Rethinking the Higher Education Business Model

Rick Staisloff, Principal, rpkGROUP and Holly Morris, Director Post-secondary Model Development and Adoption, EDUCAUSE

Recorded Webinar – September 5, 2013
Agenda

- The Evolving Conversation Around Higher Education Finance
- New Tools for the New Landscape
The Evolving Higher Education Finance Conversation
The Shift in the Finance Conversation

The Current Finance Conversation: Inputs

The Future Finance Conversation: Outcomes
Focus on Inputs ≠ Sustainability

- Gross revenue and total cost hide true costs, obscure subsidies and conceal economic drivers.
- Viewing departments/programs as simply budget lines prevents analysis of the return on investment.
- Internal focus on inputs creates a misalignment with external reward structures based on outcomes.
## Gross Revenue – Institution Appears Healthy

### Net Revenue Modeling - By Division

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<thead>
<tr>
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<td><strong>Gross Revenue</strong></td>
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<td><strong>Tuition Discounting</strong></td>
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UNCOMMON THINKING FOR THE COMMON GOOD
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**UNCOMMON THINKING FOR THE COMMON GOOD**
Net Revenue – A Different Picture

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<td>Total Direct and Allocated Cost</td>
<td>9,954,583</td>
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<tr>
<td>Net Revenue - FY 10</td>
<td>75,326</td>
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<td>Net Revenue % - FY 10</td>
<td>0.8%</td>
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<td>Net Revenue % - FY 09</td>
<td>2.1%</td>
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<td>Net Revenue % - FY 08</td>
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The undergraduate program appears strong when measuring gross revenue.

But is barely breaking even when measuring net revenue.
The Academic Portfolio and Economic Engines

Undergraduate Students by Major - Fall 2011

Students in these 15 majors represent 44.9% of all undergraduate students.
External Shift to Outcomes

Institutions can better prepare for external shifts toward outcomes by moving the internal conversation in this direction.

- Performance Based Funding
- Accreditation
- Policy Making
New Tools
Going Beyond the Current Model
Managing the New Landscape

The business model is your organization’s plan to generate and sustain revenue so that it can meet its expenses while bringing value to stakeholders.
Framing the Right Questions

- **Market**
  - What is the job to be done?

- **Mission**
  - What is our unique value (how do we address the job to be done)?

- **Margin**
  - How do we price our programs/services to reflect true cost and provide the returns needed for sustainability?
New Tools for Managing the New Landscape

- Sustainability
- Value to Stakeholders
  - JTBD/Offerings
- Tracking/Accountability
- Cost Pers
- Academic Portfolio Analysis
- Pro Formas
- Understanding Next
  - Best Investment
Academic Programs as Portfolios

Components of Scorecard

- Mission/Qualitative Indicators
- Demand
- Yield
- Outputs
  - Retention
  - Graduation Rate
  - SCH contribution
  - Degree Production
- Net Revenue
Net Revenue Lens – Understanding Margins

- Creating good cost centers
- Building models, not just accounting statements
- Aligning internal systems and policy structures
- Increasing transparency around subsidies
“Cost Pers” Analysis – Units vs. Total Costs

- The “cost problem” in higher education to date has focused too much on just total cost reduction.

- Future action will need to be around reducing the cost per unit, especially cost per degree/certificate/completion.
  - Need to shift resource allocation from legacy budgeting and fixed costs to variable cost structures based on outcomes.
  - Alignment with performance funding.
The Pro Forma – Where is the Next Best Investment?

- Basic structure – projection of student activity/service, revenue, expense
- Includes key metrics
- Allows us to assess
  - Necessary resources – start up and long term
  - Sustainability
  - Fit in the Market/Mission/Margin mix
- Creates accountability
Questions and Continued Conversation

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