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# Time to Really Change Your Business Model

Wednesday, September 30<sup>th</sup>  
2:30 – 3:30pm

# Your hosts for this session



**Ryan Rapp**

- Vice President for Finance and Chief Financial Officer, University of Missouri System



**Dr. Paul N. Friga**

- Co-founder, ABC Insights; Clinical Associate Professor of Strategy, UNC Kenan-Flagler School of Business;



**Dr. Susan Johnston**

- President and CEO of the National Association of College and University Business Officers (NACUBO)



**Dr. Susan LaPanne**

- Vice President for Finance and Administration, Keene State College

# Executive Summary

The Need for New Business Models



COVID-19: The Accelerant



Missouri: A University System Under Transformation



Keene State College: A Small Institution's Reinvention



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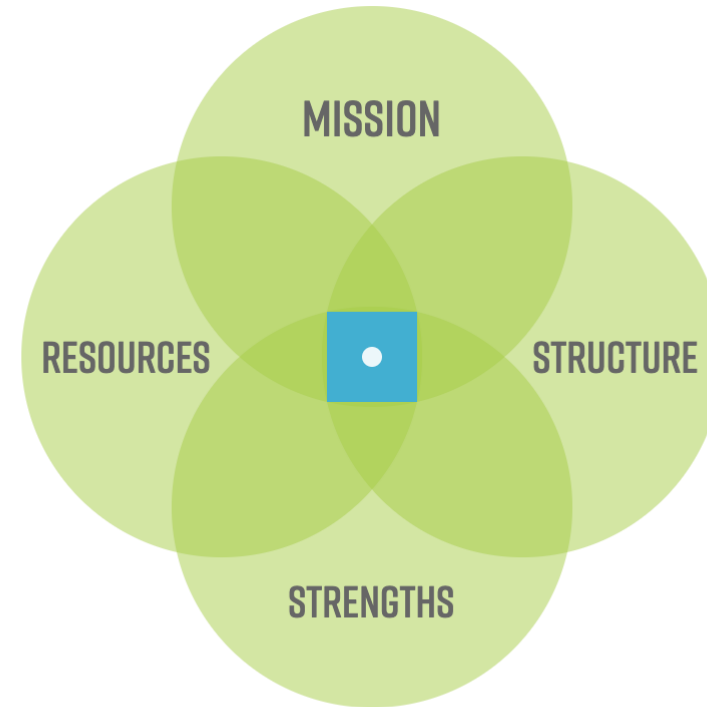


# The NACUBO Economic Models Project

Is your institution's economic model sustainable?

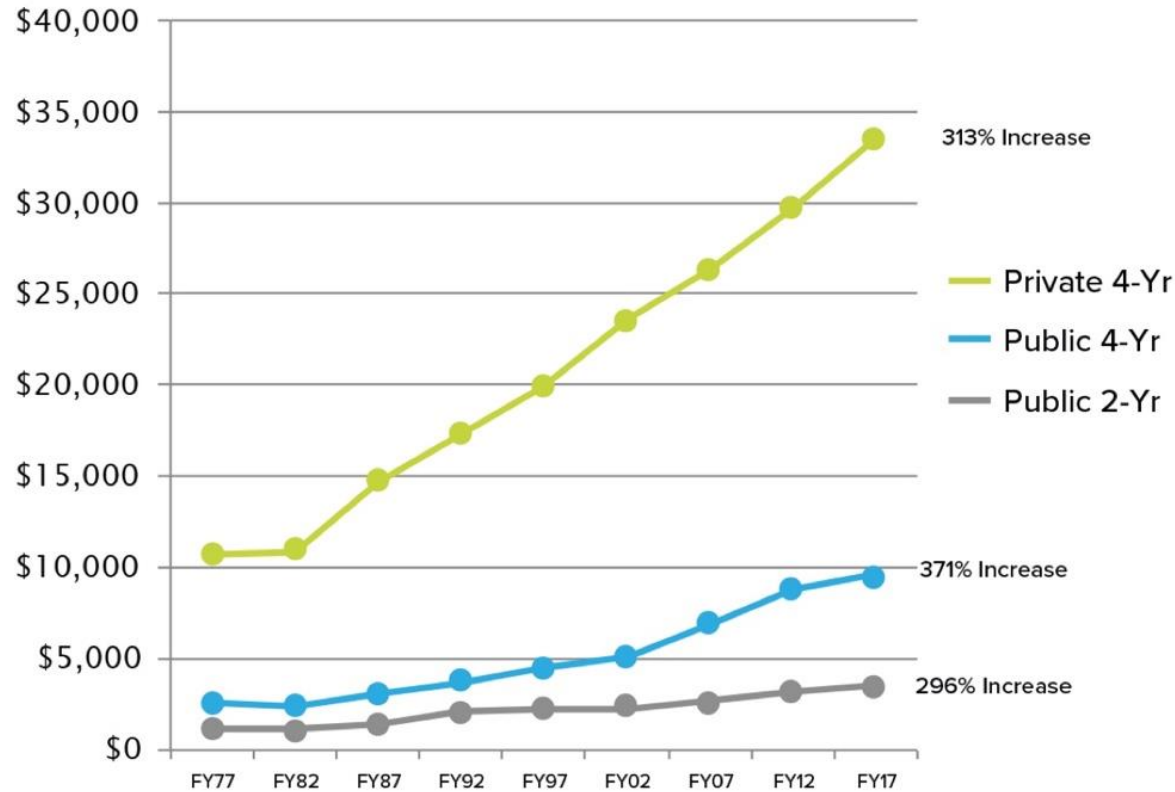
What is a sustainable economic model?

What will higher education look like in 25 years?



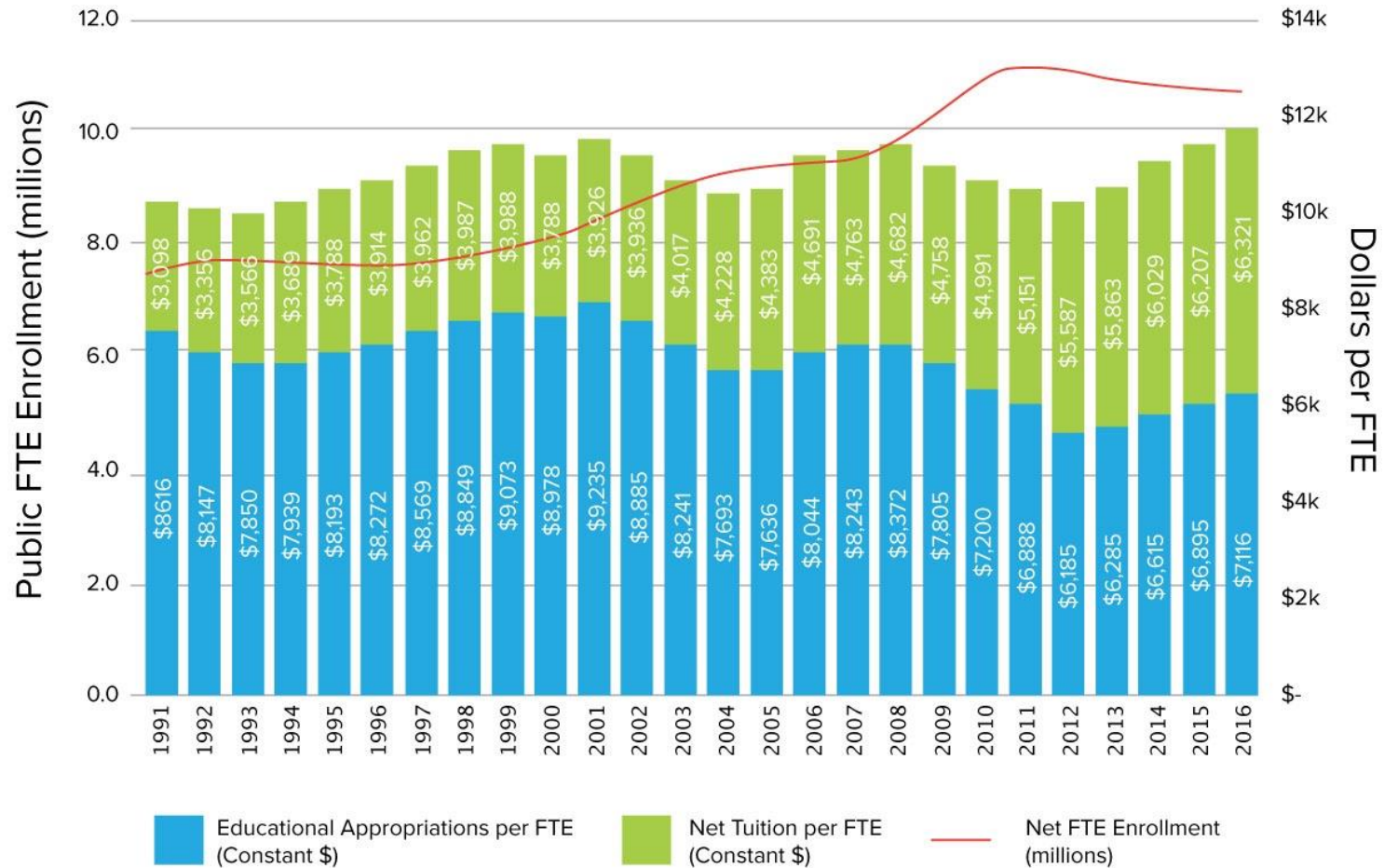
**ECONOMIC SUSTAINABILITY**

# Can tuition's sticker price continue to rise at the rate it has for the past two generations?



Source: SHEEO, SHEF: FY 2016, [http://www.sheeo.org/sites/default/files/project-files/SHEEO\\_SHEF\\_2016\\_Report.pdf](http://www.sheeo.org/sites/default/files/project-files/SHEEO_SHEF_2016_Report.pdf)

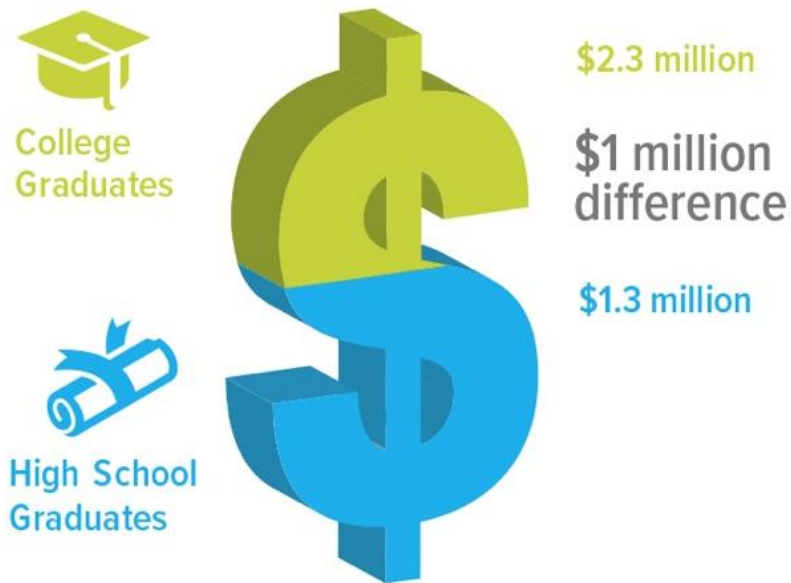
# Will states continue to fund higher education to support teaching, research and service?



Source: [http://www.sheeo.org/sites/default/files/project-files/SHEEO\\_SHEF\\_2016\\_Report.pdf](http://www.sheeo.org/sites/default/files/project-files/SHEEO_SHEF_2016_Report.pdf)

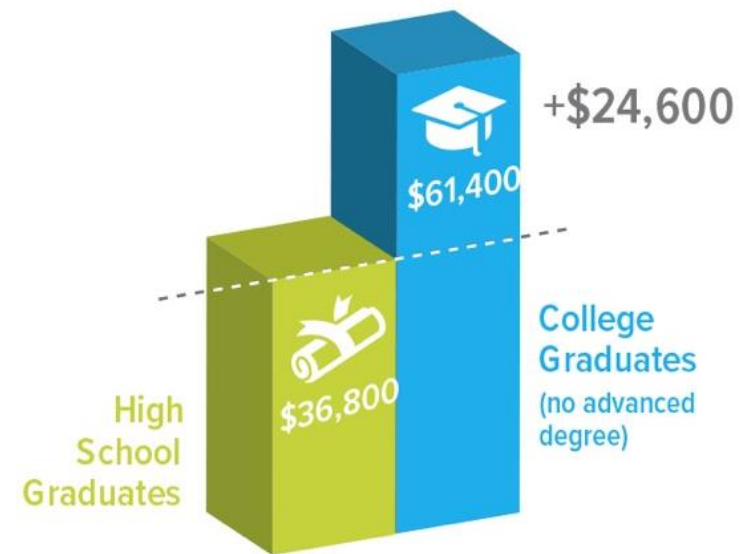
# Will students, parents and policymakers continue to question the value of investment in higher education?

## Lifetime Earnings



Source: Georgetown Center on Education and the Workforce, "The College Payoff," 2014

## Full-Time Median Earnings, 2015



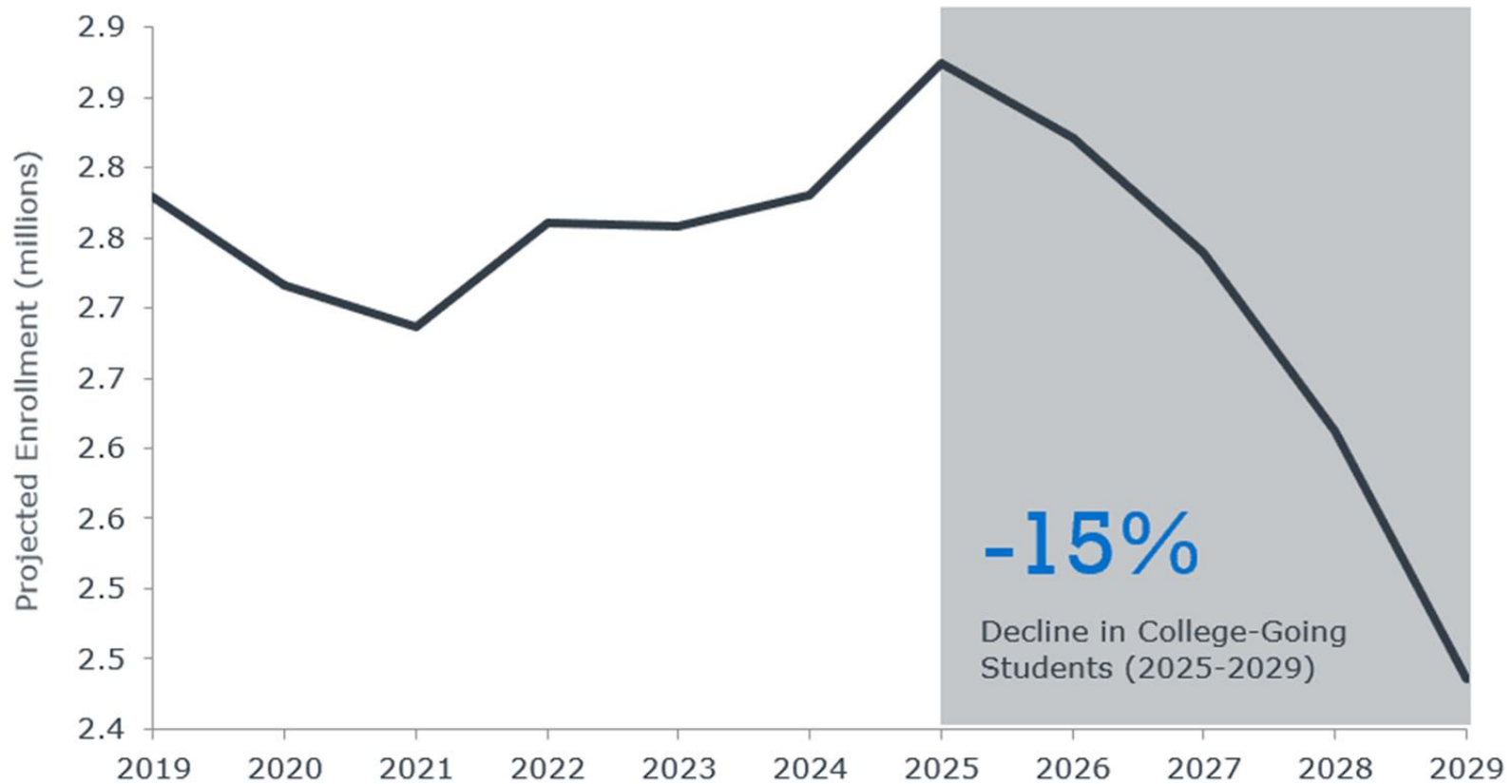
Source: The College Board, "Education Pays 2016," 2016



# How are universities going to handle drops in enrollments?

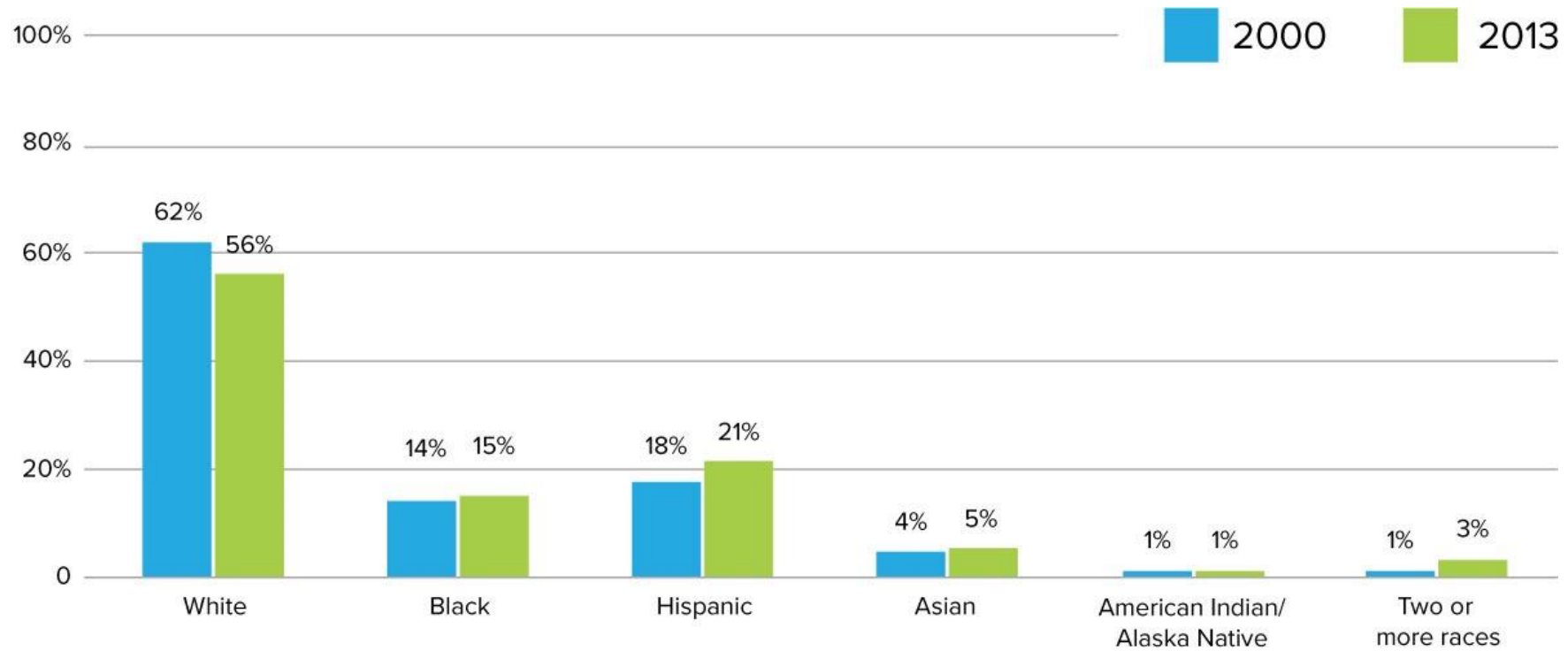
## Enrollment Projected to Drop Sharply After 2025

Forecasted Number of College-Going Students in the U.S. (millions), by Year of High School Graduation



Source: Nathan Grawe's book, *Demographics and the Demand for Higher Education* (2019)

# Will demographics or other external changes cause colleges and universities to thrive or wither?



Race/Ethnicity of U.S. Resident Population 18 to 24 Years Old

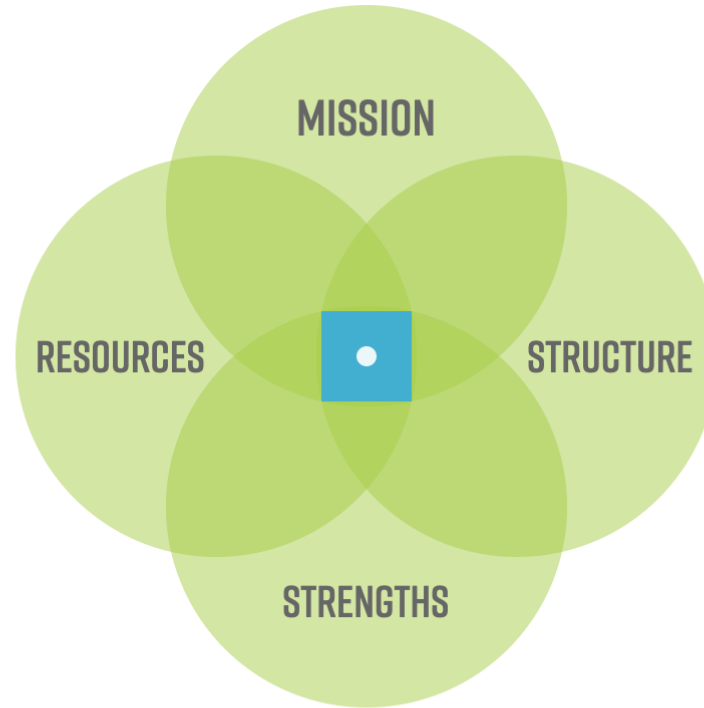
Source: <https://nces.ed.gov/programs/raceindicators>

Source: <https://emp.nacubo.org/>



# The NACUBO Economic Models Project – Looking Forward

Is it time to simplify and differentiate your unique mission?



Are you controlling costs and budgeting properly?

How can you modify your structure for the modern times and new normal?

## ECONOMIC SUSTAINABILITY

Do you have the right people, processes and technology?

Source: <https://emp.nacubo.org/>



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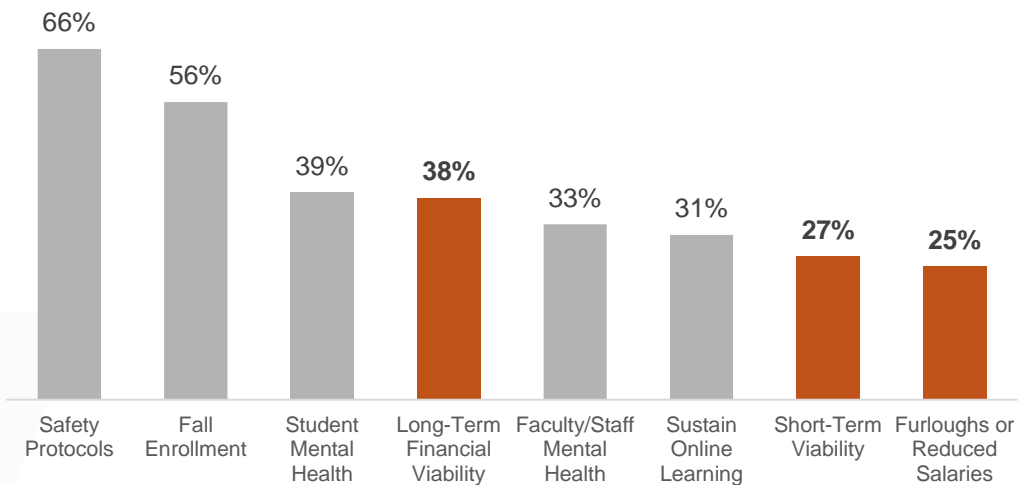


# Universities are concerned about their financial health and are planning for major change

## ACE Survey of Presidents – July 2020

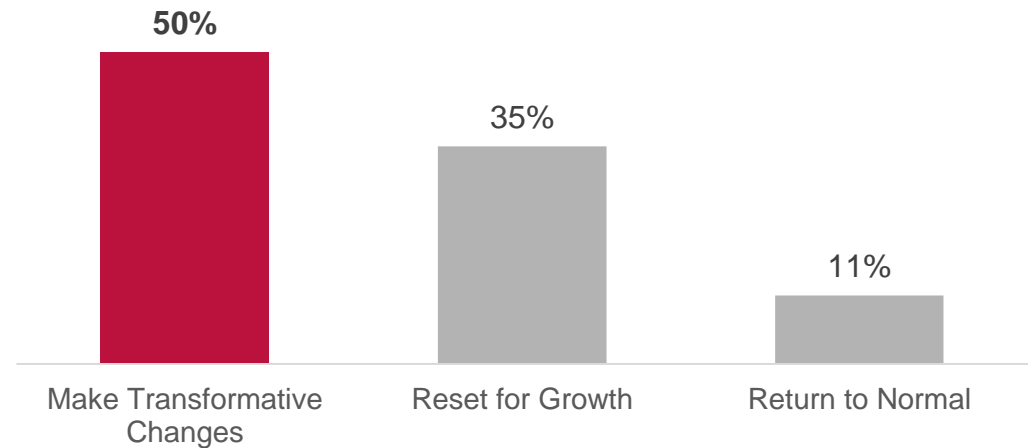
Most Pressing Issues Facing Presidents

Source: ABC Insights Internal Analysis; Paul Friga, Chronicle of Higher Education; ABC Insights AAC&U Survey of Presidents, April 1, 2020 n=142; ABC Insights Survey of CFOs n=21



## InsideHigherEd Survey of Presidents

How do you intend to use this period?



**100% of University CFOs and 96% of Presidents are planning to “Reengineer Operational Processes”**

Source: ABC Insights AAC&U Survey of Presidents, July 12, 2020 n=119; ABC Insights Survey of CFOs, April 30, 2020, n=21

New Business Models

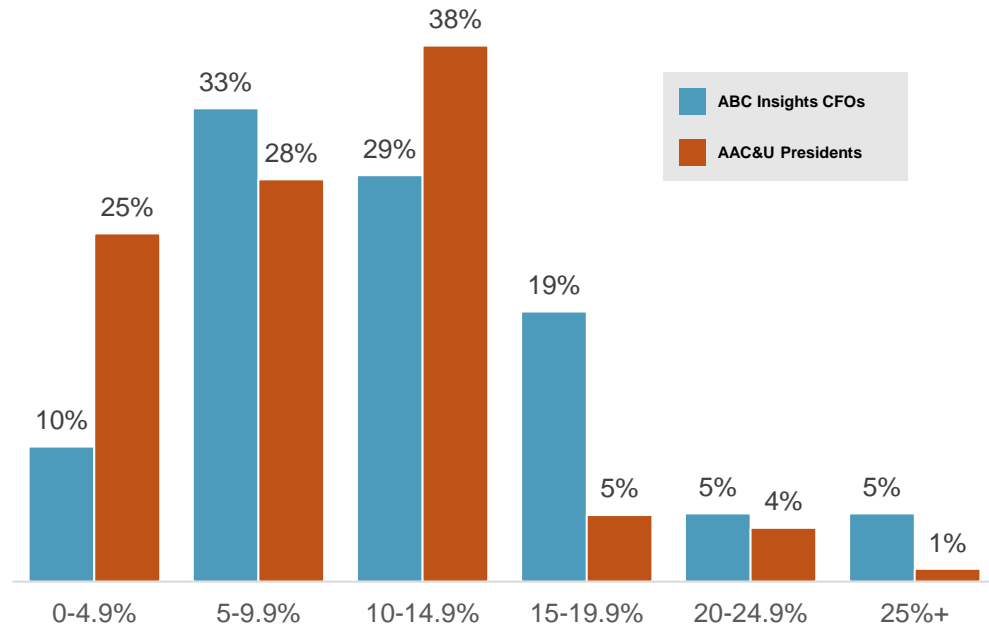
COVID-19 Acceleration

Missouri System

Keene State College

# Presidents and CFOs believe the impact will be significant on their respective campuses

## Expected Potential Decreases to Revenue in FY21



Source: ABC Insights AAC&U Survey of Presidents, July 12, 2020 n=119;  
ABC Insights Survey of CFOs, April 30, 2020, n=21

### Presidents Say

"I worry about cuts in state and county funding. ... I worry that I won't have the **workforce resources** to help lead the economic recovery."

"Beyond the well-being of our students and staff, which comes first, I am **worried about the lack of sufficient relief for higher education** from state and federal governments."

"**Sharply declining revenue due to loss of paying students** and a new 'free college' program in our state."

"**All income streams are under stress** — tuition, development, endowment."

### CFOs Say

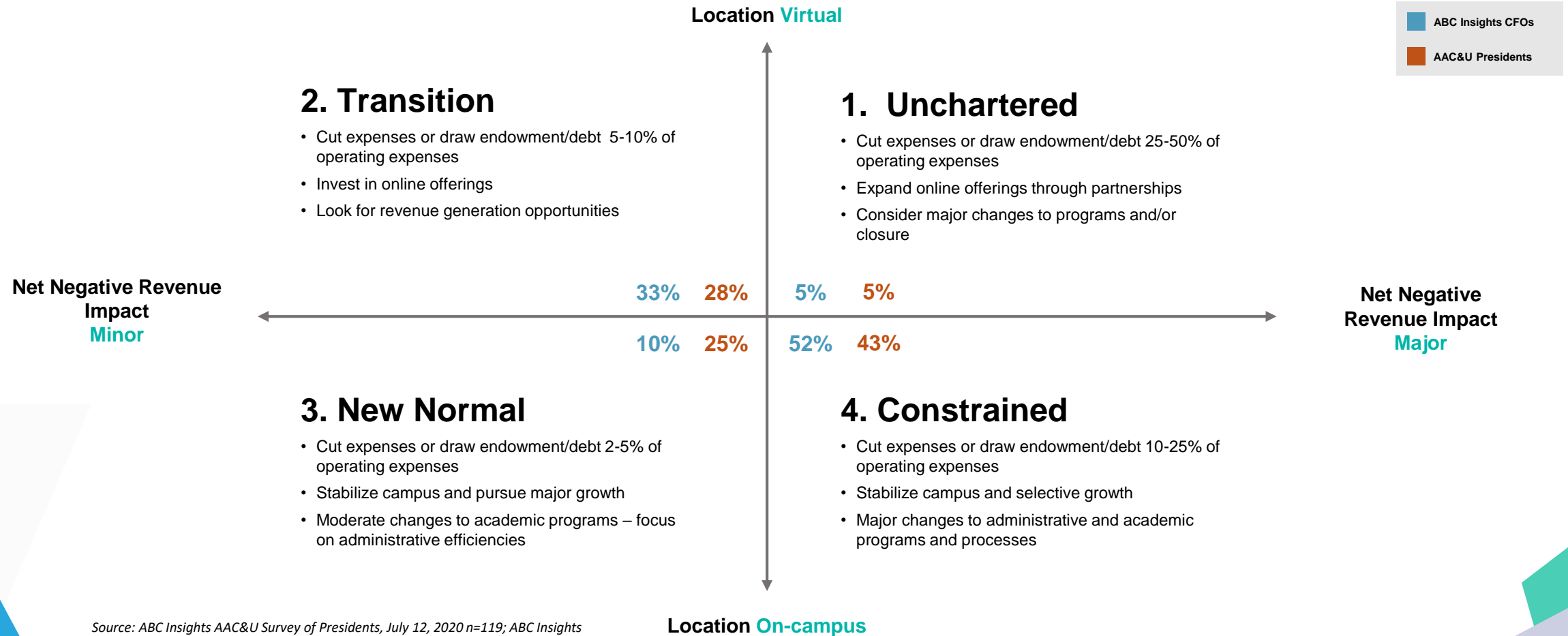
"**State subsidy will be reduced, auxiliary funds will be reduced** due to lack of events, athletics impacted negatively."

"We are expecting **25% cuts in State support** as well as enrollment impacts."

"**Lost revenue is the main issue** and the need to maintain physical infrastructure without revenue"

"**Out of state revenues** account for [a majority] of our revenue."

# Higher education scenario analysis allows for dynamic planning



Source: ABC Insights AAC&U Survey of Presidents, July 12, 2020 n=119; ABC Insights Survey of CFOs n=21; Dr. Paul N. Friga – “Under Covid-19, University Budgets Like We’ve Never Seen Before”, Chronicle of Higher Education, April 20, 2020



# Paul's "Looking Glass" into potential changes in higher ed

Dimension	Current	Future
Tuition	Medium - High	Free - Low
Differentiation of Providers	Low	High
Accessibility	Low	High
Online Education	Low	High
Partnerships with Employers	Medium	High
Virtual Campus Services	Low	High
Inter-University Collaboration	Low	Medium
Relevance	Low	High
Faculty	Single-University	Multi-University / Free Agent
Students	18 - 24-Year Old	18 - 80-Year Old
National Universities	Few	Many
Credentials	2 & 4-Year Degrees	Degrees + Badges + Certificates



# There are 3 key elements of the business model to change

## ABC Insights/HelioCampus Transformation Roadmap

Optimize Administrative Spend

Increase Academic Program Returns

Grow Resources

## Examples of Strategic Initiatives For Change

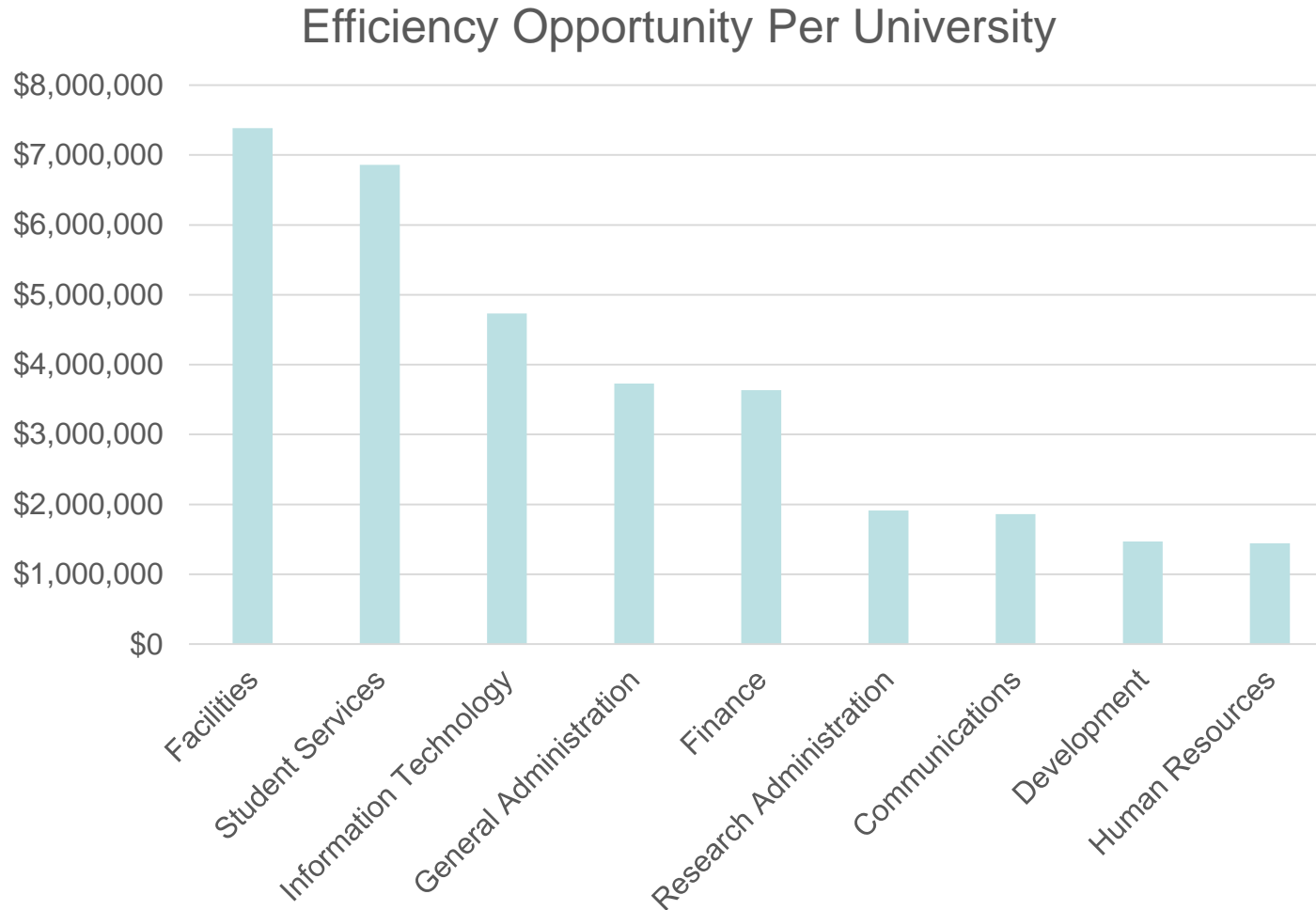
- Consolidate Purchasing
- Cut Staff
- Re-engineer Processes
- Outsource
- Centralize/Shared Services
- Modernize Technologies
- Merge Multiple Locations
- Increase Spans of Control
- Decrease Energy Use

- Sunset Programs
- Expand Existing Programs
- Launch New Programs
- Increase Teaching Loads
- Hire More PT Faculty
- Hire More NTT Faculty
- Freeze New Faculty Hires
- Decrease # of Faculty
- Increase Student Retention

- Launch New Development Campaign
- Determine Unique Positioning
- Invest in Advertising Campaigns
- Collaborate with Other Universities
- Pursue PPPs (facilities, energy, etc.)
- Launch Medical Services
- Develop More Executive Education
- Increase Online Program Offerings
- Secure New Debt Offerings
- Grow Research Portfolio
- Sell Excess University Assets (land, etc.)
- Grow Enrollments

Source: [www.abc-insights.com](http://www.abc-insights.com)

# Results from a recent “ABC Administrative Efficiency Study” show biggest opportunities in Facilities, Student Services, IT and G&A



**ABC Insights Methodology:** Analyze the employee FTE levels by the 9 administrative activity and 55 sub-activity categories and then compare to benchmark average. Then cost out the opportunity at the FTE salary amount at that activity/sub-activity.

Source: [www.abc-insights.com](http://www.abc-insights.com) ; n = 44 universities

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# Overview of the University of Missouri System



Total Employee iPEDS  
Headcount: 10,668



Total Employee iPEDS  
Headcount: 3,176



Total Employee iPEDS  
Headcount: 1,879



Total Employee iPEDS  
Headcount: 1,496

**Total Revenues (2019): \$2.98 Billion**

# Situation

## In the past...

- Declines in state support were caused by economic recessions
- Imposed hiring freezes
- Key investments were not made
- Enrollment growth was the key new revenue source
- The decline eventually turned around after a few years
- Hunkering down to “wait it out” was the **defacto** strategy

## In the current reality...


- Percent of state support for operations has dropped for 20 years, but not due to just economic downturn
- Significant competition for student enrollment
- Investments in academic, research & engagement programs are needed more than ever
- Past practices are ill-suited for current reality
- Need bold actions to become a more resilient university

# The effects of COVID-19

- Budgeted revenue decline of \$115M over FY2019 in the academic enterprise
  - State withholding and stabilization drops core by \$55M
  - Declining tuition and auxiliary revenues on declining enrollments
  - Budget looks more like a recurring problem than a one-time problem
- Additional exposure of \$120M-\$320M if further disruptions occur during FY2021
  - Would not have to shut down campus again, could be driven by students slowing consumption
  - Requires significant action to stem the resource consumption

# Step 1 – Analyze administrative spend over time

Activity	Spend per student for ...		% Difference	FTE per 1K students for ...		% Difference
	FY16	FY18		FY16	FY18	
Development	\$266.34	\$311.82	17.08%	3.43	3.92	14.29%
Student Services	\$783.41	\$894.58	14.19%	18.63	19.19	3.01%
IT	\$869.58	\$968.23	11.34%	17.84	16.65	-6.67%
Facilities	\$1,662	\$1,792	7.82%	42.63	43.84	2.84%
Research Admin	\$289.44	\$308.48	6.58%	5.72	6.4	11.89%
Finance	\$437.04	\$464.42	6.26%	9.58	8.98	-6.26%
Communications	\$564.32	\$580.42	2.85%	11.71	12.27	4.78%
General Admin	\$754.72	\$766.75	1.59%	22.31	21.61	-3.14%
HR	\$216.78	\$218.99	1.02%	5.23	3.9	-25.43%



**Fall Enrollment**  
 FY16: 35,424  
 FY18: 30,844

Source: <https://emp.nacubo.org/>

## Takeaways

- Spend did not decrease in proportion to the drop in enrollment
- Evidence that departments across the university were made smaller, and those who remained were given higher salaries

Source: [www.abc-insights.com](http://www.abc-insights.com)

# Step 1B – Benchmark administrative spend with ABC Insights

## Optimize Administrative Spend

*Assess level of investment vs efficiency*

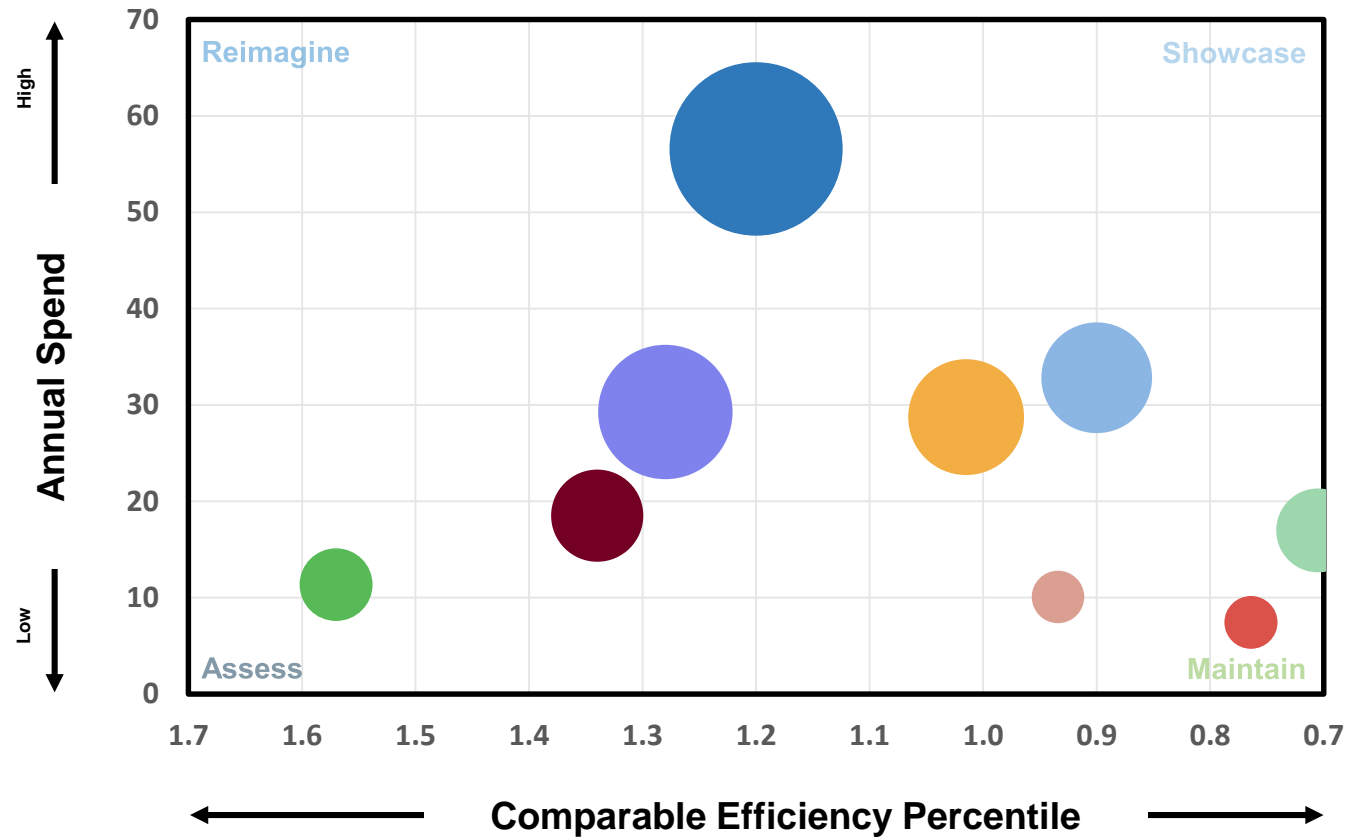
### Chart Key

- Facilities
- Student Services
- Information Technology
- General Administration
- Finance
- Communications
- Development
- Human Resources
- Research Administration

Size of Bubble: Level of Admin. FTEs

Source: [www.abc-insights.com](http://www.abc-insights.com)

Administrative Activity Analysis – University of Missouri





## Step 2 – Grow Revenue

### GROW REVENUE AND PRIORITIZE MISSION!

- We can't cut our way to greatness
  - But we can spend our way to bankruptcy if revenues don't change
  - Necessary cuts are a result of the paradigm shift in revenues
- Past growth strategies will not work
  - State revenues will remain challenged, even with significant support we enjoy
  - Traditional tuition rates and enrollments subject to market forces
- New, paying students/learners and programs to serve them are the key to our future
- Focus on productivity while growing... if we want the best faculty, we need the paying students to support them
- Administrative cost cutting can not solve the entirety of the shortfall
- **Potential Avenues For Growing Revenue: Tuition differentials and growth in research**

## Step 2B - Approach this in a collaborative manner

- Moving from appropriations approach to earning approach
- Revenue is everybody's problem
- We all must understand the business model – focusing only on cost is not sustainable
- Moving from a spending approach to net revenue approach
  - Must understand revenue drivers and return on investment
  - Net revenue (margin) will generate needed investments in scholarships, research and other academic pursuits
- Managing to the net revenue ensures the financial viability and sustains the mission of the institution
- Key Quote: “If you are in a program that loses money, try to lose less and if in a program that makes money, try to make more”

# Step 3 – Continue the journey and include academics

## Academic Excellence

Program Review and Rationalization  
Degree/Certificate Market Analysis  
Academic Productivity

Reinvestment

Reinvestment

## Revenue Enhancement

Pricing flexibility  
Long-term Enrollment Strategy  
Auxiliary Operation Rationalization  
Development Opportunities

## Future Academy

Research & Creative Works  
Outreach & Engagement  
Student Success

## Resource Utilization

Data Driven Allocation Models  
Reserve Practices & Policies  
Implement 5 Year Financial Plan

Reinvestment

Reinvestment

## Operational Excellence

Expansion of Enterprise Services  
Organizational Consolidation  
Streamline Process through Functional Efficiency

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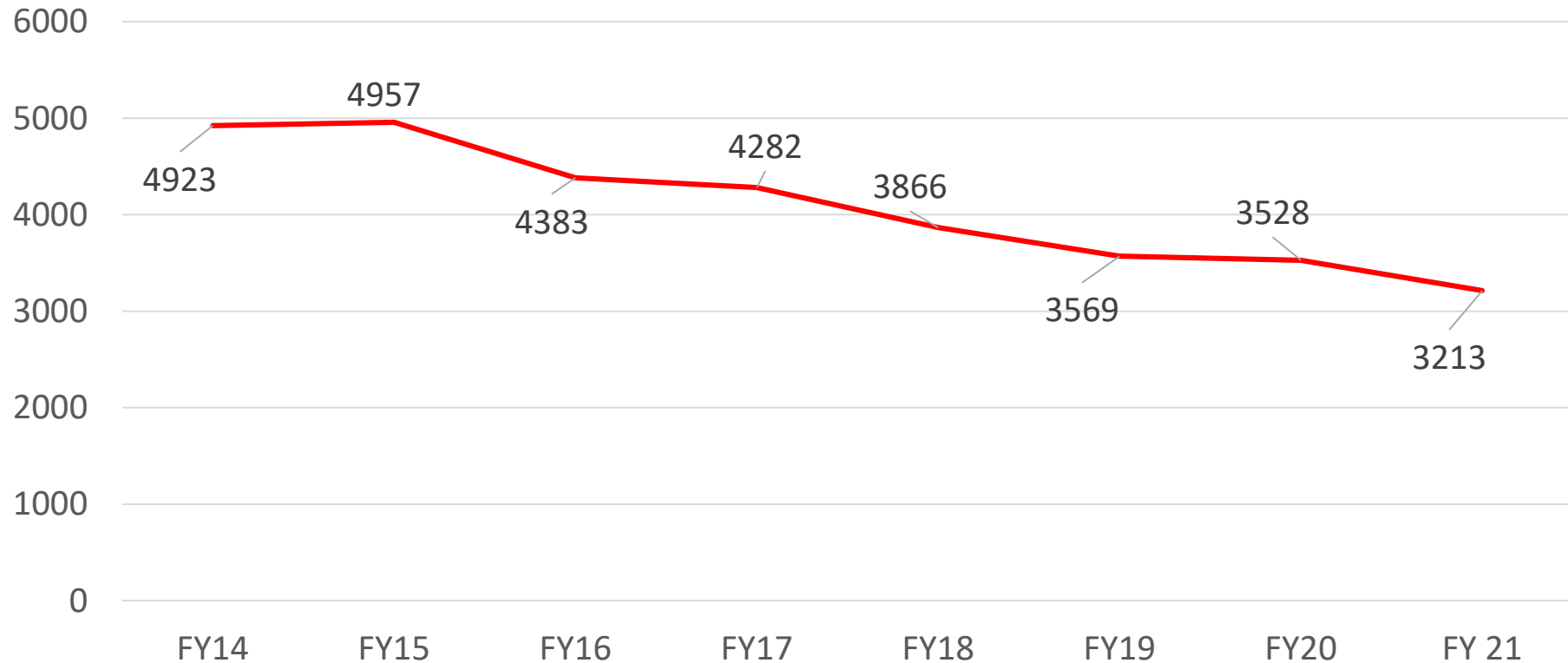


# Keene State College at a Glance

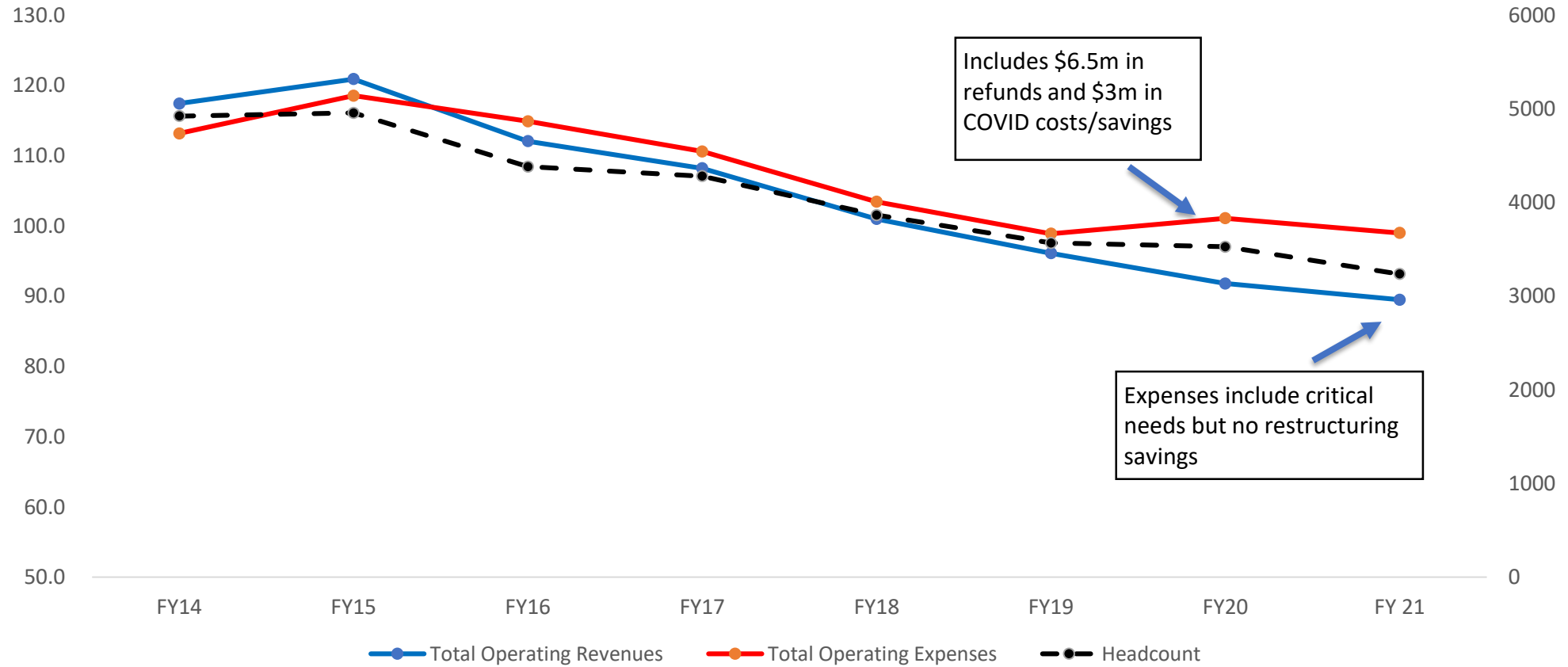
Keene State College FY19	
FY19 total labor spend	\$44,570,328
US News Ranking	#10 Regional College North
Student Headcount	3.5K
Student Faculty Ratio	14:1
Endowment	\$37M



# One reason for a new business model – declining enrollments



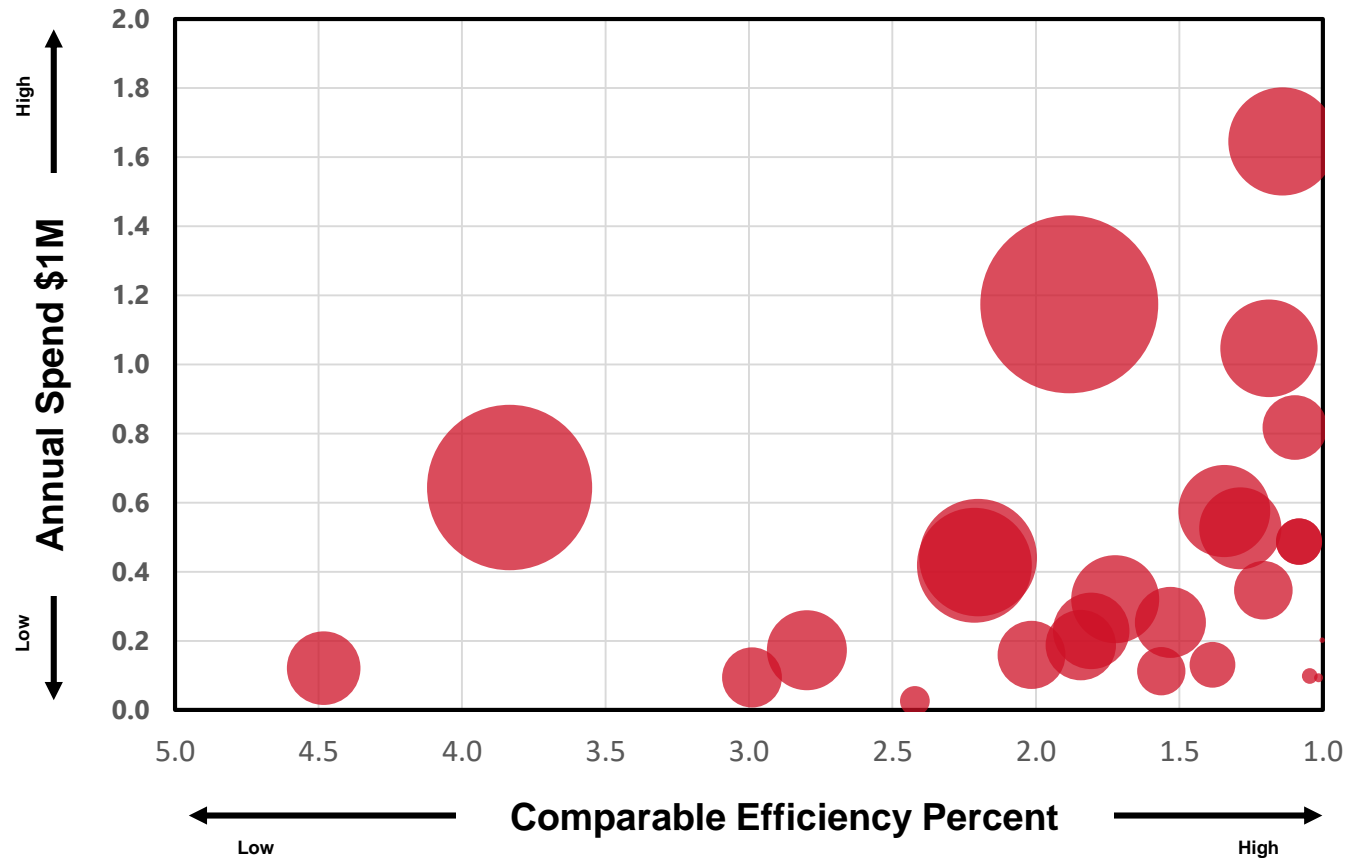
# And the resulting challenge of matching expenses to revenues



# Step 1 – Analyze Administrative Spend vs. Benchmarks Using ABC Insights

This graph depicts our approach to identifying Keene State College's most significant opportunities for further efficiency, which are elaborated upon in the following slides.

ABC Insights ROI Framework  
Administrative Activity Analysis – Keene State College



Source: [www.abc-insights.com](http://www.abc-insights.com)



# Step 1B - Look for Areas of Potential Overinvestment

Rank	Sub-activity	Comparable Efficiency Percentile	Annual Spend (\$K)	Opportunity (\$K)
1	<b>Student Services</b> Other*	188%	\$1,174.74	\$551.15
2	<b>Student Services</b> Diversity	383%	\$644.22	\$476.21
3	<b>Facilities</b> Enviro Healthy and Safety	220%	\$441.20	\$240.82
4	<b>Student Services</b> Recreational Services	221%	\$419.27	\$229.93
5	<b>Facilities</b> Custodial Services	114%	\$1,645.88	\$203.56
6	<b>Facilities</b> Public Safety	134%	\$576.04	\$147.16
7	<b>Information Technology</b> Security/Privacy	1423%	\$146.69	\$136.38
8	<b>Student Services</b> Financial Aid	172%	\$321.11	\$134.87
9	<b>Information Technology</b> User Support	129%	\$525.98	\$117.48
10	<b>Human Resources</b> Hiring	280%	\$173.39	\$111.42
<b>Total Opportunities</b>				<b>\$3,127.52</b>

Rank	Sub-activity	Comparable Efficiency Percentile	Annual Spend (\$K)	Opportunity (\$K)
11	<b>Human Resources</b> Employee Labor Rel	181%	\$229.01	\$102.30
12	<b>Human Resources</b> Other	448%	\$121.55	\$94.44
13	<b>Human Resources</b> Training	626%	\$109.20	\$91.75
14	<b>Student Services</b> Academic advising	153%	\$253.42	\$87.98
15	<b>Facilities</b> Capital Planning and Mgmt	184%	\$187.80	\$85.93
16	<b>Student Services</b> International Programs	202%	\$159.76	\$80.49
17	<b>Student Services</b> Admissions	110%	\$817.80	\$72.77
18	<b>Human Resources</b> Classification and Comp	299%	\$94.30	\$62.75
19	<b>Information Technology</b> App Dev	121%	\$347.04	\$59.70
20	<b>Facilities</b> Transportation	156%	\$112.25	\$40.43
<b>Total Opportunities</b>			<b>\$8,500.66</b>	<b>\$3,127.52</b>

\*Examples include, but are not limited to, activities such as student engagement, tutoring services, student conduct, honors programs, and student wellness programs.

Source: [www.abc-insights.com](http://www.abc-insights.com)

## Steps 2 and 3 – Examine All Options

- Organizational Design - Leadership structure, mid level manager, department design
- Academic Portfolio:
  - Program Assessment
  - Section Capacity Utilization and Low Enrollment
  - Course releases - contracted releases
- USNH Shared Opportunities – Enrollment
- Auxiliaries: Housing & Dining - Junior On campus requirement
- Child Development Center
- Communications and Marketing
- Monadnock Business Hub

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