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Features

Cutting Costs to Increase Impact

By Leslie MacKrell, Andrew Belton, Mark Gottfredson, & Jake Fisher

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FOCUSING ON REDUCING COSTS CAN BE THE KEY TO UNLOCKING RESULTS AT GREATER SCALE. NONPROFITS IN INDIA AND THE UNITED STATES PROVIDE IMPORTANT LESSONS FOR NGOS AROUND THE WORLD ON JUST HOW TO DO THAT.

By Leslie MacKrell, Andrew Belton, Mark Gottfredson, & Jake Fisher

Akshaya Patra and College Summit, nonprofits operating on different continents half a world apart, at first glance appear to have almost nothing in common. Akshaya Patra is an India-based organization that provides lunchtime meals for 1.6 million students, while College Summit is a US-based organization that helps thousands of low-income high school students prepare for college and a career. One operates a massive network of kitchens and delivery trucks; the other uses peer influence and organizing techniques supported by trained educators and coaches.

Despite their radically different contexts and missions, Akshaya Patra and College Summit share an essential trait: Both put cost at the center of their plans to achieve impact at a large scale.

For Akshaya Patra, a focus from the start on designing a low-cost model means that each additional meal it serves costs only pennies, even as it prepares higher-quality meals than those its peers can offer. In College Summit's case, a recent product redesign achieved dramatically lower costs per school served, meaning that College Summit can work with 600 percent more schools in the coming years for only a 60 percent increase in the organization's budget. For both organizations, cost is a lever rather than a barrier because having lower costs per unit presents the opportunity for greater scale.

The link between cost and scale isn't news to the private sector. For decades, leading businesses have validated the advantages of being a low-cost player and reducing costs over time. Bain & Company research on more than 70 industries, both product- and service-related, has found that costs decline reliably by 20 to 30 percent each time an industry's accumulated experience at delivering that product or service doubles.[1] In light of this predictable cost curve, it's no surprise that in a 2012 survey of industry-leading companies, more than 40 percent said their key competitive advantage was their ability to keep costs low.[2]

It makes sense to find strategic advantages by being lower cost in a competitive market, but can similar benefits accrue to social sector organizations? We believe the answer is "Yes." Akshaya Patra and College Summit are not anomalies. We have seen other organizations:

- **Access new revenue:** The Diabetes Prevention Program (DPP), developed by the US National Institutes of Health, demonstrated for the first time that lifestyle changes can outperform medications in preventing type 2 diabetes. The problem was that the DPP's one-on-one clinical model was too expensive for widespread use. Then the YMCA of the USA adapted the program so that trained Y employees could deliver it to groups, cutting the DPP's cost to serve by 75 percent and simultaneously making it easier for DPP content to reach many more people. Evidence that this adaptation worked persuaded insurers to reimburse the cost of the program, opening the door for widespread use.[3]

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- **Expand their service footprint dramatically:** The Financial Clinic builds the financial security of working poor families by enabling social service providers (staff at domestic violence shelters, for example) to deliver financial coaching to their clients. However, over time, The Financial Clinic could not meet a growing demand because of the time and expense of training providers. To address that challenge, it developed the Change Machine, an online training platform. As a result, the number of practitioners prepared to coach clients has increased fivefold over an equivalent prior period when The Financial Clinic was still training its practitioners face-to-face, and growth continues to accelerate.
- **Reduce resource hurdles to growth:** India's Educate Girls uses a community-powered approach to enroll and support girls in school. Basing its operating model on trained volunteers means that startup costs in a new location are lower than would be the case with a fully paid-staff model. An added benefit is that this local expertise increases the model's local relevance.

Despite these advantages, thinking about cost as a lever for scaling impact is not yet standard in the social sector. In The Bridgespan Group's 2015 Nonprofit Management Tools and Trends Report, cost analysis tools ranked 14th of 25. And, at a recent gathering of nonprofit leaders on this topic, when asked about the cost of their organization's key initiatives, most reported that costs had gone up rather than gone down or stayed the same. It appears that the landscape hasn't changed much since 2012 when Matt Bannick and Eric Hallstein from the Omidyar Network noted in *Stanford Social Innovation Review*: "In general, we find that despite its potential value for driving financially sustainable growth, few nonprofits focus on reducing cost-to-serve."[4]

If our impact goal as a sector is to broaden beyond "what works" to "what works and is scalable," then we must develop solutions that achieve outcomes *and* have innovative low-cost structures. We believe the time is right for social sector leaders who aspire to scale to consider cost as a critical lever. To that end, we propose a simple framework for spotting and testing opportunities across the service design and delivery chain to reduce cost, as well as examples of organizations that have done so. We hope to encourage readers to consider what opportunities for scaling their own work might be unlocked through a focus on designing for low cost or lowering current costs.

COST AS A LEVER: WHAT IT IS, AND ISN'T

"Cost" may be a cringe-worthy term for some in the social sector, conjuring visions of squeezing already tight budgets and struggling with starved overhead. For organizations with razor-thin operating margins, we understand what it feels like to wish to grow but not see where the resources will come from. Although it may seem that the only way to grow is to stretch staff even further or skim dollars from current programs, these are not the cost reduction measures we are talking about.

We are proposing that cost be looked at not as something *done to* an organization but rather as a lever *within the control* of a provider. Cost can be designed and managed through decisions about the target problem and expected outcome, target scale, service design, and delivery method. It means significant adjustments to the service design that fundamentally make it less expensive to deliver, and therefore enable expansion in a sustainable way.

Because cost reduction should be in service of increasing impact, we recommend thinking about cost on a per-unit-served or, ideally, a per-outcome basis. In other words, nonprofits should aim to minimize the cost of achieving each additional unit of impact. This approach makes it more feasible to fund more units of impact through the same or new revenue streams.

Some organizations, such as Akshaya Patra and Educate Girls, launch in environments where there is little philanthropic infrastructure and limited government contributions to fund promising interventions. In these settings, any intervention must be intentionally and dramatically low cost right from the start if it is to be successful and sustainable—high-cost models simply won't get off the ground.

Far more typical in the United States, however, are organizations such as College Summit. It, like many nonprofits, operates in a context where a more developed social infrastructure and robust philanthropic sector can encourage what Desh Deshpande—entrepreneur, social innovator, and major supporter of Akshaya Patra—calls "gold polished" social programs. "You may need to bring change to 14 million children, and then you come up with an after-school program for 1,000 to 2,000 kids, and you feel very good about it," explains Deshpande. "The fact is: you're serving 2,000 children, but your solution is so expensive and so involved that you have no chance of actually expanding it to 14 million children." For these organizations, the challenge is to manage a dramatic reengineering to the cost structure of a service or product in order to make it more affordable and scalable.

TAKING THE FIRST STEP: CLARIFYING THE MOST IMPORTANT OUTCOME

The first step to reducing cost in a way that increases your organization's ability to achieve its mission is to get very clear answers to three questions: What is the specific outcome your service or product exists to deliver? To whom? And how do you know when you have been successful?

For many organizations, answering these questions is difficult because their offerings over time have become diverse and complex, motivated by genuine beneficiary need, funder encouragement, or a desire to expand. However, it's worth engaging in this exercise because the data show that complexity is costly in myriad obvious and hidden ways throughout an organization. Research on the impact of simplification found that the least complex private sector companies grew on average 30 to 50 percent faster than peers.[5] Prioritizing your most important outcome guards against features, services, or mission creep that can add cost without significantly improving impact and ultimately add up to an intervention that is too costly to scale.

How can you determine your most important outcome? One way is by reviewing data (internal and external). Another is by asking your customers or beneficiaries. Both of these approaches will help you take a fresh look at the challenge you are in business to address and the specific contribution you're best positioned to make.

Reviewing data | According to internal data, what outcome is your organization currently achieving? If you have multiple outcomes, what do you achieve most, and most reliably? What outcomes do external data indicate are most predictive of sustainable change in your field?

Asking customers and beneficiaries | Why do people use your service or product? When you ask them what tangible or reliable value they have received from your efforts, what do they say? If there are fees or payments involved, what are people willing to pay for? College Summit's leaders were motivated to refine its outcomes and service model by the realization that "business as usual" was never going to achieve its ambition to close the gap between the percentage of low-income students in the United States who aspire to attend college and the percentage that actually enroll and persist. Product-feature proliferation and high customization on the ground had, over time, increased the cost of the organization's school-based product and made its programs challenging to manage consistently. In addition, since College Summit's launch 20 years earlier, the college-access landscape had changed significantly so that elements of its work were no longer unique.

To break through the scale barrier, College Summit leaders began by reviewing the organization's prior evaluations and academic research, and commissioned a national survey of school administrators. They also established a small pilot program to test what it believed to be its most essential outcomes and the most important programmatic drivers of those outcomes. They sought to elevate the subset of outcomes most strongly correlated to student success and linked to College Summit's demonstrated competencies, the strongest and most unique of which was the ability to develop and direct peer influence.

Three discrete student milestones fit the bill as College Summit's most important outcomes: early submission of federal student aid forms, applications to multiple colleges, and completion of a career plan that specifically links desired profession to educational and other experiences required. As a result, College Summit is now laser-focused on achieving these measures via peer influence and is no longer focusing on other areas, such as measuring how effectively optional College Summit curricula are being used.

True cost innovation is about achieving impact at a cost low enough to expand in a sustainable way. How low must costs go? There's no magic dollar amount, nor should there be, given wide variation in program design, intensity, and context.

ESTIMATE LIKELY FUNDING AVAILABLE AT SCALE

True cost innovation is about achieving impact at a cost low enough to expand in a sustainable way. How low must costs go? There's no magic dollar amount, nor should there be, given wide variation in program design, intensity, and context. What you seek is not necessarily an extremely low cost, but rather a context-appropriate cost that explicitly links an impact model to a funding model. This means getting unit costs in the ballpark of what would be reasonable to expect likely funding sources to cover at your target scale.

In Akshaya Patra's case, the government provided $15 annually per student to fund school lunches. Akshaya Patra didn't believe that quality, nutritious, hot meals could be delivered for this amount. But it wanted to stay close to the $15 government contribution to limit the need for philanthropic subsidy and minimize cost as a barrier to scale. It settled on $30 per year per student after determining that it was feasible to raise $15 per student from philanthropy.

College Summit also considered "funding available at target scale" when it aspired to develop a product that could reach at least 1,000 high schools, a meaningful percentage of high-need schools in the United States. That meant holding the line on its philanthropy fund-raising and figuring out what schools could afford. Through market research, College Summit learned that few schools could afford more than $15,000 a year. So College Summit set out to build a product it could deliver at the desired cost given this blend of revenue sources.

FIT COST PER OUTCOME TO TARGET SCALE

Given the urgency of scalable solutions in every corner of the social sector, it seems reasonable to start the process of developing a program or service by establishing a target outcome and a target cost per unit of outcome. But then comes the challenge of developing an intervention that balances cost with successful outcomes. There's no cookie-cutter approach. But experience in the private sector and by social innovators shows that cost-innovation opportunities can be found in one or more of four key stages of bringing a product or service to market: design, sourcing, production, and delivery.

Design | Starting with design is often the most powerful approach because simplifying or dramatically re-envisioning the core design of what you produce or deliver can reduce cost throughout the chain in one swift action.

Designing a cost-conscious product or service is about evaluating a unit of output (e.g., the service or product provided to one client or customer) and stripping that product or service down to the most streamlined, least-customized version of itself that still achieves your most important outcome. Examples of such simplification could include reducing the complexity and variability of a service; shortening an intervention's timeline or intensity; and eliminating bells, whistles, and nice-to-haves.

Simplification requires making decisions about the scope of the service that an organization intends to offer, decisions that are informed by ambition and values in addition to cost. For College Summit, shedding multiple product features that were less essential to achieving its newly prioritized outcomes (including an online student tracking database, printed classroom curricula, and in-classroom supports) meant having some hard conversations with staff, the board, and long-term customers to home in on the necessary trade-offs.

Cost innovation can also take place at the design stage if organizations dramatically re-envision the service model. It took The Financial Clinic four years to convert the knowledge and best practices it had previously captured in a static, three-ring training binder into the Change Machine online platform. But the subscription-based service now equips front-line practitioners with all they need to deliver high-quality financial coaching to their clients, and it has removed the barriers to scale while bringing the incremental cost of training new practitioners nearly to zero.

Sourcing | The opportunity at this stage is to reduce the cost of sourcing inputs such as labor and materials, and infrastructure such as rent. Doing so may mean renegotiating vendor contracts (or switching vendors), adjusting material specifications, and taking advantage of partner resources and underutilized assets.

The experience of Year Up, a US-based nonprofit that helps low-income young adults escape poverty and pursue a professional career, provides a good example. In pursuit of lower costs and greater scale, the organization piloted a new version of its model that takes advantage of partnerships with large community colleges to access space and faculty expertise to train students in various fields. In doing so, Year Up has been able to reduce the cost of space and staff while still maintaining full control over the pieces of the model where Year Up's distinctive value manifests itself: the coordination of professional development for young people who are out of school and unemployed, and the ability to build demand among companies to train and hire them.

Aravind Eye Care System also cut the cost of resources, to great effect. Aravind is an Indian network of hospitals, clinics, and supporting facilities that collectively perform more than 300,000 eye surgeries annually to combat preventable blindness.[6] As the organization expanded in the early 1980s, the high cost of intraocular lenses that restored cataract patients' vision jeopardized its mission of providing free care for the poor. At the time, lenses cost $100 each, and manufacturers balked at dropping the prices below $70. So Aravind opted to go into the manufacturing business, swapping its "buy" strategy of purchasing lenses to a "make" strategy of producing its own. In 1992, it set up Aurolab, which now makes lenses for $2 apiece. Today, Aurolab is a major global supplier of lenses and has driven down the price across the market.[7]

Production | A third opportunity along the value chain is to pursue production efficiencies. These can be thought of as anything related to the creation of outputs from inputs. Decisions here should complement an organization's design and sourcing efforts to hold costs in check, and are often focused on opportunities to save time and reduce waste.

> Increasingly, nonprofits, NGOs, and their funders are looking to build not just programs that work, but programs that work and scale. Focusing on redesigns for lower cost per outcome may hold the key to unlocking these scaling opportunities.

When College Summit restructured its product, it also introduced new specialization into the staffing model in order to achieve operational efficiencies. Splitting the previously combined functions of program execution (production) and delivery (sales) allows each staff member to optimize for a more coherent set of objectives, ensure that neither function is de-prioritized or delayed, and enable expertise and efficiencies to be developed through repetition.

Akshaya Patra's low-cost model relies on its production approach, which translates best-in-class supply chain management to the social sector. It uses centralized, high-efficiency kitchens that uniformly produce higher-quality meals than those cooked at the multiple smaller kitchens that were formerly the field standard.

Delivery | Last but not least: How does your service identify and reach beneficiaries? Cost innovations focused on delivery sometimes include forging a formal partnership with an organization or a platform that (at least in part) shares your target constituency. Bridgespan has written about the potential of networked organizations such as the YMCA of the USA or the Boys & Girls Clubs as delivery mechanisms.[8] Similarly, the online platform developed by The Financial Clinic is now being used by other organizations to share relevant content with practitioners on the platform.

Akshaya Patra is currently exploring partnerships with other providers that could adopt its methodology to deliver high-quality, cost-effective meals. If successful, the organization could use its technical expertise in efficient production and delivery to raise the quality and lower the cost of meals provided by others, accelerating the spread of its most important outcome—a quality, hot midday meal.

TEST, REFINE, AND PERSEVERE

After identifying and executing adjustments to lower cost, it is a good idea to closely monitor early implementation to ensure that the assumptions you have made about impact and cost hold true. Are the elements you prioritized in fact producing the expected results (or at least leading indicators of results)? Does implementation confirm the assumptions you've made about cost? And, importantly, is the full model, when accounting for overhead and other costs, on track to hit the total cost target that your expected funding model will cover?

You may find that the decisions you have made at one or more of the above stages either are not achieving the expected results or are still too expensive to scale. If so, continue to explore alternatives until you have reached a model that is delivering valuable results and also is scalable from a cost perspective.

CONSIDERATIONS FOR NGOS AND FUNDERS

For both social sector providers and funders, the promise of impact at greater scale is exciting. However, significant redesigns to lower cost require thoughtfulness and flexibility from both parties.

For nonprofit providers, a general lack of quality cost benchmark data and sector-wide performance metrics means that determining appropriate cost targets takes legwork. Differences in desired performance outcomes, which could vary greatly depending on the type of nonprofit, also make benchmarking less directly relevant than historical internal experience and prototyping.

And even if a nonprofit is able to establish a cost target baseline, it may not have the necessary, flexible capital to invest in innovations. In the Nonprofit Finance Fund's 2015 survey, 53 percent of nonprofits reported that they had three months or less of cash on hand, and only 6 percent of respondents said that they could "have an open dialogue with funders about flexible capital for organization change/growth."[9] Funding difficulties aside, nonprofits may not have the internal expertise valuable in leading a cost reengineering process.

From the funder's side, otherwise-innocuous practices may unwittingly discourage grantee cost innovation and low-cost discipline. Consider:

- An emphasis on supporting proven programs (e.g., funding what works and evidence-based clearinghouses) may cause nonprofits to shy away from options for reducing cost that involve service adaptation.
- Funding that consistently favors comprehensive services may discourage prioritizing select outcomes and simplifying service design.
- Funders that consistently seek new, exciting program elements or opportunities may limit an organization's ability to be disciplined enough to maintain low-cost designs and to accumulate process efficiencies.

It's understandable that cost per outcome has not been a widely used criterion for receiving support from philanthropy; funders naturally must assess philanthropic investments on multiple criteria, only some of which may be scalability driven. Other important criteria include mission fit, relationships, outcome quality, and geographic focus. Additionally, introducing an evaluative measure such as cost per outcome is not straightforward, because of the variation in definition of outcome among NGOs. Nonetheless, because funding is not explicitly tied to lowering unit costs, there is limited financial incentive to do so.

How can funders help grantees move past "If it ain't broke, don't fix it"? They can express openness to conversations about cost innovation and signal understanding that achieving greater scale of impact via lower costs will likely require programmatic changes and tough decisions.

Funders can also underwrite cost-conscious redesign processes and transitions so that a nonprofit can do the following: allocate internal expertise to developing and testing lower-cost adaptations while the historical model is still being delivered; enlist technical or other assistance for model redesign; make specific investments, such as technology upgrades, needed for the transition; and show confidence by providing current levels of funding for a period of years to ensure a strong foundation through the transition.

The social sector in recent years has focused on effectiveness to ensure that programs and services are working as intended and achieving the highest possible impact for beneficiaries. Increasingly, nonprofits, NGOs, and their funders are looking to build not just programs that work, but programs that work *and* scale. For leaders eager to move in this direction, focusing on redesigns for lower cost per outcome may hold the key to unlocking these scaling opportunities. There's never been a better time for cost redesign to figure in conversations about opportunities for scale.

NOTES

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