The CFO’s Overhead Dilemma

by the Public Media Business Association

Public media’s finance professionals must strike a delicate balance when dealing with “the overhead myth.” As a system, in general, our administrative and fundraising overhead costs are high relative to many other nonprofits. Charity Navigator’s Financial Ratings Tables acknowledges that public broadcasting and media’s high expenses are a function of the business:

*These charities use expensive air time to raise money, requiring a higher investment in their fundraising efforts and thus raising fundraising costs. Among these charities, the median fundraising expenses percentage is higher than the median of all of the charities we rate.*

In addition, many stations have unique operations that impact ratios and appear to drive up overhead expenses. For example, a station that has for-profit subsidiaries that contribute profits to the station’s mission based work also has to address the fact that those subsidiaries can make overhead look even higher. In other cases, a CFO may only use the overhead ratio for managing certain grants.

CFOs know the importance of working with their general managers and fundraising professionals to shift the conversation away from administrative and overhead expenses to a focus on the impact the station in making. Our industry in particular is continuously evolving and requires stations to invest significantly in the product in order to keep it relevant. A singular focus on tracking and reporting a nonprofit’s administrative and overhead costs is considered by many CFOs to be outdated.

As much as CFOs are anxious to debunk “the overhead myth,” the reality is that many potential donors are looking at these metrics and paying close attention to overhead. Funders and donors are smart, and they do their research by looking up a station’s GuideStar ratings or reading a station’s 990s. This is the type of information the donor community researches, so when a foundation looks up causes, public media often looks inefficient.

Whether or not they employ the overhead ratio as a key metric, CFOs have many reasons to closely monitor overhead. It is important to monitor what is reported as functional expenses in audited reports because of the stigma associated with nonprofits that report higher administrative, marketing, or fundraising expenses. Even beyond using the information to gain philanthropic and corporate support, close monitoring of overhead and fundraising expenses enables the CFO to understand, report, and strategize for diverse revenue streams.

CFOs make sure to monitor expenses by functionality. Programs such as direct mail, telemarketing, pledge, and sustainer programs are monitored for effectiveness and efficiency, including expenses and the cost to raise a dollar. This analysis is a fairly straightforward exercise in a data-driven culture.
High-touch major giving efforts that result in significant annual fund gifts, capital campaign gifts, and planned giving promises require a different type of consideration. Different metrics are necessary for these efforts as the cost to raise a dollar can present a skewed perspective. A metric such as the average major donor net revenue per full time employee (FTE) is a more useful way to look at major giving. This is an example of how CFOs are developing meaningful metrics and using them to educate funders, management, and other current and potential stakeholders.

In many cases it is important to track, review, and present metrics across fiscal years for impact. For example, an investment in donor acquisition frequently shows a net loss in a single fiscal year. However, over multiple fiscal years this is an important file building activity for a strong membership program. Sustaining memberships are another area that needs to be analyzed over multiple fiscal years to get the full financial picture. This often seems to be an area of misunderstanding between the finance and development departments, sometimes exacerbated by a renewed focus on overhead.

Another area where station leadership and decision-makers need to take a long view is digital. When looking at digital initiatives, financial indicators can be lethal. The decision to invest and maintain a digital presence is something that is embraced by the public media system and key for positioning survival in the years to come. However, there is not a sustaining business model in place as of yet. Stations are investing in digital as a long-term strategy, with the full intent that eventually digital will be self-sustaining. These investments can only happen with the support and vision of station governance and leadership who look at long-term impact and innovative methods to meet the station’s mission.

Transparency and communication at all levels is important. Including general expenses by category in your annual report and on your website offer the opportunity to be transparent and begin the conversation about why your business is run a certain way and what it really costs to meet your mission. Make sure that management, your major giving team, and key customer service representatives understand the nature of these expenses and can talk about them with your donors.

As you build trust with your stakeholders, potential funders, and management, then you can shift focus to impact. Public media needs to communicate impact measurements internally and externally and ultimately, make impact part of the funding culture.

CFOs continue to work with stakeholders to get their buy-in on the goals, help them understand the reporting mechanisms, and educate them about how reporting ties to the organization’s strategic goals. Although many overhead expenses are justified and unique to public media, the finance department continues to find ways to reduce overhead expenses through new efficiencies. Researching and establishing shared administrative and fundraising services is an opportunity to scale back on the duplicative efforts stations utilize to reduce expenses and free up additional resources for mission based work. There are many exciting possibilities which would allow stations to remain relevant to the community while outsourcing certain operational functions or consolidating our back-office and fundraising activities – much like the technology collaborations (i.e., shared master controls) that have already taken place.
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