

Case Study: Gray Matter

Gray Matter's Current Revenue Model

Gray Matter is an education non-profit that prepares high school students for career success through practical curriculum, advising, and paid work placements. Under founder and CEO Sara Park, it grew from 10 students in one city to 3,000 students across five cities, supported by a mix of philanthropic funding and fees paid by companies for student placements (\$250 per student placement). Revenue grew to approximately \$4 million, but the organization's revenue infrastructure did not mature at the same pace.



Today, 81% of Gray Matter's revenue is contributed, with half of total revenue coming from just seven foundations and another 20% from three corporate funders. Its placement-fee model generates unrestricted earned revenue, but accounts for only 19% of the total. Sara also remains responsible for approximately 90% of contributed revenue relationships.

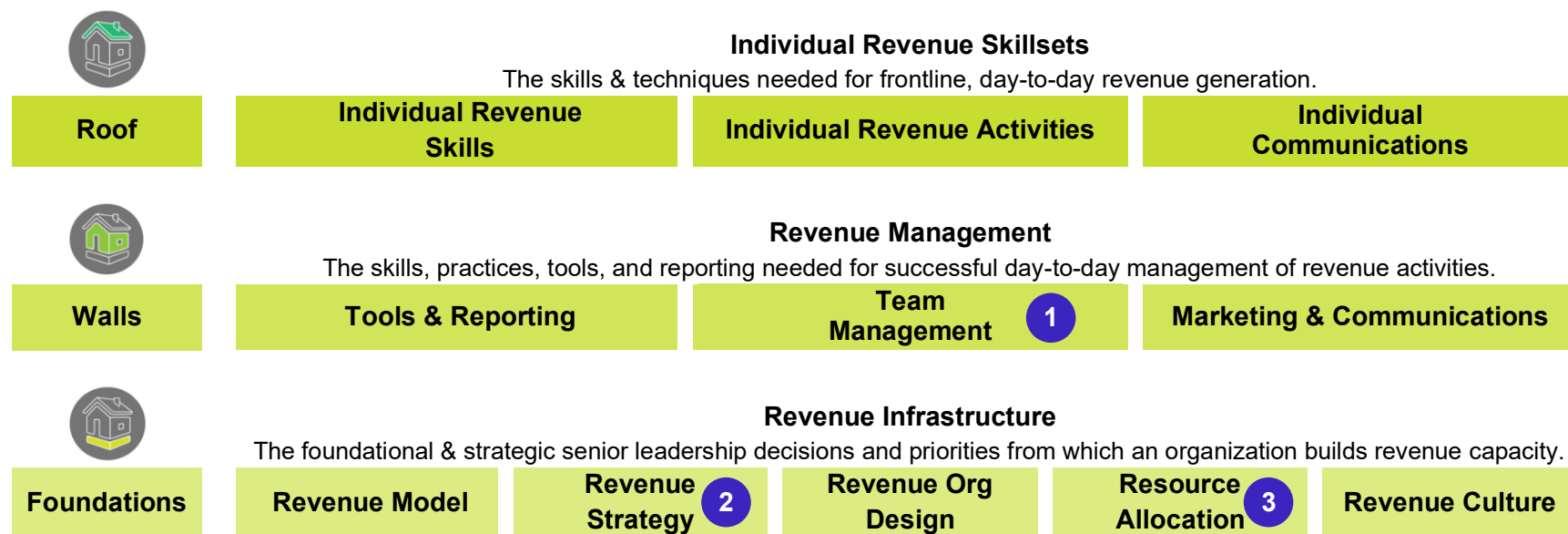
Revenue Stream	# Donors or Customers	Revenue Dollars	% Unrestricted	% of Total Revenue
<i>Earned Revenue</i>				
Placement fees	3,000	\$750,000	100%	19%
Total Earned		\$750,000	100%	19%
<i>Contributed Revenue</i>				
Major donors	4	\$150,000	75%	4%
Individual donors	100	\$150,000	100%	4%
Foundations	7	\$2,000,000	35%	50%
Corporate giving	3	\$800,000	75%	20%
Government grants	1	\$150,000	100%	4%
Total Contributed		\$3,250,000	53%	81%
Total Revenue		\$4,000,000	61%	100%

Numbers are rounded.

Gray Matter's Challenges

- 1 **Revenue capacity and systems have not kept pace with Gray Matter's growth.**
 - Sara is responsible for fundraising 90% of contributed revenue.
 - Gray Matter prioritized investment in program delivery at the expense of building shared revenue capacity.
- 2 **Gray Matter relies heavily on a narrow and restricted contributed revenue base.**
 - A small number of foundations and corporations account for 70% of contributed revenue. Losing any of them would be a major setback.
 - With almost 50% of revenue restricted to program, Gray Matter has difficulty covering ongoing operating expenses.
 - Lack of a clear revenue strategy to convey the importance of giving to operations as well.
- 3 **Gray Matter's placement-fee model is not aligned with the true cost of program.**
 - Placement fees generate unrestricted revenue but represent only 19% of total revenue.
 - The organization does not know how much it costs per learner to deliver the program.
 - Gray Matter hasn't aligned its pricing with the economics of delivering the program.

Gray Matter's revenue challenges mapped onto the Revenue Capacity Framework:



Gray Matter's Future Revenue Model

Over the next three years, Gray Matter plans to expand from 5 to 6 cities and increase the number of students served from 3,000 to 3,600.

Assumptions for the future revenue model:

- Total revenue required to serve 6 cities and 3,600 students: \$5,000,000 (assuming 20% more revenue, and \$200k dedicated fundraising placeholder).
- Placement fees increase from \$250 to an illustrative \$300 per student (assuming that \$300 covers the delivery cost per student placement).
- Remove government grants. They only make up 4% of total revenue but require significant staff effort.
- Use freed up focus to increase number of major donors from 4 to 15 while Sara begins transitioning key relationships.
- Increase unrestricted funding in from 61% to 80%.
- Increase repeatable revenues from 58% to 65%.

Revenue Stream	# Donors or Customers	Revenue Dollars	% Unrestricted	% of Total Revenue
<i>Earned Revenue</i>				
Placement fees	3,600	\$1,080,000	100%	22%
Total Earned		\$1,080,000	100%	22%
<i>Contributed Revenue</i>				
Major donors	15	\$600,000	100%	12%
Individual donors	160	\$320,000	100%	6%
Foundations	7	\$2,000,000	65%	40%
Corporate giving	4	\$1,000,000	80%	20%
Government grants	0	\$0	0%	0%
Total Contributed		\$3,920,000	74%	78%
Total Revenue		\$5,000,000	80%	100%

Numbers are rounded.

Gray Matter's Revenue Strategy

Gray Matter's model has demonstrated value and delivery success, but its financial sustainability is not yet proven. Over the next few years, the organization should focus on strengthening the current model before using it as a foundation for expansion.

CHALLENGES	REVENUE STRATEGIES	METRICS	ACTIONS
Revenue capacity and systems have not kept pace with Gray Matter's growth.	Build shared revenue capacity and ownership.	Sara owns less than 60% of relationships by fiscal year end.	Clarify revenue roles and ownership. Add dedicated development capacity (hiring or upskilling). Establish shared CRM and relationship-handoff practices.
Gray Matter relies heavily on a narrow and restricted contributed revenue base.	Diversify and deepen contributed revenue.	Increase unrestricted funding from 61% to 80% in 3 years. Increase repeat revenues from 58% to 65% in 3 years.	Prioritize major-donor, corporate, and foundation prospects. Establish consistent cultivation and stewardship journeys. Strengthen the case for funding the full organizational cost of program delivery.
Gray Matter's placement-fee model is not aligned with the true cost of program.	Align placement pricing and resource allocation with the full cost of delivery.	Placement fees cover 100% of direct delivery costs within 2 years.	Calculate the full cost of delivering each student placement. Align pricing and contract terms with buyer willingness to pay and delivery costs. Reallocate resources to improve cost recovery.