

President & CEO Report (Part 2)

2013 – 2015 Business Plan & Budget

- Business Planning Overview & Draft Priorities
- Long-Term Strategic Planning Process

2013-2015 High Level Planning Overview and Strategic Planning Process

As has been said elsewhere, approximately every three years, ISOC engages in a more extensive strategic planning process and takes a longer-term look at factors influencing the Internet's development, and possible implications or opportunities for ISOC. This includes a broad consultation inside and outside our membership and community. This year, in line with past discussions with the Board, we believe it is imperative that we embark on an even more ambitious strategic review.

The purpose of this agenda item (XIV) is several-fold:

- Review the high-level 3 year financial outlook
- Input from the Board on strategic priorities for 2013
- Support to move forward with the long-term strategic planning activity and work with the Bridgespan Group
- Examine opportunities for non-recurring distribution of funds from PIR

We have previously put in front of the Board for your review:

- a document outlining current thinking re 2013 – 2015 Business planning priorities (included below for ease of reference)
- a proposal to work with the Bridgespan Group on an extended planning process. (At the end of this document we have attached the slides that Bridgespan will talk to when they present at the Board meeting in Vancouver.)

The submissions from PIR included elsewhere in this document outline the opportunity for a non-recurring distribution of funds from PIR of approx. \$10M USD. And we have included below our view of the high level 3 year financial outlook for context.

High-level 3 year financial outlook

Funding to Fuel Future Growth

In September, PIR is expected to provide a forecast of its contributions to ISOC through 2015. As in the past, this forecast will have a large impact on ISOC's level of program delivery and growth. PIR tentatively forecasts a slowing in the growth of contributions to an incremental \$1.5 million per year. This slower growth in contributions to ISOC is from a slowing of growth of the .ORG revenue, changes in the registry-registrar landscape, and from anticipated spending on the .NGO/.ONG and IDN top level domains. There are opportunities for higher PIR contributions, but we prefer to be cautious in these expectations.

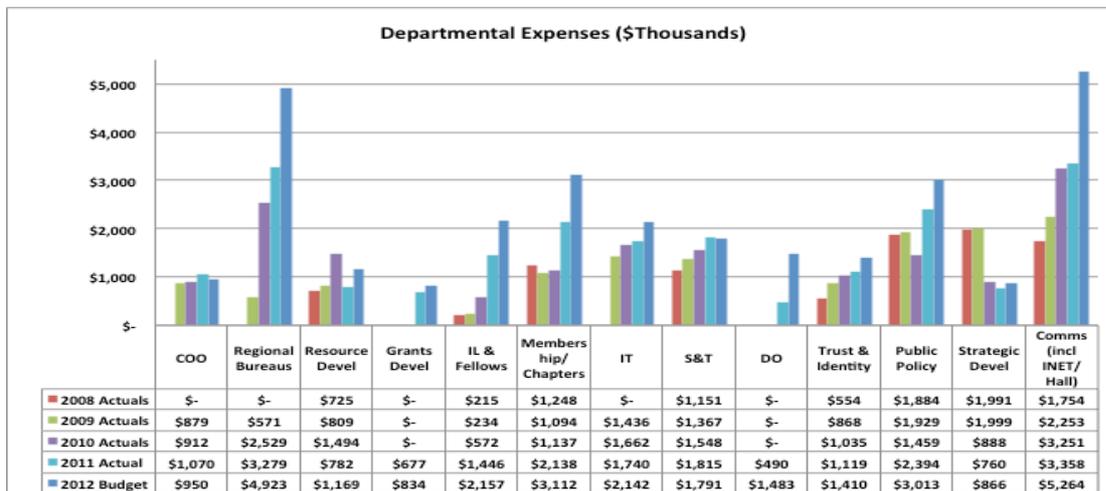
ISOC will continue to aggressively pursue other funding efforts for much of its growth in 2013 and beyond. This alternative funding growth depends on four areas of focus:

1. Increase in Organization Membership contributions, and to a lesser degree on Individual Member Dues and Donations;
2. Sponsorships of key ISOC programs and events;
3. Major Grants (both governmental and non-governmental); and
4. Continued development of funding models for the Deploy 360 and IL efforts.

The strides already made in 2011 and expected in 2012 were shown earlier in this report. Our momentum and pipeline are both clearly building. We fully expect the growth in ISOC-

Generated Revenue to continue in the future. However, at this point in the year, we are somewhat cautious with respect to anticipating continued 30%+ growth rates for 2013.

Past investments have enabled ISOC to step up considerably in many key areas, more fully meeting its Mission. For context, the chart below shows historical expenditures over the past five years (including 2012 Budget).



Note: Strategic Development expenses from 2010 on were included in the Regional Bureau budgets and have also grown (not declined).

2013 - 2105 Business Plan Outlook

ISOC's management is aware of the importance of balancing expenditures with careful funding estimates. Most notably, we expect PIR to invest more heavily in its future growth, and the launch of new TLDs over the next few years will place demands on their annual surplus. Of particular note for 2013, absorbing the full annual impact of the 2012 hires in ISOC will require virtually all of the 2013 increase in PIR contribution.

This means ISOC must carefully prioritize and align our core programs with our Mission. We will pursue this prioritization and alignment with the Board leading up to the 2013-2015 Business Plan presentation in October, and we expect expenditures in many of our current areas of focus to grow at a slower rate if not remain stable.

For the period 2013-2015, we expect our commitment to the IETF to continue at its current level of about \$2 million including capitalized tools development. Our focus on new areas such as emerging country activities under our Regional structure, grant and sponsorship development, and Deploy360 will be important both as means to expand ISOC's impact and as potential sources of funded growth. We remain committed to these areas, as well as our traditional areas of Public Policy, Standards & Technology, Trust & Identity, and Chapters & Membership.

Still, as presented in the next section, we hope to take advantage of current and future opportunities to make an impact on our Mission through other funding sources that may be made available in the near future, including a non-recurring funds distribution from PIR of up to \$10M USD.

Non-Recurring Fund Distribution and Possible Opportunities

Through the Finance Committee, we will also review the opportunities and tradeoffs that

may be presented from non-recurring resources expected to be available from PIR. These opportunities include a possible transfer of as much as \$9-\$10 million in built-up PIR reserves to ISOC. Management recommends that such non-recurring resources be prioritized between strategic initiatives (either as non-recurring strategic investments (seed funds) or for sustainable multi-year needs) as well as towards an expected additional requirement for reserve funding.

In addition, PIR expects to move forward with an auction of 1-2 character .ORG domain names, and the surplus will be directed towards “good works” as determined by PIR, Afilias and ISOC. More information is available in the PIR reports elsewhere in this report. This is expected to help support priorities for the Internet in line with ISOC’s mission, and may provide support to some of our on-going activities.

Examples of Mission-based programs that could be funded through such resources include:

- Strategic planning efforts, including the Bridgespan strategic planning work, and Board governance planning;
- “This is Our Internet” Report or other strategic priorities (as described in the 2013 – 2015 Business Planning document sent to the Board on 10 July); and
- Through establishing an affiliated organization (another supporting organization similar to PIR), that would enable us to better support key aspects of our Mission by giving us more freedom to implement alternative funding models.

Public Support Test

Should one-time funding become available from PIR in 2012 or 2013 (the test is a 5-year average), ISOC’s Public Support Test ratio would fall an estimated .125 percent per million dollars received from PIR. At \$10 million in non-recurring funding, ISOC’s Public Support Test would reach an estimated 12.7%, still within a level of comfort for a public charity.

In order to ensure early input and to move ahead with the full support of the Board, we are including the document previously sent outlining our current thinking re 2013 – 2015 Business planning priorities. See next section.

We look forward to working with the Board and to having your support.

Related Materials

To support the Board’s discussion we are attaching the following materials referenced earlier:

- Memo to the Board of 10 June outlining current thinking re 2013 – 2015 Business planning priorities
- Slides from the Bridgespan Group to be presented during the discussion on strategic planning.

To: Board of Trustees
Date: 10 July 2012
Subject: 2013 – 2015 Business Plan

Introduction:

The Internet Society's Board Work Plan for 2012 calls for the 2013-2015 Business Plan and 2013 Budget to be approved at the Board meeting scheduled for October 20-21, 2012. The final Business Plan and Budget is due to the Board of Trustees on September 29.

Our practices for creating the Business Plan and budget are long established and we are now incorporating the Finance Committee into our planning. In addition, a more in depth long-term strategic review (done roughly every three or four years) is also getting underway. It will span this year and next and an update will be sent to the Board shortly.

In order to achieve our mission, we must be an organisation of global influence and action. As such, we intend to focus on key impacts that will make a substantial and measurable difference globally.

For the 2012-2014 planning cycle, ISOC organized its business plan around four strategic, cross-organizational objectives, and established 2-3 key impacts with supporting goals for each. They are:

- A. Fostering an open, innovative, and trusted Internet worldwide.
- B. Advancing policies and strategies that strengthen the Internet's growth and evolution.
- C. Enabling a vibrant organisation and vital global community to advance the Internet's future.
- D. Empowering people to achieve human potential through unencumbered Internet use.

For ease and to aid the incoming Trustees, Appendix I has the high level framework for our 2012 Business Plan and the four Strategic Objectives in more detail. The full 2012 Business Plan is available here: [://www.internetsociety.org/who-we-are/organisational-reports/business-plan](http://www.internetsociety.org/who-we-are/organisational-reports/business-plan)

Purpose

The purpose of this document is to get some early input from the Board for some of our more global priority areas and to share an update on some of the key financial considerations. Perhaps most importantly, are there areas missing or areas where you think we should be active at a global level?

2013 Global Priority Areas (high-level introduction)

We expect to have a focused set (4-6) of high-level/high-impact priority areas we believe will be critical to advance. While we are still in the process of evaluating ideas, our draft list currently includes (and note 1 or 2 may not rise to the top, but could still be advanced by ISOC):

1. *Online Collection and Correlation of Identifying Data*
2. *Digital Content*
3. *Network Confidence*
4. *Internet Governance*
5. *Internet and Human Rights*
6. *Traffic /Bandwidth Management*

These areas join our departmental, and core operating and financial goals for revenues, members, chapters and Regional Bureaus, and all are expected to continue to show ambitious growth. They are not included in this update as we are searching for input on some of our newer strategic areas. We will have many draft goals for our August Board meeting, and some are already under review with the Finance Committee.

2013 Flagship Efforts (high-level introduction)

In addition, just as this year we had ISOC's 20th Anniversary, a Global INET and, launched the Hall of Fame, next year we will also have several flagship efforts. These are aimed at substantially advancing our impact in key areas as well as building our visibility. Our draft currently includes:

1. *"This is Our Internet" Report*
2. *"Internet Week" Annual Campaign (taking over the IPv6 Launch week slot)*
3. *Internet Hall of Fame/GlobalINET*
4. *Deploy 360*

2013 Global Priority Areas (for discussion)

Staff's discussions have been driven, in part, from a review of the possible trajectories for the Internet as we envisioned in our "Future Internet Scenarios" strategic exercise of a few years ago. They also took into account feedback from many stakeholders as part of our Global and Regional INET's, chapter meetings and workshops, as well as through many other and varied feedback mechanisms.

While we are still in the process of evaluating ideas, and continue to incorporate broader stakeholder input into our planning, we want to take this opportunity to share our current thinking around 2013-2015 Global Priority Areas. What follows are abstracts – more context is available if helpful. And, please send in any comments, thoughts or questions – it will help our planning.

1. *Online Collection and Correlation of Identifying Data* – The collection and use of identifying data is one of the fastest growing sectors of the Internet economy. As storage becomes cheaper and data processing and transmission gets faster and easier, more and more user information is being preserved and used for marketing purposes and user profiling. Every time we log-in we leave a digital footprint. In order to preserve privacy and unhindered access to content and services users must have the ability to evaluate and make choices based on an understanding of the terms offered. Further, policy makers, regulators and implementers must all be fully aware of the consequences for end users and take these into consideration when crafting solutions for data handling. In 2013, the Internet Society would take a strong leadership role in educating and empowering users to make informed choices about the use of their identifying data, raising substantive ethical questions in technical and policy forums, and engaging industry and developers on the consequences of implementation choices.
2. *Digital Content* – The Internet's open architecture and generative nature have encouraged new forms of content creation by a greatly expanded range of actors. However, the manner in which ongoing tensions are resolved between digital content business models, intellectual property rights, technical solutions, and users' rights and ability to access content will have a fundamental impact on the future of the Internet. Across the business, policy and technical spheres, we are still far from solutions that reconcile the Internet's fundamental character and its empowerment of new forms of user creativity with the desire of content creators to reasonably manage rights associated with their creations. Our objectives in this area would be to shift the debate from enforcing intellectual property rights to promoting innovative business models or approaches adapted to the realities of the Internet, to advance national policy approaches and international regimes that support users' rights and recognize the borderless Internet environment. We will spearhead multi-stakeholder dialogue in the debate on digital content and intellectual property rights.
3. *Network Confidence* – Network confidence lies at the crux of users' trust in the security and reliability of on-line interactions. And, a broad range of stakeholders, including users, business, government, and technologists all have an influence and role to play in this sphere. Our objectives in this area include ensuring end users can accurately assess the security and reliability of their transactions and make informed trust decisions, advancing the development and deployment of standards and technology that enable network confidence from the network

layer to the application layer, and advocating for public policies that enable and strengthen network confidence while respecting the architecture of the Internet and users rights.

4. Internet and Human Rights – The Arab Spring thrust into sharp focus the role of the Internet as a facilitator of human rights and the ability of government to thwart expression by suppressing access. While the events helped affirm the need for preserving an open Internet in many quarters, it also galvanized concerns across a range of political entities threatened by it. In light of both the new opportunities and challenges, we would advocate for the continuation of an open, global and accessible Internet as an instrument in fulfilling aspirations for human rights and freedom of expression. Our objectives include promoting and defending users’ rights to “seek, receive, and import information and ideas” through the Internet, demonstrating the linkages between the underlying architecture of the Internet and human rights, and ensuring governments uphold the duty to protect citizens’ right to express themselves through unencumbered Internet use.

5. Internet Governance - While significant progress has been made over the past several years to advance a multi-stakeholder Internet ecosystem, the actions of governments and the growing impact of industry decisions on the ecosystem and the user experience continues to affect the “influence landscape”. We are experiencing an environment where the Internet model and multi-stakeholder cooperation are both widely celebrated and under pressure to change. Some concerns include trends toward multiple forms of “territorialization,” e.g. corporate walled gardens, non-neutral networks, and intellectual property restrictions, as well as governmental surveillance and security. Among our objectives, we will advance Internet-supportive policy outcomes by facilitating governmental engagement in Internet governance and standards development processes, empowering end users with an understanding of the Internet ecosystem and governance processes so they can organize responses to global and local issues, and promote decision-making by industry that supports the fundamental tenants of the Internet Model.

6. “Traffic /Bandwidth Management” – The best-effort, end-to-end delivery of content and services is facing new threats as bandwidth-intensive user offerings heighten both the tension and confluence between access and content industries. There is renewed pressure from some access providers to monetize offerings based on the control of services their users are accessing. Policymakers have increasing pressure put on them by proponents of “sender pays” and circuit-like Quality of Service (QoS) models, who argue they would be an improvement over the current Internet model. These ideas have the potential to move us away from an open and permission-free Internet. In 2013, the Internet Society has an opportunity to engage the wider Internet community to discuss these issues and provide clarity to the conversation.

Again, we are still in the process of evaluating ideas, and continue to incorporate broader stakeholder input. Note that some of these may not scale up in importance or impact. We look forward to your input - it will be helpful in our next steps.

Our ASK

First, input on the above. And, are there areas missing or areas where you think we should be active at a global level – areas where we can have a strategic impact?

2013 Flagship Efforts (for discussion)

In addition to establishing a set of “Global Priority Issues”, staff is also working to define a new set of “Flagship Efforts” to advance our impact in key areas.

At present, our thinking includes:

1. *“This is Our Internet” Report*: Many non-profit organisations and think tanks are highly successful in garnering global attention to their cause by issuing annual or bi-annual reports that present data and related analysis on key issues it seeks to address with stakeholders. Examples include the World Economic Forum’s “Global Competitiveness Report,” Transparency International’s “Corruption Perception Index,” and the World Wildlife Fund’s “Living Planet Report,” among many others. Such reports provide focal points to advance key messages, reinforce their leadership, and leverage their advocacy impact by placing powerful information into the hands of a broad range of influencers. They also serve as a vehicle for funding and membership engagement.

In 2013, our objective would be to launch the development of such a report as a flagship asset of the Internet Society. While we are still refining the concept, including the specific data that would be collected, we would seek to position the *“This is Our Internet”* Report (working title) as the world’s leading analytical report on the health and openness of the Internet within 3 years.

2. *“Internet Week” Annual Campaign*: The success of World IPv6 Day and IPv6 Launch demonstrated the usefulness of galvanizing the world’s attention on key Internet issues through a specific themed day or week. We currently envision using an “Internet Week” format to provide a focal point for key messaging on one or more “global focus issues”. The thematic campaign will highlight key focus areas globally. This campaign will include mobilizing a broad set of resources with our Chapters, Members, and partners to promote and celebrate what matters most about the future Internet and the ultimate impact to the end user. An early leader for 2013 is: “This is Your Internet” with individual days dedicated to possibly: Privacy-Digital Footprints, Security (DNSSEC – RPKI), Internet Governance, etc.
3. *Internet Hall of Fame / GlobalINET*: The Internet Hall of Fame and GlobalINET were highly successful as a flagship initiative and event for the Internet Society in 2012. In our 2013-2015 Business Plan we will incorporate the Internet Hall of Fame as an annual flagship effort and the Global INET as our bi-annual flagship event.
4. *Deploy 360* – Deploy 360 works with the first adopter community to leverage knowledge of new technology deployment and create resources that are easy to understand and quickly actionable by the greater operations community to deploy key Internet technologies. Deploy 360 also serves as a valuable ISOC resource for supporting the general operator and user community in the adoption of new standards and as an effective tool to spread awareness of IETF outputs.

Regionalization and Regional Focal Areas

We intend to advance our regionalization strategy in 2013-2015 by bolstering the effectiveness and empowerment of our Regional Bureaus. We are currently consulting each Bureau Director to determine the specific issues of regional importance that might require Internet Society action beyond any global priorities we may establish. We are also evaluating resourcing and expansion strategies, including the possibility of launching a North Africa/Middle East Bureau in 2013.

Again, we are looking for your comments and feedback.

Financial Update – Key Developments

ISOC staff continue to work with the Finance Committee to review Operating reserve levels and this will be brought by the Finance Committee to the Board for approval. We are also heavily vested in a process with PIR (and 3rd parties given governance and tax implications) to determine what funds it might “release” to ISOC/PIR. Staff’s report is with the Finance Committee and we are also meeting with the PIR staff and Board to get their position/views. This will be available for our upcoming Board meeting as well. In the meantime, we are providing you with the following update as these are two critical areas.

PIR Contributions to ISOC

In its 2012-2014 Plan, PIR projected an increase in its annual contribution to ISOC from \$26.5 million in 2012 to \$28.0 million in 2013. According to PIR’s budget timeline and PIR Board meeting schedule, formal approval of their 2013 budget is scheduled for October 12. As is typical, ISOC requests an earlier indication of likely PIR contribution for 2013, but PIR may only have July 2012 financials to base such a projection. Therefore, we will need to rely only on the \$1.5 million increase. We estimate that this increase will be used to cover the full year annualized costs of the new hires brought on in 2012, hence our own revenue efforts will be central to our own growth plans

ISOC Contributions to IETF

IETF budget timing is similar. The IAOC will likely approve the IETF/IASA budget (for submission to ISOC) in mid-September. For preliminary ISOC budget purposes, we expect the request for ISOC funding to the IETF (in addition to securing meeting host/sponsorships) to be about \$2 million (slightly less than the current forecast for 2012).

ISOC-Generated Revenue

The primary ISOC-Generated Revenues include:

- a. IETF Host and Meeting Revenue
- b. Org Memberships/Platinum Contributions
- c. Individual Memberships/Donations
- d. Sponsorships (identified by programmatic areas: NDSS, ITE, DO, IL, etc.)
- e. Grants (e.g, the AXIS grant from the African Union, the US State Department grant)
- f. Registration and Fee Revenue (largely IETF and NDSS)

In discussing ISOC-Generated Revenue, the timing of revenue recognition and the cost impacts of certain grants and restricted sponsorships will be addressed (also see cost implications below).

One area of growing program expenditures that will require special attention is grants and donor-directed sponsorships. As has been seen with the recent AXIS grant from the African Union, both internal staffing and external program costs often absorb a large portion of the increase in grant revenues. Therefore, the 2013 program expense budget will need to carefully distinguish cost increases for both existing grant awards and any budgeted 2013 grant awards.

Each of these revenue areas will be further developed, and is under review by Membership, Resource Development and Grants personnel under Walda Roseman (Internet Society COO).

Fiscal Challenges

At this point in time, financial challenges are expected to be:

- Managing an apparently slowing growth in PIR contributions (caused by additional investment in .ORG marketing, registry industry changes, and investments over the next two years in .NGO and IDN launch costs);
- Increasing ISOC-generated revenues while planning for any concurrent expenses;
- Managing our ongoing programmatic efforts in the face of a base level of increases;
- Prioritizing Strategic Objectives, including new, maturing, and end-of-life programs.

Other Topics and Considerations

Other topics, largely financial in nature, will be addressed as part of the overall planning process. Most notable are the Public Support Test, reserves and investment decisions, the Open Internet Endowment, and 2014-2015 Outlook as part of the 3-year Business Plan.

We will provide an update on all these financial areas for the Board meeting.

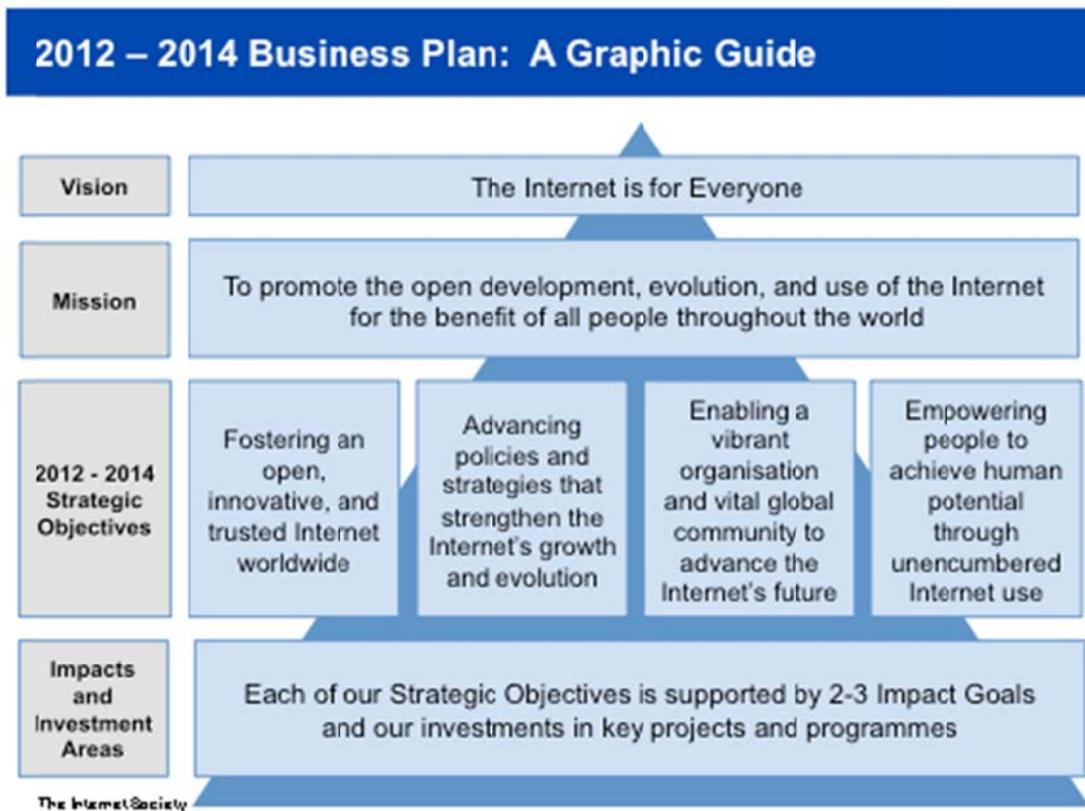
In Closing

This document is meant to kick-start a discussion and we tried to provide some context to get that started. If there is more information needed or something missing, please do let me know. As always we look forward to your comments and thoughts.

Best regards,
Lynn

Attachment - APPENDIX I: 2012 – 2014 Business Plan High level Outline

APPENDIX I: 2012 – 2014 Business Plan High level Outline



Overview of Four Strategic Objectives (above)

In order to achieve our mission, ISOC must be an organisation of global influence and action. As such, we intend to deliver on key impacts that will make a substantial and measurable difference.

For the 2012-2014 planning cycle, ISOC organized its business plan around four strategic, cross-organizational objectives. They are:

- A. Fostering an open, innovative, and trusted Internet worldwide. We are committed to advancing the underlying open and interoperable architecture of the Internet, and its distributed and collaborative means of management and development, as these principles are essential for fostering a stable, open, and trusted Internet upon which innovation can flourish.
- B. Advancing policies and strategies that strengthen the Internet's growth and evolution. We aim to influence policy makers, civil society, industry, and others to advance Internet policies and strategies that uphold the critical principles of openness, user-centricity, and stakeholder participation.
- C. Enabling a vibrant organisation and vital global community to advance the Internet's future. We aim to further engage our members and the public towards positive action, as well as helping a new generation of Internet leaders, contributors, and innovators to emerge.
- D. Empowering people to achieve human potential through unencumbered Internet use. We will aim to advance the access and use of the Internet on an open, nondiscriminatory basis, and empower individuals and communities, including the vulnerable and underserved, to maximize the transformative opportunities the Internet enables.