10 (91%) foundations provided expected project costs for strategic plans and 6 (55%) provided expected project costs for business plans. In some instances, the provided standards for strategic planning closely mirrored foundations' expectations for what they referred to as business plans. When this occurred, the projected costs were included in the strategic planning data, in alignment with the scope of the attached components. Of the 10 consultants involved in this project, all (100%) provided expected project costs for strategic plans, and 9 (90%) provided costs for business plans. Nearly all consultants and foundations provided a range of expected costs (for example, \$25,000-\$30,000).

In each of these instances, a mean cost was derived. Additionally, a number of consultants provided a range of hourly rates and hours of consultant time regarding each project area. Average hourly rates and average consultant time were used to calculate the cost in each of these instances. An average of all foundation costs was then calculated for both strategic plans and business plans. The same was done in the consultant group. The group average costs were then used to determine an overall mean cost for both project areas. Additionally, open-ended conversations analyzed a number of issues related to cost, such as severity of additional agency issues, necessary timeline, size of funding community, and experience of consultants.

BENCHMARK FINDINGS

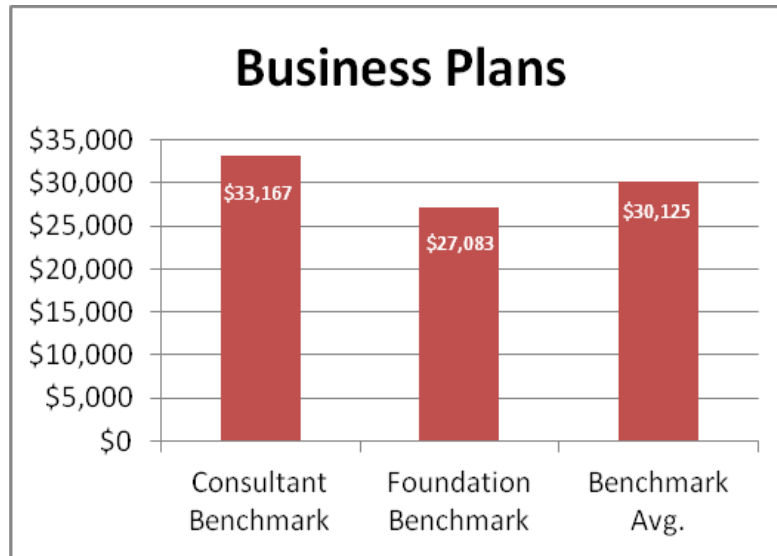
Figure 1 and Figure 2 depict benchmark project costs for strategic plans and business plans, respectively. Each figure displays average cost as stated by consultants and foundations, as well as the average of the two groups' average price points. For both strategic plans and business plans, the project costs expected on the part of foundations were less than those of consultants. While this may not necessarily be surprising—both groups want to maximize their return on investment—it is an important finding from the data. This finding is more pronounced for business plans than strategic plans, as is further elaborated below.

Figure 1. Strategic Plan Project Costs



The average cost stated by foundations for strategic planning was \$26,125. In comparison, consultants stated their average cost would be \$30,500. The resulting gap for strategic plans between average funder and consultant expressed costs was \$4,375. Thus, consultants estimated their costs as almost 17% more than foundations did. The overall average of the consultant and foundation averages for strategic planning was \$28,313. Using the averages expressed by individual foundations, project costs ranged from \$12,500 to \$40,000. Average consultant stated costs ranged from \$20,000 to \$45,000. The averages of both of these ranges align closely with the average costs for each group depicted in Figure 1.

Figure 2. Business Plan Project Costs



The data related to business plan project costs present additional findings, both as a unique set of data and in comparison to the strategic plan data. The overall average of the foundation and consultant average costs for business plans was \$30,125. This is slightly higher (\$2,347) than the overall average cost of strategic plans. Similarly, both the foundation and consultant groups felt the cost of business plans was higher than that of strategic plans. However, when foundation and consultant groups are looked at independently, these two groups stated fairly different project costs for business plans. The average project cost for business plans expressed by consultants (\$33,167) was \$6,084 more than that expressed by foundations (\$27,083). This gap demonstrates consultant stated costs as about 22% higher than foundations projected. The cost of business plans according to consultants was \$3,737 higher than their stated costs for strategic plans (\$33,167 compared to \$29,430). In comparing foundation cost estimates, business plans were expected to cost \$958 more than strategic plans (\$27,083 compared to \$26,125). One more finding relates to the ranges for business plans between the two groups. Using the average costs as stated by individual foundations, the costs range from \$17,500 to \$35,000. For consultants, the costs range from \$10,000 to \$60,000. The averages of each of these ranges align generally with the averages for each group depicted in Figure 2, though the range sizes vary noticeably.

INSIGHTS

This work, while focused on benchmarking the costs related to strategic planning and business planning, illuminated a number of insights worthy of consideration by those working in or with the nonprofit sector. These represent comments made by both foundations and consultants. Where an insight represents comments of only one of the groups, it is noted. Importantly, the insights below represent key directions for capacity building, funder-consultant relationships, and nonprofit sector research, as stated by those involved in this work on a daily basis. The purpose of this section, then, is to expand the dialogue around these issues by presenting pertinent insights and trending issues related to this work. These comments are expressed below.

- ❖ There remains significant disagreement in the sector about the timing and components of strategic planning and business planning; clarifying differences between the two plans is an important direction for foundations and consultants to move in.
- ❖ Components 6-9 in Appendix A are not common components of most strategic plans, yet would likely address major weaknesses of strategic planning (i.e., plans not grounded in organization's reality and plans not being implemented)
- ❖ Foundations who provided funds for implementation after planning felt this was a critical aspect of their capacity building work.
- ❖ Consultants consistently mentioned it was a rare, and appreciated, occasion to be solicited by a funder seeking their perspective, as they tend to feel left out of similar discussions in philanthropy.
- ❖ A number of foundations leave the cost of capacity building to program officers' discretion, and leave the capacity building process and deliverable to the discretion of consultants. (A few foundations were contacted and not included in this project because they had no knowledge of the costs or components of the plans they fund).
- ❖ Project costs for strategic planning and business planning tend to closely mirror what local funders typically provide and, as such, foundations should be aware of their impact on the consulting market.
- ❖ Foundations with limited funding for these projects can reduce overall project costs of these plans by having agencies complete a portion of the market research on their own, emphasize depth in certain components over others or, as a foundation, do more upfront diagnostic work before a consultant is brought in.

CONSIDERATIONS

There are a number of key considerations to be noted. One is that the project costs presented represent averages, both of the costs that each consultant or foundation provided and overall for each group. A lot of important information is missed in this process. Even amongst the averages of individual firms or foundations, substantial variability existed. For instance, consultants noted business plan costs of between \$10,000 and \$60,000. One can easily forget that there are innumerable variables that can, and do, impact the cost of strategic planning and business planning projects. The purpose of this project is not to outline these variables—which philanthropy and consulting likely recognize already—but to provide some substantive benchmarks for the capacity building field to use, with the caveat that specific project costs are heavily influenced by additional factors. One should be confident that the numbers presented in Figures 1 and 2 represent decent “middle road” costs. However, foundations and consultants must recognize and accept that the range of costs can swing substantially below and above the numbers presented.

Additionally, the expectations for strategic plans and business plans discussed in this project tended, in some instances, to be more comprehensive than foundations have typically funded or consultants typically included, and so the costs presented tended to reflect estimated project costs, rather than experience with such expectations. This limitation was addressed to the extent possible by contacting a number of parties and ensuring that all were discussing the same project expectations.

CLOSING THOUGHTS

The benchmark costs included herein represent a very general project cost for strategic planning and business planning related to the attached components. Despite how rough these results are and the limitations expressed above, a number of foundations and consultants, in addition to all of those who participated in this work, have expressed a strong interest in the findings of this project. This is likely because such benchmarking data do not currently exist. The widespread impression is that, despite the variables that can impact cost, this is valuable information to be collected and disseminated with the field.

A number of foundations expressed interest in the project due to their own internal lack of knowledge related to the amount and quality of capacity building they currently fund. Multiple foundations also mentioned that they have tended not to communicate about these project costs with other funders, whether nearby or in other regions, and were interested in understanding where their grant amounts landed in comparison. Such is the purpose of presenting the findings of this project. By providing average costs and a set of expectations for capacity building, the philanthropic field has a starting point for internal grantmaking analysis and further evaluation (i.e., what are we expecting, how much are we paying for it, are agencies getting what they need, and how can we improve?).

While the standards used in this work need not be universally adopted, it is hoped that the usefulness of standards for capacity building deliverables, and their relevance for benchmarking and evaluation, is made quite clear from this project. Future evaluation of The Forbes Funds grantmaking will assess the extent to which these standards, as a piece of a comprehensive grantmaking and evaluation system, lead to immediate, short-term and long-term organizational impact.

ABOUT THE FORBES FUNDS

The mission of The Forbes Funds is to strengthen the management and policy-making capacity of the nonprofit sector by providing the support, resources and knowledge needed for high-performing nonprofits. The Forbes Funds pursues its mission by helping philanthropists to become better grantmakers and helping providers to better serve the needs of their communities.

For more information about the work of The Forbes Funds, please visit www.forbesfunds.org.

**We gratefully acknowledge the many organizations and individuals
who contributed data and insight to this project**



Appendix A. Strategic Plan Components

1. **Values, Vision and Mission** reviewed and (as necessary) revised during the planning process;
2. **Needs Assessment** includes organizational assessment, comprehensive literature review of similar local and national organizations, an in-depth environmental scan and strong, relevant market research;
3. **Agency Priorities** identified from a detailed needs assessment;
4. **Short and Long Term Goals and Objectives** with specific measures in order to assess progress;
5. **Key Strategies and Activities** necessary to meet goals and objectives for specific target populations;
6. **Staffing Capacity and Needs** to move the agency forward;
7. **Board and Volunteer Capacity and Needs** to move the agency forward;
8. **Funding Needs and Opportunities** to ensure financial stability should come out of the budget aligned with the plan;
9. **Implementation Recommendations** for effective and successful implementation by organization's leadership to ensure organizational accountability for achievement of goals and objectives;
10. **Additional Needs** as specified in RFP or arose during the planning process.

Appendix B. Business Plan Components

1. **Executive Summary** that provides a strong, yet concise, overview of the organization and the business opportunity;
2. **Organizational Description** with a brief background, mission/vision/values, organizational stage, key products/services, potential liabilities and exposure, and future plans resulting from most recent strategic plan;
3. **Service/Product Line** detailing exactly what is going to be sold and how this meets a demand in the target market, as well as the risks involved and strategies to address them.
4. **Industry and Market Analyses** that describe chief characteristics, current market share/trends/growth potential, profitability of venture, competitor/service comparisons, and similar/related/substitutable businesses that will impact venture's success.
5. **Target Market Analysis** that describes who the service/product is targeted towards and how this was determined, scope of issue, and secondary markets.
6. **Marketing Strategy** that details and explains process for determining the service/product price point, distribution channels, marketing penetration goals, and how advertising/public relations/promotion will be used.
7. **Operations and Management** describing executive staff and qualifications, Board of Directors with qualifications, (if applicable) Advisory Board members and positions, the operating model (to be) used, and current and expected staff. This section should also identify the risks involved with Operations and Management and detail strategies to address them.
8. **Milestones and Timeline** that specifies what major milestones are to be achieved and why, a schedule for when they will be achieved and who is responsible for each, and the resources necessary for the achievement of each milestone.
9. **Exit Strategy** that demonstrates an understanding the venture may eventually need to be divested or closed, and a brief plan explaining which options will be considered.
10. **Financial Data and Projections** that explain the initial and proposed sources of funding, a funding request, (if applicable) current financial statements (Statement of Financial Position, Statement of Activities, and Budget to Actual), financial projections and assumptions, as well as an understanding of the business risks involved in the venture.
11. **Appendices**