



# COST ANALYSIS

Your Value Proposition and Sustainability

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# UNDERSTANDING THE VALUE OF YOUR SERVICE

Define Value

Why is this important?

# DATA COLLECTION

- Determine the question you are trying to answer
- Define your data in terms of what you want to know
- Identify your assumptions and record them

# HOW MUCH SHOULD I CHARGE?

- Do you know the actual cost of service?



# CALCULATING THE TRUE COST

- How hard can it be?
- $\$10,000/100 \text{ lessons} = \$ 100/\text{lesson}$ 
  - Ask the question you want to have answered



# WHAT DOES IT REALLY COST?

- Calculating the True Cost
  - General and administrative expenses
    - Board
    - Legal services
    - Accounting
    - Insurance
    - Office management
    - Audit
    - HR
    - Annual report
    - Management of investments
  - Fundraising expenses
  - Program expenses

# THE OVERHEAD MYTH

- What does it take to stay in business?
- Consider “full costs” which include more than direct program expenses.
- Nonprofits need to be able to pay more than just the day-to-day operating expenses including overhead. They need to generate a surplus to reinvest in the organizations future!
- Communities pay the price when the full costs are not met.
- Know your true costs.

# COST ANALYSIS CONSIDERATIONS

- What do you want to include as an expense of the service?
  - Fundraising cost?
  - Admin cost?
  - Program cost?
    - Fixed
    - Variable



# COST ANALYSIS CONSIDERATIONS

- Fixed costs  
Expenses that don't change in proportion to the activity, i.e. insurance expenses
- Variable costs  
Expenses that change directly in relation to the activity, i.e. direct instructional expenses
- How detailed do you want to get?

# PER DIEM SERVICES

If you pay an hourly rate for facility, horses, instructors, etc., then your cost per lesson is pretty straight forward as these are all variable costs.



# HERD COST

## Determine your herd cost

- It is fixed in the sense you pay it regardless of usage
- Equal to all equine related expenses-vet, tack, feed, etc.
- Divide by # of horses to get a per horse average

# HERD EXAMPLE

- Annual herd cost = \$22,000
  - $\$22,000/5 \text{ horse} = \$4400/\text{horse}$
  - $\$4400/365 = \$12.05/\text{horse}/\text{day}$
- 
- But how much do you expect your horses to work?
  - Is there a better number than 365 to divide by
  - What is the *capacity* of the horse to deliver service?

# CAPACITY

- Horse Capacity (theoretical)
  - Allowable maximum working hours per day (or week) per horse
  - Add them up and divide by # of horses for an average

Actual Horse Usage (scheduled vs delivered)

Actual lessons scheduled

Actual lessons delivered

# CAPACITY EXAMPLE HERD STATISTICS

Mr. Ed 3/day

Misty 2/day

Jack 4/day

Smokey 3/day

Buddy 3/day

Average is  $15/5 = 3$  per day



# CAPACITY EXAMPLE

- Average # of working days-  $5 \text{ days/wk} \times 44 \text{ wks/yr} = 220 \text{ days/year}$
- $220 \text{ working days} \times 5 \text{ horses} \times 3 \text{ hours/day} = 3300 \text{ horse capacity working hours}$
- THEORETICAL Capacity

# CAPACITY EXAMPLE

- 3300 horse lesson units
- What other factors do we need to consider?
  - Scheduling of riders, volunteers, instructors with appropriate horse
  - % achievable scheduling – e.g. historical data indicates 90%
  - 2970 usable horse hour units
  - Cancellation rate of 8 % due to weather, illness, etc.
  - 2732 delivered horse lesson units



# WHAT IS THE HERD COST/LESSON?

Capacity	Lessons	Herd Cost	Unit/Hour Cost
Theoretical	3300	\$22,000	\$6.66
Schedulable	2970	\$22,000	\$7.40
Delivered	2732	\$22,000	\$8.05

# FACILITY COST

All costs associated with your facility

Rent/Mortgage

Facility insurance

Staff

Repairs and Maintenance

Cleaning

Utilities

# COST PER UNIT

Facility	\$15.99	Total Expenses	\$47,500
Horse	\$7.40	Total Expenses	\$22,000
Total Facility/Horse Cost Per Unit	\$23.39		

# DIRECT PROGRAM EXPENSES

Program Payroll	120,000
Volunteer	12,000
Program Total	132,000
Cost per Unit	\$44.44

# TOTAL PROGRAM COSTS

	# of Lessons	Herd Costs	Facility Costs	Payroll and Volunteer Expenses	Cost per Lesson
Schedulable	2970	\$7.40	\$15.99	\$44.44	\$67.44

# CAPACITY AND ALL COSTS

Capacity	# of Lessons	Program Costs	G & A Expenses	Herd/Facility Cost	Cost per Lesson
Schedulable	2970	\$44.44	\$26.94	23.39	\$94.77

# OPTIONS TO THIS COST ANALYSIS

What services do you provide?

Is there a difference in cost per service?

Do you want to drill down to cost per service?



# DEFINING COST PER SERVICE

Lesson/Treatment time  
Cost of personnel





# PROGRAM STAFF

- Therapeutic Riding Instructor – 1 f/t at \$30,000 year + \$6,000 a year in benefits and taxes/52 weeks/40 hours week = \$17.31 hour
- Therapeutic Riding Instructor – 1 p/t at \$16.00 hour including taxes
- Average is \$16.65/hour

# SETTING YOUR TUITION

- How much do you charge?
  - What percentage of the true cost- 25% 33% 50%



# SETTING YOUR FEES

- Factors to Consider
  - What will the market bear
    - Is there local competition
- Access to Service
- Pricing Elasticity
- Financial Aid

# DIFFERENTIATION OF SERVICES

- Different rates for different services based on cost
  - Group lesson vs. private lesson
  - Hippotherapy vs. therapeutic riding
  - Equine-facilitated psychotherapy versus equine-assisted learning

# THE TUITION GAP

- What is the gap?
- How big of a gap can you sustain?
- How do you make it up?



**MIND THE GAP**

# FUNDING THE GAP

- Donor support
- Grants
- Additional earned revenue
- Expense management
- Other





# VALUE PROPOSITION

- Provide outcome measures
- Articulate the benefits
- Talk with the consumer
- Demonstrate impact



# CHANGING THE PARADIGM

- We need to think differently about how we do business.
- Communicate the need in a deliberate manner which instills confidence in sound business rationale.



# COMMUNICATING THE TRUE COST

- How do you share this information?
  - To staff
  - To board
  - To participants
  - To donors
  - To the community

# TAKE AWAYS

- What can you do now to make a difference?
  - Stop undervaluing services
- ▶ Create a plan for sustainability
- Conduct a true cost analysis
- Communicate the need
- Put it into action