COST ANALYSIS

Your Value Proposition and Sustainability
By Kathy Alm, PATH Intl. CEO
Original Presentation by Kitty Stalsburg
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 lessons = $ 100/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 straightforward as these are all variable costs.
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 horse = $4400/horse
  - $4400/365= $12.05/horse/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 days/wk x 44 wks/yr = 220 days/year

- 220 working days x 5 horses x 3 hours/day = 3300 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?**

<table>
<thead>
<tr>
<th>Capacity</th>
<th>Lessons</th>
<th>Herd Cost</th>
<th>Unit/Hour Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theoretical</td>
<td>3300</td>
<td>$22,000</td>
<td>$6.66</td>
</tr>
<tr>
<td>Schedulable</td>
<td>2970</td>
<td>$22,000</td>
<td>$7.40</td>
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<tr>
<td>Delivered</td>
<td>2732</td>
<td>$22,000</td>
<td>$8.05</td>
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</tbody>
</table>
FACILITY COST

All costs associated with your facility
Rent/Mortgage
Facility insurance
Staff
Repairs and Maintenance
Cleaning
Utilities
# COST PER UNIT

<table>
<thead>
<tr>
<th></th>
<th>Facility</th>
<th>Total Expenses</th>
<th>$47,500</th>
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<tbody>
<tr>
<td>Horse</td>
<td>$7.40</td>
<td>Total Expenses</td>
<td>$22,000</td>
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<tr>
<td>Total Facility/Horse Cost Per Unit</td>
<td>$23.39</td>
<td></td>
<td></td>
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</tbody>
</table>

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**Facility Cost Per Unit:** $15.99

**Total Expenses:** $47,500

**Horse Cost Per Unit:** $7.40

**Total Expenses:** $22,000

**Total Cost Per Unit:** $23.39
# DIRECT PROGRAM EXPENSES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Program Payroll</td>
<td>120,000</td>
</tr>
<tr>
<td>Volunteer</td>
<td>12,000</td>
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<tr>
<td>Program Total</td>
<td>132,000</td>
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<tr>
<td>Cost per Unit</td>
<td>$44.44</td>
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## TOTAL PROGRAM COSTS

<table>
<thead>
<tr>
<th></th>
<th># of Lessons</th>
<th>Herd Costs</th>
<th>Facility Costs</th>
<th>Payroll and Volunteer Expenses</th>
<th>Cost per Lesson</th>
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</thead>
<tbody>
<tr>
<td>Schedulable</td>
<td>2970</td>
<td>$7.40</td>
<td>$15.99</td>
<td>$44.44</td>
<td>$67.44</td>
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## CAPACITY AND ALL COSTS

<table>
<thead>
<tr>
<th>Capacity</th>
<th># of Lessons</th>
<th>Program Costs</th>
<th>G &amp; A Expenses</th>
<th>Herd/Facility Cost</th>
<th>Cost per Lesson</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schedulable</td>
<td>2970</td>
<td>$44.44</td>
<td>$26.94</td>
<td>23.39</td>
<td>$94.77</td>
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</table>
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?
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