COST STRUCTURE

Scale Toolkit

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A tool to identify your main costs, sense check your big numbers and prepare to validate them, specially in the early phases of your solution's design.

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The Cost Structure tool can help you in identifying primary expenses, differentiating between direct and indirect costs, preparing your team to validate the underlying assumptions of these costs, understanding what is confirmed truths, beliefs needing validation and uncertainties. This process is the start of a journey towards a sustainable model, emphasizing the importance of continuous validation, exploration, and adaptation for future scalability.

To foster a culture and a finance strategy of an effective and competitive solution in the long run.

In the early phases of designing a solution, it's crucial to have a clear understanding of the cost structure and underlying assumptions to ensure the solution is both viable and scalable, helping specifically to mitigate potential risks, make informed decisions from the beginning and adapt your strategies proactively in an agile way.

Engaging with the tool can fortify your **Theory of Change**, ensuring expenditures directly fuel intended, impactful outcomes and guaranteeing sustainable, measurable impact. In the context of the **DVF Assessment,** it can help you better reflect on the Desirability component by aligning substantial investments with key impact areas; on the Viability one when improve your strategy for a sustainable model; and on Feasibility as it can inform better experimentation with innovative approaches on delivery and partnership strategies, ensuring financial and impact alignment.

HOW TO USE IT?

We propose basically two main exercises:

(1) Identify the main direct and indirect costs, and compare one core cost metric (as the estimated cost per child) of our solution with a benchmark in the market.

Direct costs are expenses directly linked to the delivery of your service, such as the cost of digital devices or the salaries of educators. Indirect costs, on the other hand, are expenses that support the overall operation of your organization but are not tied to a specific service, like office rent or administrative staff salaries.

(2) Build a simple framework to test and validate the key assumptions behind your main costs. This will help you mitigate risk, iterate your approach, and ensure you have a competitive advantage.

The Certainties, Suppositions, and Doubts (CSD) matrix is a tool that can assist you in this process. It allows you to categorize your assumptions about your costs into Certainties (things you know to be true), Suppositions (things you believe to be true but need to validate), and Doubts (things you are unsure about). Doing this exercise for your main direct and indirect costs, as well as for a core cost metric (as the estimated cost per child) can help you to intentionally gather more information about it and quick iterate it, understanding if there are changes to be made in your solution design during early phases of development.

AN EXAMPLE

Photo: Hippocampus

A fictional example:

Learning Leap is a non-profit organization that aims to enhance numeracy skills in underprivileged urban communities through an innovative digital learning program, held in communities centers.

AN EXAMPLE

Your 3 main direct costs

. Digital devices: the solution is ideally conceived to be implemented with personal computers, but the team is considering a mobile solution or even a hybrid approach with physical materials.

. Internet data packages: expensive in the region, but the team is trying to establish a national partnership with an internet provider.

. Educator salaries: the pilot solutions was designed to have an educator to each group of 50 children, but the team is refining this number and the required profile to assist students in the learning moments.

Your 3 main indirect costs

. Administrative staff salaries: specially the content development and technology team.

. Office rent: the team decided to have a physical space to better articulate the program.

. Marketing expenses: as the team decided to held the learning experience outside local schools, there are several expenses to communicate the programme to locals and attract children to the after school moment.

Cost Per Child comparison

YOUR SOLUTION:

$10 per child, per year. Calculated from their pilot implementation, but they still need to understand how it would look like at scale.

YOUR BENCHMARK:

A philanthropic foundation funds a local after school program of $8 per child, per year, which serves as a benchmark for their target costs at scale.

AN EXAMPLE

CERTAINTIES

about your direct and indirect costs

- Costs of digital devices, office rent and internet data packages are predictable;

- We need to provide any kind of digital devices to community centers, as students have low access to them in their schools, families or other public facilities.

- Although we need to develop our own digital platform, to better track student progress and personalize to our program, we can use a lot of digital education content already publicly available.

SUPPOSITIONS

about your direct and indirect costs

- We will be able to partner with local schools and community leaders to attract students without spending too much on marketing;

- Educators from local communities will be sufficient to cover content + technical issues of simple digital devices, not having the necessity of a local technical assistance;

DOUBTS

about your direct and indirect costs

- How much maintenance will be necessary for the digital devices? Will people in community centers be able to deal with it?

- Will it be possible to lower internet data packages through partnerships with internet providers' CSR projects?

- Given the high cost of tech development, how much should we provision for it after the initial platform being developed, considering possible future upgrades and trouble shooting needed?

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Start with what you have, learn and continue iterating.

As you move through the sections and fell you are not mature yet, remember that the Cost Structure is not a tool for financial planning, but to early identify information gaps and hypotheses to validate around your costs. So we encourage you to reflect with the data available right now and then reflecting again when having more precise numbers. Some tips also include:

Start Small and Gradual:
- Begin with accessible data on your current expenditures and revenues, even if they're estimates or partial.
- You can use industry averages or benchmarks as temporary placeholders while refining your own data.

Engage Key Stakeholders and Implement Basic Tracking:
- Seek input from staff and suppliers who might provide detailed insights into specific costs.
- Implement a simple tracking mechanism for income and expenses, even using a spreadsheet to start.

Seek Expert Advice and Partnerships:
- Consider securing advice from financial advisors or mentors around your organization.
- Explore partnerships with other entities or governmental programs for resources and expertise.

Focus on Core and Learn Continuously:
- Identify and concentrate on understanding core operational costs as a starting point.
- Adopt a learning and adapting mindset, refining your approach as more data becomes available and new learnings are integrated.

This foundational knowledge will assist in scaling and strategy refinement as you grow. Have a good reflection!

A journey towards Validation and Iteration.

Now that you've identified your Certainties, Suppositions, and Doubts, it's time to move forward. This process of identification is not the end, but rather the **beginning of a journey towards a more sustainable and scalable model.**

The importance of this exercise lies in its ability to **highlight areas that require further investigation, validation, and possibly, iteration.**

For instance, the **Suppositions** you've identified are assumptions that need to be tested. You might need to conduct further research, run pilot tests, or engage in discussions with stakeholders to validate these.

Similarly, the **Doubts** you've identified are areas of uncertainty that you need to explore further. These might be areas where you need to gather more information, seek expert advice, or consider alternative strategies. Don't forget also to check with peers and benchmarks if your **Certainties** are indeed facts: if changed, they can potentially lead your team to new approaches you are not considering right no

Keep iterating, keep learning, and keep improving. Your journey to scale is just beginning!

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