The Dollars and Sense of Sheltering: A Tool for Financially Evaluating Your Shelter's Programs
Webcast Transcript

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Lynne Fridley: Good evening, I'm Lynne Fridley, program coordinator for Maddie's Institute[SM]. The topic of our webcast is *The Dollars and Sense of Sheltering: A Tool for Financially Evaluating Your Shelter's Programs*. Our speaker tonight is Dr. Nicole Olynk Widmar, Assistant Professor for the Department of Agricultural Economics at Purdue University. In addition to her focus on agriculture, she has worked to adapt economic management concepts for use in shelters, ranging from managing flow through to assessing how alternative practices impact overall shelter performance.

The financial management tools that Dr. Widmar will present tonight will assist you with understanding enterprise budgeting, partial budgeting, balance sheets, income statements and cash flow statements. But before we get started, there are a few housekeeping items that we need to cover. Please take a look at the left hand side of your screen where you will see a Q&A window. That's where you will ask questions during the event. Dr. Widmar will answer as many as she can at the end of the presentation, but please submit your questions early. Questions submitted in the last few minutes will not be processed in time for a response. If you need help with your connection during the presentation, you can click on the question mark, which is the help icon at the bottom of your screen.

There are other little images along with the help button. These are called widgets. The green file widget will take you to the presentation handout, as well as information from Maddie's Institute. Before I turn things over to Dr. Widmar, I want to say a few words about Maddie's Fund®. We are the nation's leading funder of shelter medicine education, and it is our goal to help save the lives of all of our nation's healthy and treatable shelter dogs and cats. The inspiration for that goal was a little dog named Maddie who shared her unconditional love with Dave and Cheryl Duffield. They promised her that they would honor that love by founding Maddie's Fund and helping make this country a safe and loving place for all of her kind. Please use what you learn here tonight to make the dream she inspired a reality. Dr. Widmar, thank you for being here tonight.

Dr. Widmar: Thank you very much for having me. I'm very excited to be here. And, I'm very excited to share some shelter decision making tools, and some financial analysis tools, that I think can be very helpful in working through different decisions that need to be made in the shelter, as well as looking at some whole business planning, or whole shelter planning.

I'm very excited to be here. I have entitled my talk *Informing Shelter Decision Making Through Financial Scenario Analysis*. I do provide an example case of looking at different shelter adoption strategies, but I really do want to stress that the real point of tonight is to go through a number of tools that you can use in your own shelter. I'm going to provide some examples and some baseline cases that I have worked through to show how powerful these tools can be, but really want people to focus on taking away what you can use in your own shelter at home.

Every case is going to be a little bit different. What we are really trying to do is lay some groundwork and make sure that people have a grasp of all of the different tools in the toolbox that you can employ to help your own shelter function better and ultimately save more lives. With that, I will get started. To give you a little bit of background, a lot of what I'm pulling into the presentation tonight is really pulling from farm business management concepts – concepts that have been long-used in farm business management, as well as other business management. [We will be] looking at how you apply some of these animal-related business management and decision making criteria to companion animals and pet animals in the shelter setting. In a lot of cases, we are borrowing tried and true concepts of [for example] herd management, where we are looking at "How do we assess different performance of different animals in the herd and how do we make financial decisions going forward so we can best help all the animals out there? How do we prioritize how we allocate our resources?" So, just to give a little bit of background, these are not necessarily new concepts or new tools, but it is a bit of an adaptation to apply that tool to the shelter setting.

I think that really fits for our objective for tonight. The overall objective is to look at the key components of shelter economics. What are some of the things that you should think about when you are making management decisions in your shelter? We are going to use a recently developed management tool to illustrate some different scenarios that have to do with different adoption strategies and look at the financial outcomes. Before we get to that end piece and look at some of the outcomes, [we are going to] walk through how you do this for your own shelter at home.

What are some of the steps that you should be going through to make sure that you are making the best decisions possible with the recourses that you have? To get us started, we will start with in introduction to shelter economics. I divided shelter management, as we do most businesses, into two broad categories: strategic management and tactical management. "Strategic management" is the process of charting an overall long-term course for the firm. In the business world we would say that we are going to look at the overall course of "Where is this firm or this business headed?" It is the exact same thing in a shelter. What is the overall long-term goal of the shelter?

We have to contrast that to "tactical management," which is the process of making and implementing your short-term decisions that keep the shelter moving forward to reach its eventual long-term goals. You can really think of tactical management as, [for example,] deciding who is going to go in what room, deciding where you are going to purchase feed and supplies from or how many volunteer hours it takes to make this thing run on a daily basis. These are all tactical decisions. They are relatively short-term and it's what it takes to keep the shelter running.

Strategic decisions are really forward-thinking, in terms of, "What is this shelter going to look like in five years and how are we going to get it there?" "How are we going to get it there?" is a long-term question. Tactical management are short-term decisions that keep you moving. It is really impossible to talk about shelter management and not include both pieces. I will say that often times strategic management is the piece that gets overlooked. That's true not just in shelters, but overall. Strategic management is sort of that thing that never comes up until you realize that you are maybe off the course that you had originally envisioned. That is true across the board.

Strategic management is really easy to overlook, and the problem is, once you are missing it, seldom to do we resort to strategic management. We lack a long-term plan because a lot of things come up and get in the way. Many of us are really, really passionate about what we are doing on a day to day basis, and if we are being total honest, not many of us are really, really passionate about long-term charting, long-term planning or paperwork. So, what happens is that we start looking at the day to day issues and we become really impassioned with how we are going to move this forward. We have to take a step back once in a while and think, "If we are moving forward, do we know which direction it is that we want to go?" That is when we will get started with strategic management –to take a step back and do a big picture look.

Lynne Fridley: We have our first poll question and I bet this has to do with strategic management. "Do you have strategic management plan in place in your shelter?" Answer choices: "Yes," "No," "Don't know" and "Not applicable." Audience, this is your opportunity to give us a little feedback on what you are doing in your shelter at this point. Please select your answer and we'll wait just a second or two more to see if we can get everybody's answer in here. "Do you have a strategic management plan in place for your shelter?" Let's look at the results. Dr. Widmar, it's interesting. I can see that we have a lot of work to do today.

Dr. Widmar: Ah, yes. I'm seeing about 27% said "Yes," [meaning] they have a strategic management plan in place; about 45% said "No." Fifteen percent said "Don't know" and 12% said it doesn't apply. I don't know that it's any different really in the shelter world than most other industries. Whether or not you have a strategic management plan in place, the wording on that is purposefully a little bit vague. To some people that means, "Did I ever write down a plan and put in on the shelf?" and to some people that is having a strategic management plan.

In reality, having a strategic management plan in place is when we sit down to make a decision and we really have to decide, "Do we do A or do we do B in this situation?" Do we go back and say, "Who do we want to be in five years and does this help us get there?" A strategic management plan is really a living thing. Again, this is not something that most businesses in any industry tend to gravitate towards. It tends to be the thing that you really would just prefer to do tomorrow, no matter what day it is. But, it becomes really important.

If we think about strategic management, you can really think about it in terms of anticipating, driving and capitalizing. "Anticipating" means being aware of things that are going on in the world outside you and being prepared for changes in those environments that could affect you in the future. If we are thinking about anticipating a more macro-environment, we are thinking about what's going on in terms of the general economy and how that is going to impact people's ability to care for their pets. Are we expecting that an economic downturn would end up having more people relinquish pets? What is that going to mean to a shelter? It's going to depend a lot on where you are specifically, geographically. Think about anticipating. We know that nobody can actually see the future. But, relative to your own shelter and your own place, nobody knows that industry better than you do. The question is, "Do you have an idea of what's going on out there and have you done a little bit of brainstorming in terms of what could happen and what's likely to happen?" That is anticipating.

Then we can think about "driving" and that's shaping the future. "Shaping" means that you are going to take actions to respond to those anticipated events so that you can help change those events to be in your favor. How are you going to position yourself so that if what you think is going to develop actually does develop, you are in the best possible situation to deal with it?

If you have something going on in your immediate community, and you can see that this is going to be a problem – maybe there is a natural disaster and you are going to end up having a lot more animals than you counted on – can you think about how that is going to move forward? How can we plan for that so that when we actually get there, we can capitalize and we can make the best of what the future brings and move forward from there? If I am anticipating seeing more animals coming into my shelter for a specific reason, can I prepare myself and then capitalize on that and really work to save as many lives as I possibly can in the best possible way? [When] thinking about strategic management, I think it is easiest to look at it in those three steps. Can I anticipate what's going to happen or potentially going to happen? Can I work to shape that future? And then, how can I capitalize on that and make the most of what's going on?

For your individual firm, or your individual shelter, when we think about strategic planning we are asking you to answer three key questions: "Where are you now," "Where are you going?," and ""How are you going to get there?" These are those big all-encompassing questions. In terms of "where are we now," it's really easy to say, "I'm in a shelter and I save lives." But, we are really asking for something a little deeper than that. Where are we standing right now in terms of our financial performance? Where are we standing right now in terms of numbers? Have we looked at how we are actually performing out there? Where are we going? Who do I want to be in five years in terms of this operation? Do I want to be double my size or do I maybe not want to be any larger? Do I want to move into a specific area, focusing on a specific problem, helping the community with specific issues? And then finally, how are we going to get there?

We define this in terms of what we call the "performance gap." If we look at outcomes, those are on the vertical axis. Typically, it would be thought of in terms of growth or profit generation, but it is really easy to replace outcome with the number of lives saved. If you want to measure it in terms of lives, outcome is the number of lives saved. Time is across on the bottom on the horizontal axis and we said that strategy and strategic planning starts by thinking about our current path. Do have the numbers to look at the current performance of the shelter and think about where we are right now?

Then, we talk about where we want to be. So then, we have a goal for who we want to be in the future. The difference between the two is how we define the performance gap. Then it became really simple to think about strategic planning. Once you know what your current path is and who you want to be in the future – where you want to go – strategic planning asks you, "How are you going to close the gap? How are you going to get from who you are today to who you want to be in the future, in terms of a shelter?"

If we are thinking about closing that gap, we need to think about our current position with respect to serving the needs of the community, or the animals in need, and the general economic situation that's out there. We have to determine our goal. We said, we are asking who we want to be in five, ten, or it's up to you really, how many years. Then, we have to think about our own shelter and our market place. What are the strengths and weaknesses of our shelter and its functioning and what are the opportunities and the threats that are offered to us out in our own communities? Then how do we start down the path that leads us to our goal?

We are looking at both short and long-term steps to move us toward our target. If we think about it in terms of a management process, we can start by assessing the situation. What is the mission of the shelter? Most shelters have within their mission, vision and goals "saving lives" as at least part of that. But, do we also have other considerations that we are working for? Are we doing specific things for our community? Are we performing outreach, education to the community members in terms of how to care for animals, how to care for a pet, how to improve the lives of animals that are not just in our shelters, but animals that are still in home? Are there other things that we should be thinking about as part of our mission and our vision? If so, we are going to have to think about how to pay for those things.

You can see we are setting up the framework, in terms of "We have to know who we are and what we value," before we can start making decisions in terms of how to use our resources including our financial resources to move ourselves forward. When we are assessing the situation, we are thinking about the objectives. We are thinking about our customers, the people that we are serving, our own operation, our weaknesses, our strengths, our opportunities, the threats that are out there and the market conditions.

If we move inward a little bit, we are thinking about implementation of our strategy. We have talked a little bit about how we would formulate that strategy, but let's think about what our products are that we are actually offering to people. "Product" is not just a tangible product, it is also products and services. It is not just selling someone a product. It's brining experience to a community. Sheltering, as an industry, has a very unique product that it's offering. [It's] offering a product not only to people that are touched directly – so potentially people whose animals have been helped or saved, or people who have obtained animals through the shelter system– but also a value to others in the community who you may never actually interact with.

In economics we talk about an "existence value," which means that even though I may never actually interact with or directly benefit from a product or a good or a service, I really get value out of knowing that it's there. It has this interesting component to it that a lot of other businesses don't, because it is something that is valued in society. So, how do we think about including that in our implementation of strategy of who we want to be and who we want to present ourselves as? When we start thinking about making decisions and using resources, we [need to be] taking into effect the complete picture.

We also have to remember that part of our resources at hand and part of this implementation has to do with people. People could mean paid employees of the shelter. It can also mean volunteers as well as community members who may be producing support in other ways.

Finally, at the core of all of this is "operations management." We have looked at the outside situation. We have thought about implementation of our strategy. And, we still have to do the everyday, day-to-day tasks to run the shelter. There is a big difference between what we just spent the last 15 minutes talking about, in terms of charting long-term action. Notice, we did not talk about the actual hands on day-to-day operations in the shelter, so these are really two distinct areas. Strategic management is talking about the long-term course – where are we headed, who do we want to be, how are we going to get there – as compared to the operation of the shelter, or the tactical management – making decisions that are hands on and there with the animals.

Again, strategic management tends to be the one that is over looked, so that is why we spent some time there. It does become very important and it often makes a very big difference between those who are financially viable and those who are not. Often times we skip planning because we get busy and that is true in every industry. It's not just in shelters. [When] we get busy, we skip planning. I always think about it in terms of when we skip planning, we often times run into trouble down the line. But, when we run into trouble, we never resort to planning. Once we actually have a problem down the line, we start putting out fires and it takes a lot of energy and management capacity and it really diverts our attention away from what was the core goal. If we are always trying to, for example, fill a missing position – so if we have a lot of turn over with volunteers and we have not planned ahead in terms of how we are going to train and bring new volunteers in – we spend all of our time fighting fires and feeling like we are always trying to catch up. It really, eventually takes management capacity out of the long-term goal. So, strategic management is often overlooked, but is very important.

That is our first item to think about. Then, if we move into a few different concepts that we want to work on, some key points I want to touch in terms of shelter economics are thinking about fixed versus variable cost. I realize that we are jumping a little bit all over the place here tonight, but on this timeframe, I want to make sure that we get a number of tools out there in front of everybody, so at the very least, we know what we are looking for in terms of additional information. [I] want to provide a whole picture of things that you can use to move forward. So, coming back to fixed versus variable cost or expenses and then also looking at revenue or income streams and thinking about, revenue streams that are directly related to animals lives saved, and those that are not directly related. When we look at the financial performance of the shelter – and then some of the examples that I will work through at the end – there is a very big difference in where your revenue is coming from, relative to animals saved. If it's adoption revenue, for example, that's going to be directly related to the number of animals saved. If it's say, donations that are not tied to adoptions, that's not directly [related] to the number of animals saved. This is going to make a pretty big difference in terms of planning for spending and our financial planning for the shelter moving forward.

To set the stage, that is something that we are thinking about for the rest of the presentation. There are always two ways to improve a bottom line. And, I am using the word profit. I realize that most shelters are organized as a not-for-profit organization, but I think that the concept holds true, regardless. We are looking at profit being defined as the revenue or income, minus costs, which are the total expenses. Not-for-profit businesses, in particular, tend to focus on costs. They tend to be focused on being a low-cost operation and I think a lot of times we actually lose the realization that there are two ways to improve a bottom line. The two ways that you have are working to increase your revenue or to decrease your costs. The problem with focusing only on costs is that if we become too focused on only being low-cost, it can really hurt our ability to generate additional income.

When I say "profit" for the shelter, profit should not be thought of as a negative. There should be no negative connotation with profit, because the real question is, "What can the shelter do with profit?" If you have higher revenue or higher income than what your expenses are, you can turn that profit into additional lives saved. And so, what we are really looking at is the bottom line of, "How am I going to fulfill a mission of saving lives?" If I want to fulfill a mission of saving lives, I can use additional profit generated in my business or in my shelters to do so. We are going to look at two different ways to improve that. I can generate more income, or I can reduce costs, or ideally, I can do both simultaneously. So, something to think about as we move forward.

Lynne Fridley: Well, we have our next poll question. "Do you actively think about how to improve profitability in your shelter?" Answer choices: "Yes," "No" or

"Not applicable." "Do you actively think about how to improve your profitability?" While we are waiting for the results to get in here, I want to encourage everybody to ask questions in the Q&A box on the left hand side of your screen and at the end of the presentation. Dr. Widmar will be happy to address those. So let's see our results. Well, there are some good answers, Dr. Widmar.

Dr. Widmar: Yes, that is a good answer. So, "Do you actively think about improving profitability?" Eighty percent are saying "Yes." I think that is very exciting because there is a tendency in not-for-profit organizations to look upon profit as a negative. I really think a lot of good can come from looking at it as a positive thing and reinvesting it back into the shelter and its mission. So that is great.

Back to our costs and expenses. If we think about fixed costs or expenses, we are looking at ownership, or fixed or indirect costs. Those are costs that arise from actually existing. Those are costs that arise from owning buildings or land or other long-term assets that the shelter might be invested in. If your shelter is tied to a dog park or any other facility, the fixed costs are the costs that exist just to have that there. They arise from owning assets and they would exist even if you didn't use those assets. You can think about things like taxes. Even if you had no animals in the building, you would still owe taxes or payment on the building, or upkeep on the building, even though you were not using it.

The problem usually arises, in terms of fixed cost, because they are really difficult to assign to an enterprise. When you are thinking about managing fixed cost, it tends to be, “We want to minimize, but we really don’t know where to allocate that cost.” It is often appropriate and necessary. They are kind of overhead; they run over top of everything else. We tend to spread them across all of our enterprises, but sometimes they are charged to enterprises based on that enterprises share of the total cost or the total revenue. Perhaps, more important to this problem, or to this question, is thinking about variable costs.

These are operating or variable costs and they arise from the actual operation of the enterprise. These do not exist if you do not operate. You can think about things like food and medicine and veterinary expenses. If there are no animals in the building then those expenses would drop back to zero; whereas, when we were looking at fixed cost, those expenses would exist anyway.

On the revenue side, the part that we often don’t disaggregate – and shelters are a little bit unique in this way – is that some of our revenue streams are directly tied to lives saved, and some are not. Adoption fees, we said earlier, are tied to the number of lives that are saved; donations are not directly tied; sale of goods – so if you have any other income in the shelter from sale of products – then those are not directly tied; and potentially, fund raising events are not directly tied. Now, I think that it is worth mentioning on this particular slide and in relative to this, a lot of people will automatically say, “Well donations might not be tied to the number of lives saved directly,” but certainly people want to donate to a shelter that they feel saves lives or makes a difference. That is absolutely true, but setting up for making financial decisions and thinking about where our resources are getting spent, it is becoming really important. At least in our research work moving forward – and how we are making shelter decisions and trying to analyze what the impact is on the bottom line – when you move something that is tied to lives saved, like adoption fees, it is very different compared to donations, the sale of goods or other fund raising. And, we’ll get into why in a little bit.

We went through variable costs, fixed costs, and various sources of revenue. So, the question is, “How am I going to use all of that, right?” These are all nice concepts, but actually how do I use it and make it useful in my own shelter starting tomorrow? And, the answer is through enterprise budgeting. An “enterprise budget” is an organization of those revenues and expenses and finally, profit or net income for a single enterprise. Typically, each business unit or type of animal is an enterprise and the base unit for an enterprise budget is generally a single unit of production.

If we are thinking about a base unit for a shelter, we would be thinking about developing a per dog budget, or per cat or per kitten or per puppy [budget]. We are actually thinking about a per animal budget moving forward. You can already see where we are heading with this, because we talked about direct cost versus variable cost versus income. If you think about lining up a budget per dog, if I have the dog and I'm looking at the income, which should potentially be adoption fees, expenses are going to be not only the overhead to run the building and to have staff on hand or whoever is caring for the animal, but also food and veterinary expenses, bedding and all of the other expenses that would go with that animal. So, how do we organize those in a way that makes sense that can help us?

Some shelters have said, as we brought this concept forward, "Does it really make sense to do a budget for every single dog?" Certainly, it is understandable to say in some situations, it might not [be]. In some places, it has made sense to have a unit, for example a room in your shelter. So, are you talking about a budget for this room of kittens or is it a group of 30 kittens who came in together? Are you managing expenses on a group of animals? Absolutely that might make sense for your shelter in certain situations. It is not a hard and fast rule that there has to be a budget for every single animal, because none of us has the time to sit down and budget this out for every animal that come through the door. But, we do want to have on hand a basic idea of what it costs per dog, per cat, per puppy or per kitten.

With that in mind, you may need to have multiple budgets per enterprise sitting on hand. You may have a budget on hand for fast track kittens, for example, and a separate budget for other kittens. Or it may be a time of year factor. Or we might be looking at having a budget on hand and saying, "The average 30 pound dog generates this much and costs this much in the shelter," but the average 100 pound dog might look very different or I would expect to look very different.

The interesting thing on the enterprise budgets is that if we use common units, for example, if we have 15 different kitten budgets, we can look at a per kitten basis and say, "For kittens that came in and potentially had this health problem or this health challenge, at the end of the day, the expenses were on average x amount and the income is on average Y." What we are finding, as we are looking across shelters, is that often times the baseline case is that those adoption fees are not covering the expenses. A lot of people have said, "Well, if we already know this, why are we worried about the enterprise budget?" It is extremely useful to know, on a per animal basis, how much it is costing you to save that life. We are not looking at it as a negative. We are looking at it as a positive, because right there, you have your answer for how much you have to obtain in revenue and other ways in order to not only save that life, but to have the shelter be even better off financially to save the next life. What you can do is to start to determine that gap. How much do I have to generate in donations, in sales or fund raising to ensure that not only this kitten, puppy, dog or cat was able to move through the shelter and was cared for in a way that benefited it and moved forward, but also help the next one and more of them?

While [an enterprise budget] may sound very simple and also a bit time consuming – and it is, setting them up for the first time does take a little bit of thought and extra data from your shelter – it is a really powerful tool that most businesses find very valuable. Once you have created them, you can use them to make a lot of decisions in your shelter.

You can use your enterprise budget to determine: what is the most profitable enterprise? Where can you generate the most, so can you identify those fast track animals that potentially do cover their costs and help cover someone else's? Can you identify them quickly and easily so that you can have a whole shelter plan to move forward to capitalize on those animals when you can, in terms of them not only paying their share, but help you save another life? And, can you identify early on those animals who are likely to cost more than they are able to generate back and have a plan on hand for how to cover that difference? Enterprise budgets do require a lot of data. But, once they are completed, those enterprise budgets themselves are a good source of data for other budgeting exercises, for decision making for your shelter and for how you present your shelter to others on the outside in terms of soliciting more donations. If we know exactly how much it costs us to save a life we can move forward to say, “Not only did we save this life, but we have actually positioned ourselves to save additional lives in the future because we did it in a financially sustainable manner.” That is also exceptionally good PR for your shelter when you are talking to others out there to keep the industry moving forward.

In addition to thinking about cash costs, which is everything we have talked about so far – you would have to pay from the checkbook or pay for in cash, so we are talking about money – we also have to think about unpaid factors. The biggest unpaid factor for this industry, whoops, I think I might have gone backwards there. Sorry about that, the biggest unpaid factor we have in this industry is when we are looking at volunteer hours. Volunteer hours are not free. In terms of thinking about the actual cost of saving a life and the cost of helping an animal through your shelter, we really do need to account for the cost of those hours. If we are thinking about opportunity costs, that’s a good way to account for these unpaid factors. "Opportunity cost" is the cost of using a resource that could have been used somewhere else. It's a very common concept in decision-making. We are thinking about tradeoffs. It's the earnings that the resource could have gotten you in its next best alternative. It's also what you could have sold that resource for.

If you are thinking about it, the opportunity cost of your time is what else you could have done with that time. If you have a volunteer coming in to help for an hour, say in your shelter, their opportunity cost of being there is what else they could have done with that hour. Does that necessarily mean that you need to pay for that hour? No, it's an unpaid factor and we acknowledge that, but something to think about in terms of decision making is, when you are going to allocate that volunteer's time to doing one task, you have an opportunity cost in the shelter as well. You could have allocated that hour to doing a different task. We really start to think hard about the tradeoffs of how we are allocating our resources even when they don't cost us cash or cost us money. There is a common conception that if it's not costing you outright money, we don't write a check for it, that it was free. Opportunity costs really start to acknowledge the fact that there is no "free" resource in your shelter. Using someone's time to do one task takes away from a different task. Assigning a shelter resources to one animal means that that resource may not be available for another animal. It really helps to think hard in terms of trade off and what it costs you to use something even if we didn't have to pay cash for it. Technically, if you looked at opportunity costs, it's usually defined in one of two ways. It is the income that could have been generated by selling or renting an input to someone else, or it is the additional income that you could have received if the input would have been used in its most profitable alternative use. Actually, instead of thinking about additional income, think about additional lives saved. It is the additional lives saved that we could have had if we would have used this input to the next use instead of the use we used it for, thinking about tradeoffs.

Lynne Fridley: We have one more poll question. We do have questions coming in, in the Q&A box and keep them coming. We will answer those at the end, and the poll question is, "Do you consider opportunity cost in your shelter decision making?" The answer [choices are:] "Yes," "No," "Don't know" and "Not applicable." Do you consider opportunity cost in your shelter decision making? We will give you just a few more seconds to answer the poll and then we will go to the results. There are some interesting answers there too, Dr. Widmar.

Dr. Widmar: Yes, we have a pretty interesting split. So, "Do you consider opportunity costs?" We have just shy of 40% saying "No." I don't think it's very surprising because it is something that it escapes all of us in the moment. The more impassioned you are about what you are doing, the more focused you are at moving this particular task forward. It does become very difficult to account for the cost of these things that actually if we are thinking about money or from the checkbook didn't have a dollar value to them. [It is] really something to consider.

I will show you how we think about the bottom line of the enterprise budget. If we think about receipts, that is your income. Those variable costs and fixed costs, we take those out and we end up with accounting profit or net income. This is typically what people think of when they think of profit, right? You had income; you paid all your bills; you paid for all of your expenses, both variable and fixed; and, you had something left over that we call profit. If we are thinking about true economic profit, we also then have to take off the opportunity costs of those items that we didn't pay for. So, for example, we would take our accounting profit that we just calculated and we would take off the value of all of that volunteer time that might be in your shelter, all the donations that came in to your shelter in terms of food, or bedding or other items that were used in your shelter. What you are left with would be the economic profit and that would be accounting for the true value of all the resources that went into your shelter. This is just something to think about when we are doing our own assessments of our own shelters at home and [we are] thinking about what it really costs us per life saved. What did it really cost us per dog that came through the door? Assigning a value to those items that we didn't pay for in cash [is] really a good way to be able to measure our progress over time.

How many resources went into this animal and how can I think about being more efficient in the future? We really want to make sure that when we are dependent upon those donations or that volunteer time, that we know how much of it is going into our current operation. It's not a matter of feeling like we have to pay it back or we are somehow indebted to these items that came in, it's simply a matter of making management decisions and being fully aware of all of the resources it takes to move the shelter forward. The real reason we want to do that is because we need to know how much volunteer labor or how much donation in terms of food or other items that are coming in, it takes to run the shelter so that we can have contingency plans in place for if those didn't come through. If we are thinking about how many hours it really takes to care for all this room – of let's say it's a room of dogs – we need to know how much it takes so we would know to have plans going forward and how to care for them, if our situation were to change.

When we think about what really drove my concept and how I wanted to cover these things, when we think about increasing the number of lives saved, you inevitably drive up your total variable cost. This is something that becomes very difficult, because you end up with a question where you are sort of stuck on this wheel. If you want to drive up the total number of lives saved, I'm going to drive up the total variable cost. Then the question you should be asking yourself is, "Does your adoption fee per life saved cover that total variable cost?" And, we already said that for a lot of people for the majority of the time the answer is no.

What happens if I take the number of lives saved, if I say every animal that comes through your shelter at the end of the day, on average, does not pay for itself? If I drive up that number, I drive up the total cost and I drive up the revenue, but I didn't drive up the revenue far enough. Therefore, we really have to think about what our variable costs are relative to that revenue generated. I could end up saving a lot more lives and being in a much worse financial situation at the end of it. We really want to think about not just lives that are saved today, but how do we make sure that the shelters a viable economic unit so that we can have more lives saved tomorrow? Does a puppy on average, generate more or less in income than it costs to save in your shelter setting? Really something to think about. We all have to know the answer – not for every single individual puppy – but we really need to know the answer in terms of puppies that generally come in looking like this. What is the cold hard number, in terms of how much we need to get in donations in addition to that adoption fee, to pay for that puppy to move through the shelter?

If we take that concept, we are going to go pretty quickly through the financial statements. I want to make sure we get to decision-making and how we employ some of these things. I want to make sure we go through at least the basic financial statements that we are drawing from to make some of these decisions. So, we will look at some financial management and some financial statements.

The reason to cover financial management is because we really need it to ensure that the operation can continue. How are we going to make sure the shelter is here to perform its mission and to move forward for tomorrow? We have to have sustainable economic entities to be able to do that. If we think about the basics of business management, we really focus on three key statements. We think about the balance sheet, the income statement and the cash flow statement. We are going to go over them pretty quickly, but we want to focus on the concepts and what we can really gain from each of them.

Your balance sheet is your financial report that summarizes the assets, the liabilities, which are the debts, and then the resulting equity, or the net worth of the entity at any given point in time. A "balance sheet" is a snapshot concept. It is really only good for the day that you do it. It really only answers two key questions, it is pretty simple. It says, "What do you own?" and "What do you owe?" We have to think about making these for our shelter on an ongoing basis. You may want to do them twice a year. It may be that you put one together monthly. It really says, "What are all the assets that we have out there, what do we own?" Do we own our building? Do we own some supplies and materials? Do we have things in inventory that have a value to them? What do we owe? Do we have debts for these various items? Are we carrying a mortgage? What are the various liabilities that we have out there? So, at the end of the day, what's the total value of what we own minus the total value of what we owe? That is our net worth. What we are looking for over time is that our net worth was to increase, so that we actually are worth more than we owe outside the business. It is also not just to watch it increase, but to also have a way to track over time and keep track of what the business looks like in terms of our assets and liabilities.

Balance sheets really give us that snapshot statement of who we are or what we own and what we owe, as far as who we are right today as a shelter. "Income statements" are probably the one that most people are familiar with and that summarizes your income, or your revenue, and your expenses and computes the resulting profit of the business over a period of time. The major purpose is to measure the difference between revenue and expenses, or to measure your profit. That one is probably pretty simple in terms of, this is what we've been focusing on the whole time. If we thought about how to manage profitability, which most of you did, in terms of our shelter, we are thinking about managing both income and expenses. The income statement is a little different than the cash flow statement, although sometimes the two get confused.

The "cash flow statement" records the timing and the size of cash inflows and outflows that occur over a given accounting period. The cash flow statement does just that, it focuses on cash. Will you have the cash on hand when you need it? It can answer, "When will you need to borrow money?" Will there be a time when you know you are expecting income coming forward? Maybe you are a month away from your usual major donation time period of the year. Or, do you need to borrow to get you through that time period and how much will you need to borrow? When can you afford to increase your spending and when should you repay outstanding debts? Your cash flow statement, in a lot of cases, ends up looking a little bit like your check book in terms of what do we actually have for cash on hand, but it asks it going forward. So, can I think about when I will have access cash on hand and what should I do with it? If I'm going to have excess cash on hand, can I think about ways to actually reduce my cost of saving lives? Do I think about when to pre-purchase – when to go out and look for volume discounts? When I have extra cash on hand, what can I do with that so that it's really working for my shelter and working for the mission that I have set forward? Let's not just hold cash on hand, let's really plan ahead and say, "When I am going to have cash and what am I going to do with it, so that it does the best possible thing for my shelter?"

Again, going all the way back to the beginning, a key here is that that really takes planning. We really have to think in advance and know when we have it and what can we use it for so that it has the best impact. How can we really plan so that we know when we need it coming back around, that we are going to have it back on hand again? Again, we are doing the same thing we talked about doing from the very beginning. [There are]two ways to improve our total profit. Are we going to increase our revenue or are we going to decrease our cost?

Now, I included a section here on risk, because we know it's just not that simple. [Even] the best laid plans, we know, become very difficult and things almost never go as planned. We really need to make these plans, think about these budgets and include risk. Have we thought about different scenarios? Have we thought about different potential outcomes and how to account for those? Different risks we need to think about in terms of our shelter including financial risk and regulatory risk. Is there potential that I change a regulation and that that really shifts the cost of doing business in your shelter? Human resource risk is a big one. Whether it's hired, it's volunteer or it's the management of your shelter, have we thought about what it would mean to lose human resources or have to retrain different human resources in the shelter? Do we have a contingency plan on hand? Legal risk and also production [risk]. In the shelter, that would be all the risks that go into housing a number of animals. We have the potential for disease. We have the potential for increased costs, should we have an outbreak in our shelter. If we really think about that, have we accounted for that? Have we included in our cash planning for the next year? How are we going to pay for this if we have something happen so that it doesn't derail all of our efforts moving forward? When we think about risk from and economic standpoint, we tend to look at two different categories, so we could think about demand side or supply side. "Demand side" is of all the things that affect the people who are walking into your shelter. You can think about the general economy. If we have impact on the general economy, do we change the demand for pets? Do we change people's ability to pay for pet care, for both their existing pets and potentially for pets that they would adopt? Do we change donations? Do we change people's propensity to donate to shelters and into saving lives?

Location matters. Location, location, location. Different geographies are going to have different abilities to pay for shelter services and different abilities to support that shelter.

Adoption fees. People's ability to pay them will change. Also, if you move adoption fees, we expect the demand for pets to change accordingly. Often times we talk about things like we are going to have free kittens or no adoption fee. The reason that we do that is because when we drop adoption fees, or we drop price and economics, we expect the quantity demanded to go up. A drop in price should increase the number of adoptions. So then, my question is from the shelter side. A drop in price will increase the number of adoptions, but remember what we said, every adoption or every animal that goes through the shelter actually leaves a bill behind. If I take your adoption fees down to zero, that's a much bigger bill that I have left behind. That's not necessarily bad. That might mean more lives saved, but the question becomes, "How are we going to pay for it and do we have a plan in place ahead of time to cover those bills so that it's sustainable?"

Seasonality will affect demand. Total awareness in terms of what the shelter can provide in terms of those services. Do we have awareness in your community in terms of what you contribute, what you give to the community and what you give to these animals? That's going to affect demand – not only demand for pets as they come in – but it's also going to affect donations and people's willingness to give.

Then [let's] think about segmentation of market, [which is] something that we talk about a lot in marketing and business. "Segmentation of the market" says, "Are all of your potential customers the same?" I think most of us would agree the answer is no. Not everyone who walks through the shelter door is exactly the same. How do we tailor our approach to these different customers? Some customers would be willing to pay much more. Some customers are willing to pay much less. Have we thought about this from our individual shelters perspective in terms of can we segment that market? Do we have the ability to adjust and cater to these different customers? If yes, how are we going to move forward doing so in a sustainable way? If no, just something to think about in terms of how we are serving the market place and how we can best move the shelter forward.

If we flip to the supply side, again, general economy is going to affect the ability of the shelter to do what it does. Location costs. So thinking about things like vaccines, food, veterinary care, all of the animal related costs, as well as capital availability, resource availability for the shelter and interest rates. What is it costing the shelter in terms of ability to borrow money and costs to borrow money? Again seasonality. So, all of these factors are moving constantly. And, it really adds complication.

Making these budgets is not a one-time [thing of] we make the budget and put it on the shelf. The fact that all of these factors are moving and affecting the bottom line of not only our business but are changing the outer economy surrounding us, means that they really need to be living documents. We really need to think about how to adjust our budgets moving forward so that they are always viable and current. Because when we are faced with an important decision in the shelter that could really make a difference, we need to make sure we have all the information on hand and ready right then. Then we can make the best decision possible moving forward. It does always seem that when we really need this information, you just don't have the time to go out and collect it. These things need to be in place so that they can support your decision-making moving forward.

I think this is the second time we have said it, but don't get stuck on only thinking about decreasing costs. We can think about decreasing costs. Is it how we procure food and supplies? Is it facilities and maintenance? Different supplies and standard operating procedures, in terms of how to keep our cost down, that's definitely important, but it's not the only way. Can we also think about increasing revenue? Recognize that sometimes we have to spend money to make money. So, additional fundraising and pursuing donations is likely to have a price tag. We are likely going to have to invest in that and put some of our shelter resources there.

Remember, we said, very dollar that we spend on fundraising or pursuing donations and every hour of someone's time that goes into that is an hour that did not go into something else. So, we are taking time away from something else in the shelter, putting it behind fundraising so it has a cost. But the question is, can we work to increase our revenue and how effective at it are we? Thinking about grants, external funding, all of these things, again are going to take management focus and time, but there really are two sides to the equation. Can we increase our revenue in addition to decreasing our cost? This all comes together to really say, we have to know where we stand right now and have these decision making processes in place so that when we have opportunities – remember going all the way back to strategic management – we are ready to capitalize on those moving forward so that we can make the best possible difference with what we have.

Wrapping all these concepts together, we talked about enterprise budgeting. We talked about decision-making. Enterprise budget, we already said, is this organization. It's got revenue expenses and profit. It's a planning tool. An enterprise budget allows you to test out some new ideas and compare enterprises to determine the best one. This planning tool really lets you sort of play on paper and figure out what would happen if I did this. We would commonly say, this is your way to fail fast and fail cheap. We don't want to go and sort of pursue our plan and try a brand new strategy in the shelter and find out that it doesn't work. We spent money, we spent time and we diverted attention from something that could have been better. So, if we think about this, this is really a model for your shelter. You can test our your new ideas and say, "Well if I did spend more on this, what would my bottom-line look like?" The enterprise budget lets you test it out say on a per cat or a per dog basis and you can compare across enterprises. If you had an enterprise budget prepared for a cat that comes into your shelter and you had the opportunity to say, switch vendors and perhaps procure food from a different vendor, you could run those numbers through your enterprise budgets and say, "At the end of the day, that's going to improve my bottom line for every dog that comes through by x dollar amount." Or, at the end of the day, it's actually going to cost me more if I would make this switch. It makes it very easy for you to test out new ideas – whether that's changing of expenses, changing of adoption fees, or your income, or both simultaneously. It also allows you to feed into break even analysis very easily. So we said, if you know how much every dog costs and every dog brings in, you know what the gap is and that difference. You really have a number that you can aim for, to know, if I achieve x number of dollar donations per dog, then every dog who comes through may have covered his cost, for example.

"Partial budgets" are really the last tool that we are going to dive into before we look at some examples. Partial budgets are a little bit different because partial budgets are very simple, but powerful. It's the process of examining cost, income, and resources that change when you propose an adjustment in your shelter. We are looking at profitability of alternatives under consideration. We only look at the changes in revenue and cost. It isolates that effect of that change. If you look at the big picture, enterprise budgets looked at everything. I wanted every cost and every revenue for every dog and every kitten, and every cat and every puppy. A partial budget says, "Let's think about just the change." What if I just change this one factor, how would things change in my shelter? This is really powerful for decision-making, especially if you have all of your information already prepared in your enterprise budgets. Partial budgets are that tool that you are going to reach for time and time again when you need to make a decision. If you have all of the data from your enterprise budget, partial budgets are a simple, very fast, but very powerful way to assess some options in your shelter, and decide which is best.

Partial budget development. We are going to walk through it in a few steps. First, you identify your goals and option to be investigated. I know we are circling back again to our strategic management question: what is the actual goal? What are we trying to do by assessing this change? Then, we are going to look at our revenues and expenses that need to be considered and we are going to estimate the revenue and expenses changes that are associated. Then, we look at the changes of the positive or negative impact on the business. Perform sensitivity and that is how we account for that risk again. So, for example, if we are looking at changing adoption fees, that's a good example. If we are looking at changing adoption fees and we say, "We want to change fees from $100 to $125", how is that going to change our bottom line? That is going to be a revenue increase. But, then the question comes. If we raise our adoption fees, will we actually have fewer adoptions? Well, potentially, but we don't know how much. We are going to perform sensitivity analysis to that. What if we reduced our adoptions by 5%, because we raised those costs? Now what does the bottom line for the shelter look like? Okay, what if we were going to look at a 10% reduction, how is that different? [This is] an example of a sensitivity analysis and how we would look at that. Finally, we would review that in the outcome of the whole shelter. So, if we are evaluating management changes, we are looking at the additions to our bottom line (increase of revenue, or decrease of expense or both). Remember we said there is two ways. Then, we have our subtractions. What are our decreases in income or our increases in expense? We end up with a net change to the enterprise. The real beauty to partial budgets is that they are simple. They avoid the errors of the more complex models and you are looking at only comparing two options.

Here is just presented the general framework that could be used. It is really easy to break it into four categories. If I make this change, how do I, a) increase my revue? So how do I make more money? How do I, b) decrease my costs? How do I, c) decrease my revenue? There is potential that I am making a change that will actually make me less money, but that might be okay if I can decrease my expenses further. And finally, how do I increase expenses by making this change? Then I look at my net effect. If my net effect is positive, this would be a positive change. If it's negative, it would be a costly change. So [this is] a very powerful tool.

Finally, I will move into some scenario analysis and some examples of how I have pulled these tools all together to look at some all-inclusive questions, in terms of shelters. I am going to present a few results from an ongoing project that we are still finishing the final details on. We looked at different adoption strategies used in animal shelters. And we said, that can have a very large impact on the total number of adoptions and the donations that would take place. If we think about things, like reducing adoption fees during a kitten or puppy season as a way to reduce inventories and increase the number of lives saved, how does that impact the financial well-being of the shelter? In particular, if the per animal cost exceeds the revenue, which would be the baseline case. The methods that were used here was that I developed an enterprise budget for a cat, a kitten, a dog, and a puppy. We will simplify it a little bit and say we had general adoption fees going in. We had $150 for a dog, $175 for a puppy, $50 for cat and $95 for a kitten, just as a baseline example. This is an example of the cost section of one of the enterprise budgets. This is dog and puppy. It is just to give a basic example of how did we go through and calculate the cost for this dog for every day that he was in the shelter, he or she. And, then [we] went through the various costs that would go into the animal, including the cost of food, the cost of different supplies and also a daily boarding cost, because there is going to be a cost in terms of the building. This is a very high-level overview of all the detail that went into the costs and revenues associated with these animals.

Some preliminary findings that I wanted to share with you. If we work our way, if we look first at the dogs and we look at the total cost per dog, you can see that this is by far the highest bar on that graph. If we read from left to right, we have our total cost per dog in that high bar. Then, we have the adoption revenue per animal, so the total revenue for the dog is that next bar. Then we have the revenue if we were to increase our adoption fees. Clearly we have the highest cost, we have our baseline fees next and then we have a slightly increased fee. We said, "Okay, if we increased our fees, would that do it?" The answer clearly for the dog, is still no. Even when we raised fees, it was not enough to cover the cost of having the animal there.

Now the question was, "Is that different across different enterprises?" If you look at a cat, the story is very similar. Neither the regular fees, nor the raised fees to the right there, were enough to cover the total cost of having the cat. Puppies and kittens were perhaps a little bit different. The total puppy fee that was set in this example – and I should say, this example was actually representative of no particular real shelter, but was just built as an example of how we could use some of these tools to inform some of these decisions – the puppy fees actually did cover the cost of having the average puppy in the shelter, but the kittens did not. In this baseline example, where we just tried to use some industry averages, the only animal who is covering its own cost as it came through the shelter, on average, was a puppy. This goes back to our original conversation. If we don't generate enough revenue per animal, how are we going to do it? It is going to have to be through donations or some sort of fundraising event because the adoption fees simply are not covering costs.

If we use this as a jumping off point, you really have a question to ask yourself. I could raise the adoption fees high enough to cover their cost, but then what happens to the total number of lives saved? Do I actually save fewer animals because now I am charging more per animal? We did look through a series of cases. If you go from left to right, the one that is labeled BC is our base case scenario. That has the cost that I showed you up front, as well as, those adoption fees that we looked at up front. I am going to walk from left to right. BC is our base case scenario and what you can see is that the bar to the far left is your mean monthly net income.

Remember, we said net income is profit. You can see that mean monthly net income in the base case scenario is indeed negative. At the end of the day, for the baseline case that we looked at in terms of just putting some very general averages, what we actually had was more expenses than we had revenue or income. You can see the adoption revenue is that white bar with the black dots. We have adoption revenue, but right next to that, we have animal cost. You can see that our animal costs are far exceeding our adoption revenue. That is why we end up with a negative profit. So this led us to ask, "Well, what if we tried different scenarios in this shelter to generate income and different ways of looking at cost?" Could we come up with a way to not decrease the number of lives saved, but still have a sustainable financial shelter?

So, I am going to highlight here with some circles, these are the three scenarios that we ended up looking at where we had a positive profit generated. We will go from left to right. If you look at the one that's labeled IfeeD10, that's an increase in our adoption fees. The problem is that that results in a decrease of the total animals that got adopted. Because we raised our fees, we made the assumption that we would then lose some customers, or people who are willing to pay those fees, resulting in a total decrease in the number of lives saved. Perhaps that's not going to fit within the mission or vision of the average shelter. Yes, we did raise our fees and we were in the end able to generate a profit, but we decreased the number of lives saved. That might not be in fitting with your vision for your own shelter.

If you look at IfeeD10, that's doing some of that sensitivity analysis that we talked about. Now, what if I raised those fees, but I didn't just decrease the numbers by 10% in terms of lives saved, what if a lot less people would pay the higher fees? [What if] I decreased the total numbers by 20%? Well, my shelter financial situation actually got better off at the end of the day because I had less total animal cost, but again, is this really in keeping with your shelters mission if I have no decreased the number of lives saved? You are better off financially, but was that really the goal? For most people, the answer is going to be no, that was not the goal to make a profit. The goal was to save lives.

That led us to ask, remember when we talked about decoupling or detaching revenues from the number of lives saved? What if we think about returns to promotions? If you skip over, we have three different return levels. If we move in from the right, you can see, I have Lpr Return (LprRet) that's a low return. Next to that is a fair return (FprRet) and then a high return (HprRet). High return has that circle around it. That is basically saying that we have a high return from this additional investment in fundraising spending. So, we looked at some different levels in terms of for every dollar invested did I generate four dollars? Did I generate eight dollars in terms of total donation? This really rose to the top in terms of a way to not change the adoption fees from the baseline case. Therefore, it did not have to decrease the number of animal lives saved, but we were still able to pay for all those costs and to actually generate a small and modest profit for the shelter, which could then be used and reinvested. This really rose to the top in terms of a way to think about pulling this all together. If we have an enterprise budget, we know what it costs to save a dog, a cat, a kitten or a puppy. We have an idea of what that gap is in terms of how much additional revenue we need for every life that comes through the shelter. We can really build that into our planning. We can think about our cash flow. We can think about our cash planning for the year. We can really set some hard targets in terms of, "If we are going to save this many lives and we are going to do it in a financially sustainable way, what is the exact number of donations that we need to obtain?" That really becomes a powerful message that you can convey to people who you are talking too about fundraising or donations or promotions. You can really start to say, "With this donation, we can save this many lives and we can do it in a financially sustainable way, so this shelter will be here next year to continue to serve the community."

At the end of this project, our point was to really highlight what are some ways we can think about creating a financially sustainable entity in terms of the shelter where we have planned it out and we have really thought about where revenue needs to come from. Is it from adoptions? Is it from donations? How do we move some of these things around so we can save the most number of lives, but do it in a sustainable way?

In summary, the key tools that we talked about and we used to work through some of these analysis are: 1) enterprise budgeting, how valuable they are to have on hand so we can support our in-shelter decision making; 2) partial budgeting, where we are looking at just those changes, so think about how to really look at a simplified example and dive down to be able to make some quick decisions, in terms of whether this is going to be a good change or a bad change for the shelter in terms of finances; and3) the three key financial statements, which are the balance sheet, income statement, and cash flow statement.

Ultimately think about decision making, incorporating both short-term and long-term goals and financial feasibility into the shelter. We learned that variable versus fixed costs are really key in terms of shelter management. Think about what drives up your total animal cost – if we are going to keep increasing that total animal cost to save more lives or work with animals who may have additional challenges that will cost more to save. We really need to think about where the revenues are going to come [from] to pay for that.

In economics, we often talk about a shutdown rule. I think it fits here in terms of thinking about variable cost, because shutdown rules are based on variable cost. We think about the fact that a firm should really shut down or stop performing service when its revenue received from what it provides can't cover those variable costs. So, those variable costs are really, really important. Separating those out from the cost of having the building or the cost [of] the items that we have to pay for anyway – think about separating those out and think about the costs that come with the actual animals. How are we going to pay for those variable costs? When we think about how the shelter is going to move forward, if we can't cover the variable cost of operation, it becomes very, very difficult to have a sustainable entity moving forward. Generally, that's when we would start to think economically about whether [or not] we should be operating. At that point, every additional life saved is actually moving the shelter backwards [from] a financial standing point. We need to have a plan to combat that if we want to be sustainable and be able to move forward. We need to know the cost and revenue associated with each enterprise, so that we can make some sound decisions and ensure that we are here to perform our service and to move our missions forward for tomorrow.

Lynne Fridley: Thank you, Dr. Widmar. We have time for questions now. We are going to get this first question up. "How do you calculate the value of volunteer time or goods donated?"

Dr. Widmar: Okay, this is a great question. This one goes back to our opportunity costs, where we started to think about how much non-cash items cost in the shelter. It does become difficult, because we said the opportunity cost is what else we could have done with that time, right? And that's really hard, because you have different volunteers who would have, honestly, done very different things with their time, likely.

When we are thinking about shelter performance, we want to make sure we are putting some sort of a reasonable, believable value on that time. Often times, people put in simply an average. So, do we want to say that every hour that someone donated in terms of caring for the animals in the shelter would be worth, for example, $10 an hour worth of time because that's our best guess at what we would have had to pay to go out and hire someone to do it? It's also a good opportunity for some sensitivity to be performed. You may want to think about calculating the cost of your shelter and say, "What if I had to pay $7 an hour or $8 an hour? What if I had to pay $15 an hour for all the volunteer hours that went into my shelter? What would it look like at that point? What would be the value, or what would be the cost for each animal if it cost me $15 an hour? I think \$15 is probably not the likely number I would use. I probably would be circling somewhere around \$10 an hour to put a fair value on that time. It is a good item to think about in terms of what it actually takes in resources to get the shelter to move forward.

It will be a similar answer for goods donated. You are going to want to try to put the value of that good, if you were to sell it. That would be the technical answer, so what would that good be worth there, in the market? In reality, we wouldn't look toward selling a lot of these donated goods. I would look towards putting a price on that in terms of what it would have cost you to buy it. If someone is going to donate an item that's worth say \$10 in terms of what you would have paid for it. I would make sure I had at least had my \$10 in there for the resource, the value of that resource that went into your shelter.

Lynne Fridley: Okay, thank you. Let's get the next question up. "Do you know of a resource that aggregates average base unit budgets, i.e. per cat, per dog, per kitten, per puppy or per feline leukemia positive kitten?"

Dr. Widmar: So, do I know of a resource that exists? I suppose I have not seen an explicit enterprise budget that would fit across the board. I have seen some out there, and I would have to honestly go back and look at where to send you to look at per cat, per dog or per kitten. I can comment that this is something that we are working on right now. [We are] pulling together a tool that would make it very simple to look at your own costs and to look at these different enterprises. We are in the middle of working through finishing up a tool that would help you work through your per cat, per dog, per puppy, per kitten for your own shelter. It will not exactly be able to calculate, for example different conditions or different changes in expenses, but if you knew the approximate change or the different cost of caring for FELV kitten, for example, it would make it very simple to do that. I don't have a resource for you that exists right now, although, I can tell you that we are working very hard to get that available and to get that put up for you to make it simpler to run through your own numbers.

I can comment that in many cases, we do see, across different industries, published enterprise budgets and I think they are a little bit of a double-edged sword. It is definitely a good resource to start with, but we really need to make sure that we adapt it for our own operation. Even with the one that we put up, we are going to make sure that there is lots of disclaimers. You want to make sure that those fit your own shelter numbers and don't just take my or anyone else's word for it that that's what it costs per dog.

Lynne Fridley: Thank you. The next question: "Is it worthwhile to participate in shelter offsite events even if not a lot of donations, sales of merchandises is generated. Is the exposure worth time?"

Dr. Widmar: Ah, this is a great question. Multiple things are at work in this question. Is it worthwhile to participate in offsite events? The unfortunate, but true answer is that it depends on the specific event and it depends a lot on the cost of being there. This is a good case of where it really matters to calculate your cash cost, versus your opportunity cost. If it costs you a lot in terms of actual cash expense, so if it's a case where we have to pay a fee, we are paying for a booth or we are really paying to be there, then I think we really need to think hard about are we at least recovering the cash that we spent to be there.

Where it gets a little bit more difficult and where I'm guessing the question is coming from is more in terms of, "This is ton of work." If we are going to have an offsite event, it's a ton of work. It's a lot of time. We all only have so much management capacity per day and that's it, honestly. There are only 24 hours in a day, so should we be investing that kind of time? I can say that over time, you would want to be tracking future donations.

"Is the exposure worth the time," is really going to be a question. Does that exposure eventually pay you back? And unfortunately, we cannot answer that. It is going to be different for every shelter. I would hypothesis that in some situations the exposure is indeed worth the time. So, is it that somebody saw the name? Is it that maybe you didn't get a lot of donations or sale of merchandise right here, but I guess I don't know the specifics of the shelter, but did we make Facebook friends? Did we get the word out there? Did somebody go home and say, you know, I really saw this shelter out there and they are really doing good things? Even if they are not ever going to have an animal of their own, was there some positive word of mouth? We really need to start thinking about ways to track that, whether it is that you specifically ask people or are friending people on Facebook so we get the connection out there. Are we handing out cards? Are we making sure that there is an opportunity for kids to see animals? Are we trying to measure the impact that we are having? I think a lot of times people get very passionate about what they are doing, they want to share their message, but they don't have in place the assessment tools to actually measure whether that is working.

[There are] things to think about when people then do donate. You can ask them how they heard about you. If people start telling you it was these various events, then at least you have some measure of whether they were worthwhile. The question is, are you not getting a lot of donations? Is it that day, or is it that it's not helping your donations over time?

I am a little bit cautious in answering this question, in particular, because if you are already doing offsite events, that is your baseline. I would hate to tell you that it is not worth the time and have you pull back and actually move backwards. It could be that they are worth more than you think they are in terms of exposure. If you are not already doing them, then it is a very easy measurement. [You can] start doing them and start measuring the impact. If you are already doing them, then it is going to be a little more difficult, but I would still say, we want to start to put together some budgets and think about how much time, how much expense and what are we generating. I apologize for the very long winded [response].

Lynne Fridley: That's fine, thank you. As a follow up to the previous question, Dr. Widmar, "Where can people go to find the information on your final findings for your research?"

Dr. Widmar: Ah, so final findings, we will be working with Maddie's. I don't know if Lynne, maybe you can comment a little bit more of where we might get that posted. We are also going to have that available through the Purdue website.

Lynne Fridley: You will be able to find them at the Purdue website and we will also it at Maddie's Institute have it on our website.

Dr. Widmar: Yes. Yep, so you should be able to get the link in both places.

Lynne Fridley: Great, so here is the next question. "When allocation costs for paid employees vary, if a manager does some of the services that a subordinate would normally do, does the cost analysis reflect the higher cost?"

Dr. Widmar: Ah, okay, so if we are looking at allocating cost for employees, if we have our manager salary included in our budget as overhead, or as a fixed cost (that cost would not change with the number of animals), then we would expect that that cost is actually already being paid by all of the animals going through. Remember, we said we have all the variable costs, and those are the costs that change with the number of animals, and then we have the fixed costs. Often times, those paid employees are going to fall in the fixed cost. We are going to say that it costs this amount to have the employees here and it doesn't really matter [what] the number of animals are in this room. In that case, your cost for those employees would already have been spread across all the animals that are there and we wouldn't want to double count them. In that way, we are already accounting for the variation in cost. If we have a manager who costs, I don't know, double what another employee costs, then both of their salaries would already be paid by every animal.

Lynne Fridley: Very good. We have time for one more question so we'll get that up for the audience to see. "Is good will in the community considered an asset that should be valued on the balance sheet?"

Dr. Widmar: Ah, so good will is extremely difficult to value in terms of putting it in our balance sheet. We do see public corporations that there is often times a category for good will that counts at the time of sale. So, if you are buying a name that already exists and it is already recognized, then there is a value that goes with that name. That is usually where this sort of question arises. For the point of a shelter, even in corporate situations, it is usually valued at the time of a sale. As far as having it on the balance sheet for a shelter, it's not an asset that we can generally sell. We generally cannot generate real dollars from it and use it to pay our liabilities, so we would need to be extremely careful about including that as an actual hard asset that we could measure against our debts to come up with a net worth. Certainly, good will has value, but I'm going to be very, very cautious. Do I really want to think about including it on the balance sheet as a hard number when it's very difficult to value? Again, we usually learn what these values are in a time of sale when we are selling a brand or selling an existing name. So for the point of a shelter, it is going to be really hard to put that out there.

Where it would have very large value is thinking about quantifying some of what you provide to the community and capitalizing on that good will through promotions, donations and other factors like that. So, while it's not exactly something that we can look at – the market for this particular shelter name and get a real hard dollar value on it. We certainly can't use good will to pay our bills. We can't use good will to pay down our debts, so I wouldn't include it in that facet. I would certainly be capitalizing on that if I have as shelter that's very well known in the community and has a good name that people recognize. I would make sure that I'm capitalizing on that good will through promotions, donations and certainly protecting that name and making sure that we are being very careful that we maintain what we have built up. Good will is usually very hard to earn and very easy to lose. That is potentially just a word of caution on a related topic. It has value, but we need to make sure that we are using it appropriately and as far as including it as a hard asset, we can't use it to pay down debt. It's not quite in the same category or as inventories and so, I'm cautious there.

Lynne Fridley: Okay, thank you very much. That's the end of our event tonight. We want to think Dr. Widmar and all of you for your time tonight. Please click on the link to take our survey. It might have been blocked by your pop-up blocker or it may be on a different screen, but don't worry, if you can't see it, we'll be sending the link to you and we would really appreciate it if you could take a few minutes to respond.

Join Maddie's Institute and nationally recognized trainer, Aimee Sadler on September 29th for an action packed webcast, *Playing for Life: Increasing the Quality of Life for Shelter Dogs with Playgroups*. Watch your inbox. We'll be sending an announcement out next week. The archived version of tonight's webcast will be available soon. Please visit our website, sign up for our newsletter and our blog and show your support by liking us on Facebook. Thanks again for sharing your evening with us. Good night.

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