

Business Model Innovation during the Economic Crisis: OUR JOURNEY “PEAK 2 PEAK”



Scott Wilson • Chair, Board of Governors

Community
Foundation of
Ottawa



Fondation
communautaire
d'Ottawa

For good...forever

Le bien...toujours

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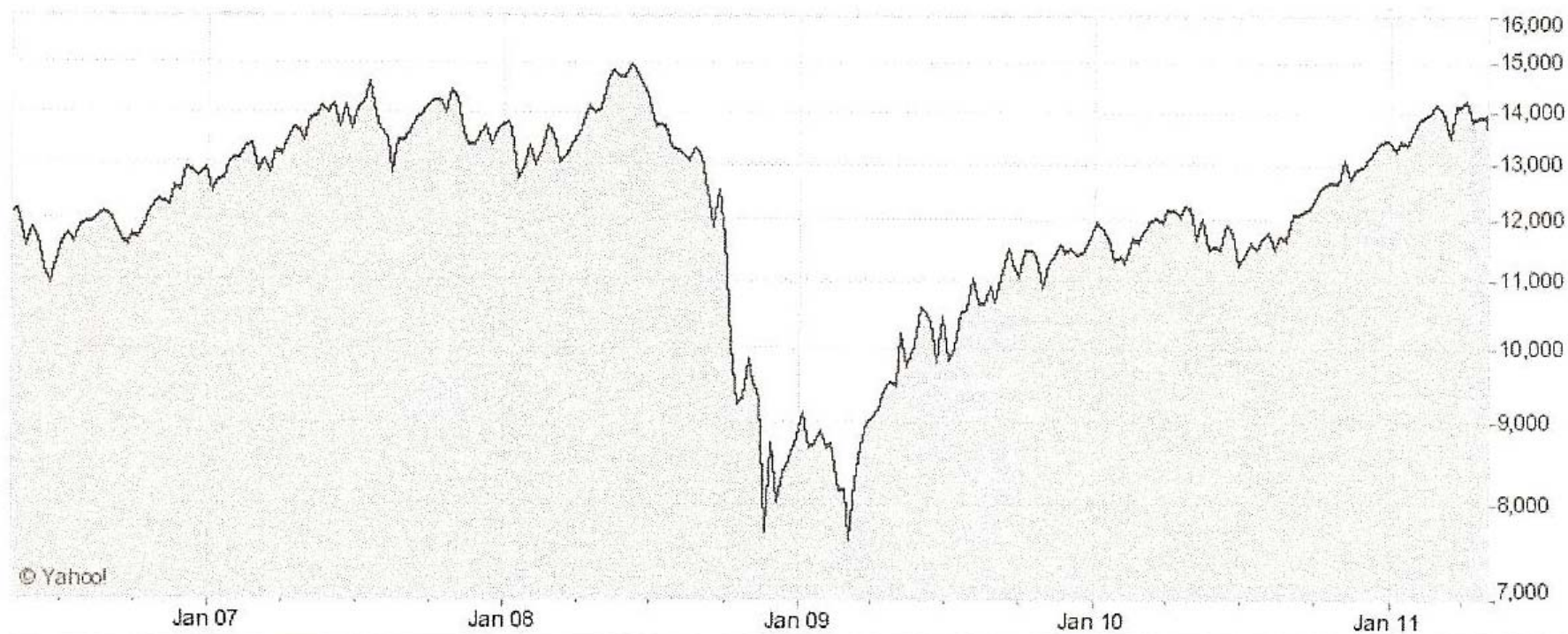
INTRODUCTION

- This is simply our story of how we responded to the economic crisis
- It covers the challenges we faced, the process we used to address the issues, and the resulting changes we made to our business model
- We'll cover the changes made to three key aspects of our model:
 - Our spending policy
 - Our service fees
 - A new revenue source

PURPOSE

- The purpose is to share our experience and initiate discussion, recognizing that every foundation's circumstances are unique
- The journey reminds me of the two peaks at BC's spectacular Whistler, before the new gondola opened.....

THE TWO PEAKS



TSX Composite Index

BEFORE THE ECONOMIC CRISIS

- 20 years of growth, with endowments over \$90-million
- Spending policy allowed Board to determine portion of investment earnings to be:
 - Distributed to cover charitable grants and service costs; and
 - Reinvested to provide a reserve against both inflation and lower investment returns
- The reserve was to help ensure a reasonably consistent level of charitable grants over the long term
- The reserve exceeded \$10-million, with a goal to build it to 20% of endowed capital.

THE CRISIS

- 2007 earnings were dismal, but reserve allowed us to maintain normal spending of 6%.
- Steep drop in equity markets in 2008
 - Wiped out the reserve
 - Caused significant decline in service fee revenue

OUR RESPONSE TO THE CRISIS

- Result of 2008 net investment losses and no reserves
 - Grants program in jeopardy
 - Operating budget constrained
- January 2009 Board retreat
 - Need to find alternative model which will allow grants during economic downturn, when the community needs are the greatest
 - Identified the constraints caused by trust law, tax law and our fund agreements
 - Established Business Model Task Forces

OUR RESPONSE TO THE CRISIS ... cont'd

- “Dodged bullet” for one year
 - Major staff sacrifices to balance operating budget
 - Creative arguments to support grants for one year
- Task Forces developed longer term solutions, with refinements of the spending policy and the service fee policy, and identifying several new sources of revenue

NEW SPENDING POLICY

- Fixed rate of spending for charitable grants and service fees, totalling 5.75%
- Over the long term, investment returns expected to exceed 5.75%
- This ensures:
 - The capital of the endowed funds is held permanently; and
 - There is a consistent level of charitable grants over the long term
- Inflation protection is provided by new gifts

NEW SERVICE FEE POLICY

- Fees calculated on average fund values over three years to avoid significant fluctuations
- Fees are calculated on the entire balance in the fund, including flow-through funds and the funds available to spend
- 2% upfront service fee for flow-through gifts (but waived if gift is through an existing endowment fund)

NEW SOURCE OF REVENUE

- Community Foundation Circle
- A targeted campaign to widen our circle of supporters
- Aim to recruit 100 members by the end of 2011, typically those who are already familiar with us
- Circle members will pledge \$500 per year for 5 years
- These founding members will receive recognition and enjoy a variety of learning and networking opportunities

NEXT STEPS

- View from the top of the second peak looks good
- Our granting program is assured to be stable and our operations are sustainable
- Our plan is to focus our work on improving the sustainability of community organizations in the local charitable sector, thereby strengthening essential social infrastructure
- Two main ingredients:
 - Competitive multi-year operating grants; and
 - Access to expertise
- May be the centrepiece for our 25th anniversary in 2012

