FOOD IS MEDICINE™ COALITION

Finance Kickoff Meeting

Food is Medicine Accelerator

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Nonprofit Finance Fund

September 14, 2022

Nonprofit Finance Fund

We are on a mission to support community-centered organizations led by and serving people of color, helping them access the investment capital and financial knowledge they need to realize their aspirations.

https://nff.org/page/our-strategy
https://nff.org/equity-nff
https://nff.org/story/food-and-health

Agenda

Cost Considerations

Upfront and ongoing

Full cost

Build vs. buy

Anti-Trust Policy & Pricing Strategies

Anti-trust background & context

Cost, payer, market

Making the case

Business Plan

Key components

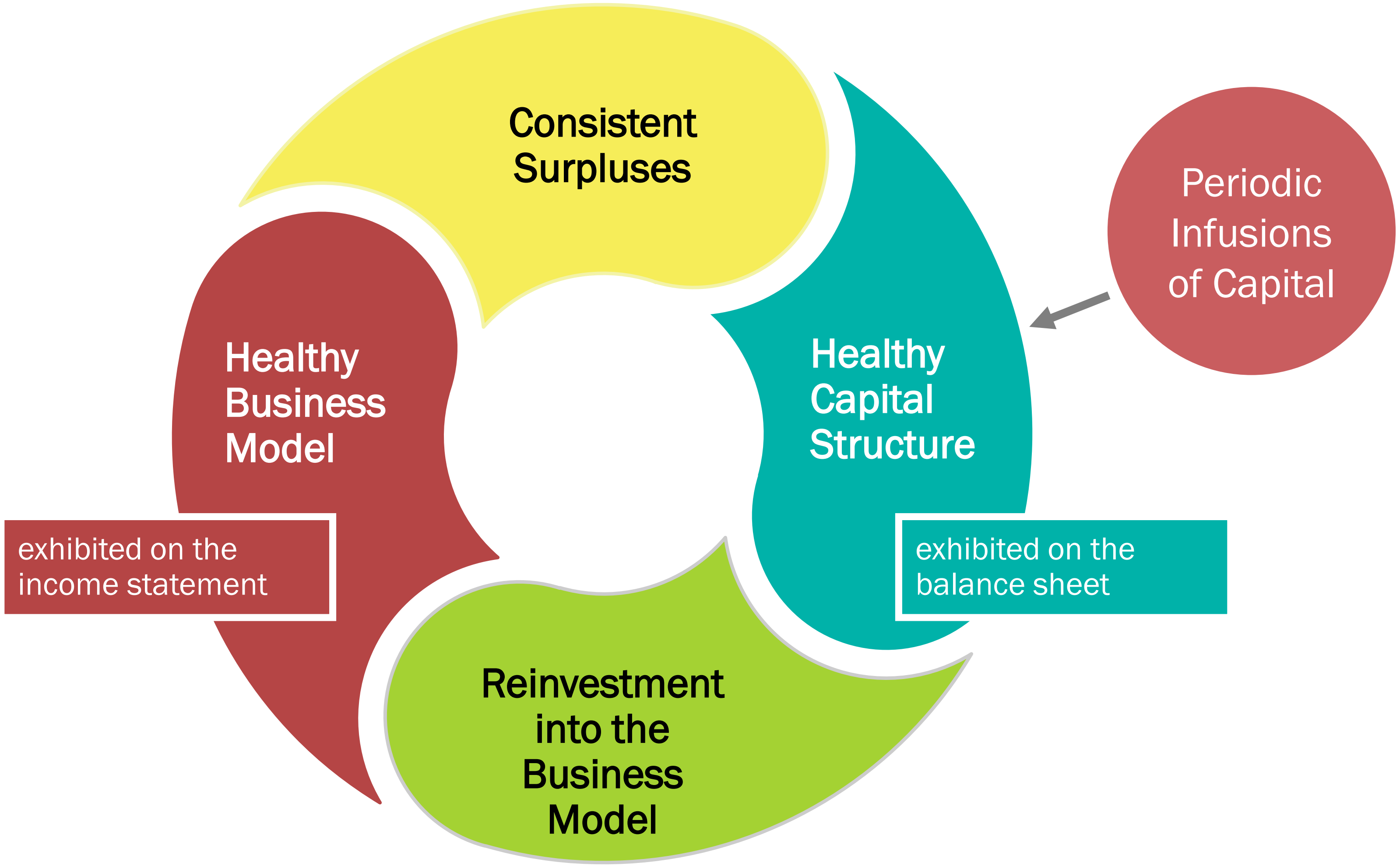
Monitoring Implementation

Dashboards

Introductions

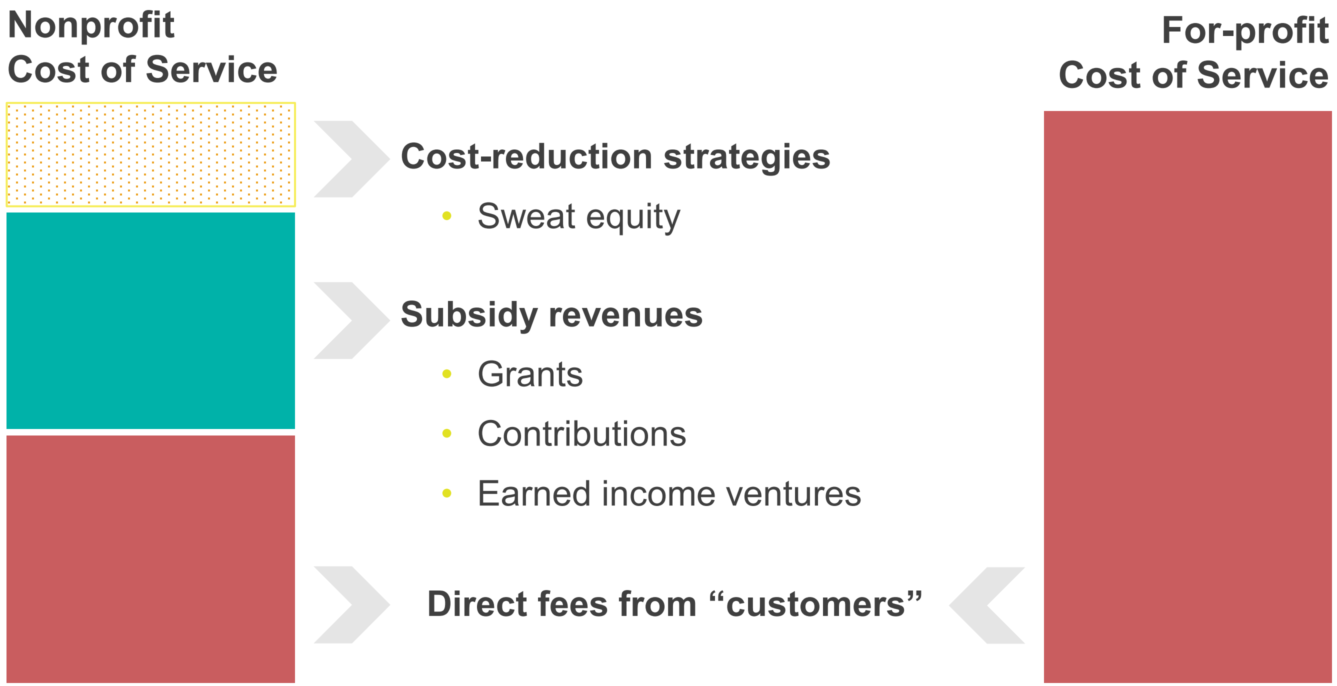
- Name, organization, and role
- What makes you most proud about your organization?
- What excites you most about implementing MTM?
- What is your biggest concern about implementing MTM?

Comprehensive Financial Health



Nonprofit Business Model Dynamics

Nonprofits must run two businesses: Mission & Subsidy



- Subsidy businesses take their own set of capacities to run
- When program growth or change occurs, subsidies must grow in proportion
- Cost reduction strategies can have serious consequences for the mission

Cost Considerations:
Establishing & Operating a Medically Tailored Meal Program

Identify Resource Needs: What Does it Cost to Deliver MTMs?

An organization changes when adapting to a new way of delivering and funding programs and services.

This impacts expenses in two ways:

One Time, Upfront Expenses

- Consultants
- Equipment Investments
- Training
- Technology Investments

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Additional Annual Expenses

- New Staff
- Program Supplies
- Compliance Costs
- Technology Subscriptions

2 Common Pitfalls of Calculating Costs

- The pressure to understate or not expect programs to cover their fair proportion of shared programmatic and indirect/overhead expenses
- The pressure to exclude balance sheet needs that go beyond property and equipment

In response . . .

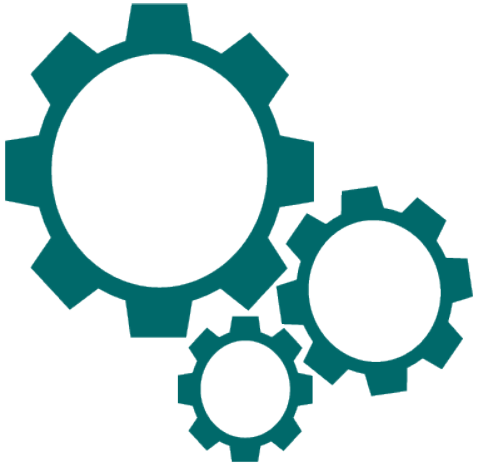
- NFF offers tools and templates to support in the allocation of shared and indirect expenses
- NFF offers tools and templates to support in the calculation of costs at different levels – (a) direct, (b) direct & shared, (c) direct, shared, & indirect, and (d) full cost

Full Cost Components

Total Expenses Operating, non-operating, and unfunded expenses	*Always* needed by *all* organizations
Working Capital Access to cash for day-to-day needs	
Reserves Savings, a "rainy day" fund	
Debt Principal Repayment Mortgage, line of credit, etc.	*Sometimes* needed by *some* organizations
Fixed Asset Additions Money to purchase a new building or computers	
Change Capital Resources to adapt, grow, and/or expand	

Working Capital

What It **Is**	• Dollars to cover predictable timing of cash ebbs & flows • Maintains operations if receivables are late or bills must be paid early • Easily accessible to management (in the checking account, not restricted or strictly designated)
What It **Is Not**	• Dollars to cover lost revenue, unplanned expenses, or deficits
How to **Calculate**	• Cash flow planning/projections • Consider past cash flow performance
Considerations	• Usually funded through yearly surpluses • What are current risks to cash flow? • How might expanding/shifting programs change your cash flow needs?



Working Capital: Preventing Cash Flow Crises Saves Costs

What are the costs of a cash flow crunch?

All the costs associated with crisis management:

- Diverted time/effort of staff and board
- Damage to staff morale/confidence/commitment
- Burn-out
- Using up social capital (relationships and goodwill with funders, donors, vendors, partners)
- Lost opportunities
- Decisions to address short term crisis that result in long term problems (i.e., seeking and accepting off-strategy funding)

Access to appropriate working capital prevents crisis.

Prevention is often cheaper than intervention.

Reserves – Managing Risk

What They Are	• Dollars used for specific a purpose; eventually replenished
	• Often board designated, such as:
	  • Operating reserve that protects from risk by covering short-term deficits
	  • Fixed asset reserve to maintain building & equipment, pay for repairs/replacement
	  • R&D reserve to allow for trial & error (e.g., take artistic risk reserve, investigate new program approach)
	  • Investment reserve to generate revenue
	• Reserves are need by all, but size & purpose varies by organization
	• Accessible to management under certain conditions
	  • Often requires board approval to access
	• May be held as cash in savings account, or investments that can be liquidated in a reasonable timeframe

Reserves – Managing Risk

How to Calculate	• Varies by reserve type
	  • Operating reserve requires assessment of likely risks and time needed to respond or recover
	  • Fixed asset reserve look to estimates on the timing and cost to replace buildings and equipment
	  • R&D reserve requires assessment of expected opportunities and associate costs
	  • Investment reserve calculated based on income stream needed and expected return rate
	• Balance sheet and audit may provide information on current reserves

Questions to Consider	• Does your organization have a reserve? Can leadership and board articulate its purpose? • Are reserves or reserve goals aligned with priorities and needs?

Change Requires Consideration for Build & Buy Dollars

Capital Characteristics (BUILD)

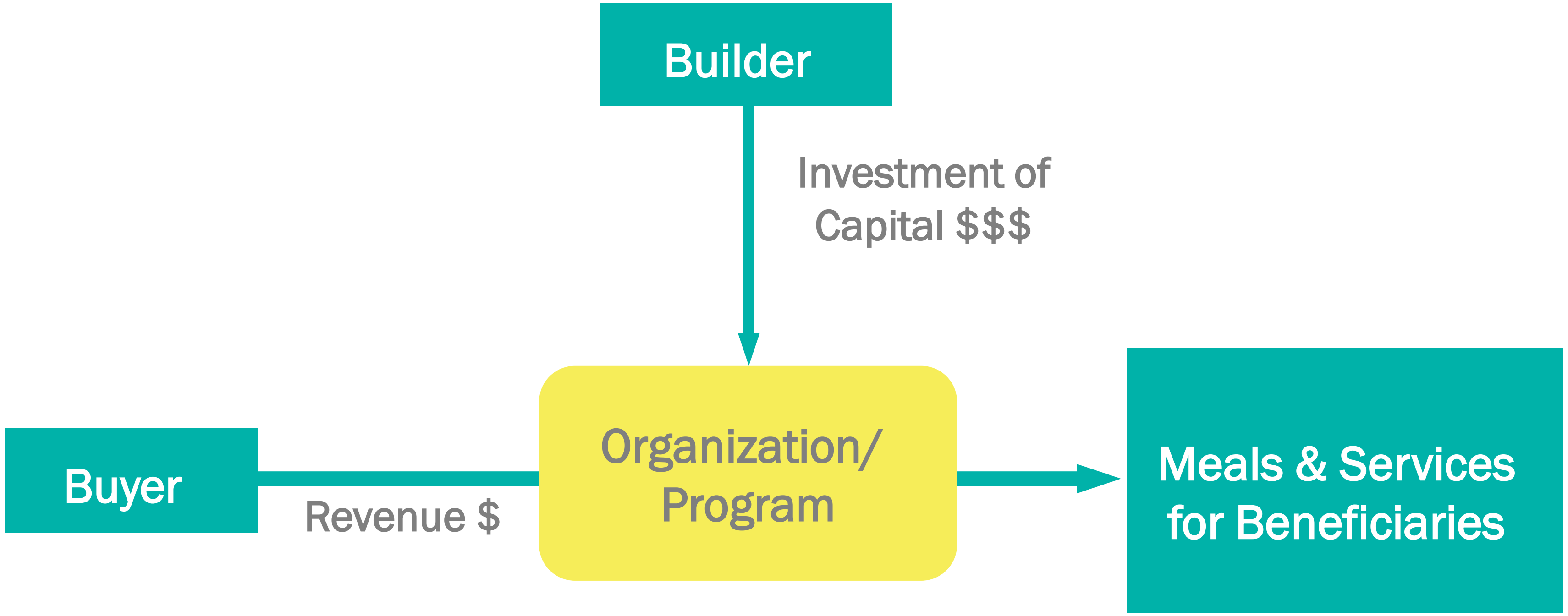
- Pays for extraordinary needs related to liquidity, adaptability, and durability
- Is needed periodically
- Necessary infusions of capital support financial health

Revenue Characteristics (BUY)

- Pays an organization to do what it does
- Covers annual costs of programs & operations
- Often reliable and repeatable

Nonprofits need both revenue and capital to thrive!

Change Requires "Builders". Staying in Business Requires "Buyers".



Builders and Buyers are Different

Buyer (Revenue)	Builder (Capital)
Ongoing	Episodic
Accountability is straightforward Did you do what I paid you to do?	**Accountability is complex** A journey together, adjusting strategy along the way, to build a sustainable enterprise that prompts other people to participate in the buyer role
Success → Do it again	**Success → No more build money in** (for now)

Resource Needs Include More than Expenses

EXPENSES

- ☐ All Direct & Indirect
- ☐ Personnel
- ☐ Travel
- ☐ Occupancy
- ☐ Materials & supplies
- ☐ Data systems & collection
- ☐ Finance & operations
- ☐ Contract management & development
- ☐ Leadership

ASSETS

- ☐ Wear and tear of facilities and equipment
- ☐ Additional facilities and equipment
- ☐ Working capital
- ☐ Reserves

IN-KIND EXPENSES

- ☐ Donated professional services
- ☐ Volunteers
- ☐ Donated food

RESEARCH & DEV'T

- ☐ Opportunity cost
- ☐ Time of leadership
- ☐ Upfront investments
- ☐ Data & building the evidence base

Anti- Trust Policy & Pricing Strategies

Pricing Information

- Agreements among competitors concerning prices, terms of sale, price changes, discounts, credit terms, rebates or special financing, pricing methods, warranties, transportation charges, shipping fees, capacity, or any other matter relating to or affecting prices or any element of price, are generally prohibited.
- Accordingly, two or more FIMC members shall not make an agreement that they will each price meals at a certain level.

Legal Opinion 2019 from Wilmer Hale

- FIMC members may share information on topics that are not-competitively sensitive, such as policy goals, scientific research outcomes, best practices, and health and safety information.
- However, the exchange of competitively sensitive information among actual or potential competitors can indicate an illegal agreement not to compete or can constitute an antitrust violation in its own right.
- FIMC members should not discuss or exchange competitively sensitive information with one another by phone, e-mail, other forms of written communication, or in person, even in social settings or other “casual” conversation.

Competitively Sensitive Information

Competitively sensitive information includes any nonpublic information that each FIMC member keeps confidential, including:

- Prices (such as purchasing or selling prices, price per meal, price trends, price changes, pricing formulas, discounts, rebates, etc.);
- Terms of purchase or sale (such as credit terms, promotional allowances, warranties, transportation fees, shipping fees, etc.);
- Costs, profits, or margins;
- Specific contracts, customers, distributors, or suppliers as well as the quantity or quality of products sold to or purchased by them;
- Output, capacity, production, or inventory;
- Product development, business strategy, and investment plans;
- Trade secrets or other intellectual property;
- Sales and marketing plans;
- Sales, orders, or bid requirements.

Note to the prior slide

To the extent this information is not confidential (e.g., available on a FIMC member’s website, published in industry reports, or disclosed publicly according to regulations governing non-profit organizations), it may be shared.

Anti-Trust Policy Questions?

Cost ≠ Price. There are 3 main Influences.

Cost	Payer	Market

Pricing Strategy

What Is the Value of Your Service to the Payer?

- Improved health outcomes of patients
- Cost savings
  - Cheaper, better alternative to the emergency room particularly for patients with chronic conditions
    - Decrease in health care costs
    - Reduction in hospitalization
    - Improved drug and treatment plan adherence
- Mandate, given the focus on improved health outcomes and social determinants of health
- Competitive advantage

Cost ≠ Price. There are 3 main Influences.

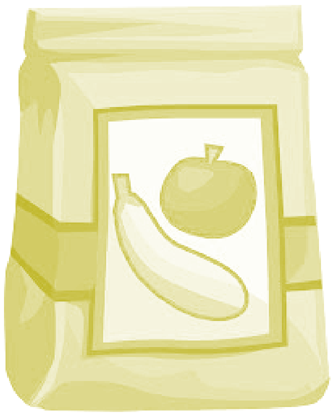
Cost

Payer

Market

Pricing Strategy

Market Factors: Know Your Competition & Your Position in the Market



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- ✓ Better Outcomes
- ✓ Greater Savings
- ✓ Nutritional Counseling
- ✓ Household Assessments
- ✓ Community Relationships, And more . . .

- Who are your competitors?
- Do they provide a comparable service? Value?
- Do they cost more / less?
- If less, how are they able to charge a lower price?
- Do you have data and evidence to support the value of your service to the payer financially?
- Is there an opportunity to find efficiencies without compromising value to lower costs and pricing?
- Is there an opportunity to partner?

Shifting the Narrative

Your service is too expensive → Your service is better → Your service is worth it

Making the Case

- Consider funders who are interested in start-up or new programs
  - Cover start-up expenses?
  - Cover a few years of operating expenses while earned revenues grow?
- Contracting: show growing evidence base from other MTM providers
  - Lead with the value proposition
  - Know your competition
  - Know your costs and what cost tiers you need to cover (i.e., where else do you have subsidy?)

What is a Business Plan?

What is a Business Plan?

A document that defines what your organization / program / service aims to achieve and how you will achieve it

Note: Business plans can vary in scope. You may have one plan that defines an organization’s comprehensive set of programs and services. You may have separate plans for specific programs and services. For the Accelerator, we recommend you create a business plan solely for your MTM program.

How to Use the Business Plan

- External:
  Marketing, Fundraising, Partnership
  - Makes the case
  - Identifies needed resources
  - Create buy-in

- Internal:
  Align staff, new hires, Board
  - Internal roadmap
  - Track progress
  - Create buy-in

Key Components of Your Business Plan

History, Mission, Opportunity, Strategy

- History, mission, impact
- Problem statement
- Payer motivations
- Solution
- Solution vs. alternatives
- Field research & data
- Theory of change – inputs, activities, outputs, outcomes

Strategic Priorities

- Target community
- Services/interventions
- Program design
- Pricing strategy
- Payers
- Competition
- Connection to broader portfolio of services

Organization & Financial Implications

- Current capacities & skill sets
- Existing infrastructure
- Capacity & skill set investments
- Infrastructure investments
- One-time expenses
- Ongoing expenses
- Capital sources
- Revenue strategies

Milestone, Evaluation, & Risk Management

- Timeframe for securing investments
- Operational milestones pre- and post - launch
- Timing of anticipated outputs & indicators
- Approach to evaluation
- Approach to monitoring
- Articulation of risks – internal & external
- Risk mitigation strategy

Monitoring Implementation

What is a Dashboard?

A tool to visualize and communicate key drivers

- A **visually engaging**, distilled display of information to help inform conversation and decision-making
- It is **simple** and pointed
- It is **consistent** but **dynamic**

Building Your Dashboard

Start with your specifications

- Who is the **audience**? Who is the **end user** of the dashboard report?
- What **big question(s)** will the dashboard address?
- What **indicators** can be used to unpack the big question(s)?
- What **data exists**? What **new data** needs to be collected?
- How will the information be **presented**? **How often**?
- Who will be responsible for **updates and management**?

Key Meetings & Financial Deliverables

Key Meetings & Financial Deliverables

Upcoming finance meetings & webinars:

- Initial session for finance teams – **September 14th**
- Finance webinar: understanding costs & strategies for pricing – **November 17th**
- Office hours: introduction of the business plan – **November 28th**
- Finance webinar: MTM business plans – **February 16th**
- Community Servings onsite meeting – **January 30th to February 1st**
- God's Love We Deliver onsite meeting – **April 18th to April 20th**

Key deliverable due dates:

- Draft financial plan – **April 6th**
- Business plan outline – **April 18th**
- Final financial plan & draft business plan – **June 1st**
- Final business plan – **June 28th**

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Thank you!

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