

A Critical Look at the Business Model of Higher Education

Center on Enrollment Research, Policy and Practice

University of Southern California

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rpk GROUP
••••• CELEBRATING 5 YEARS

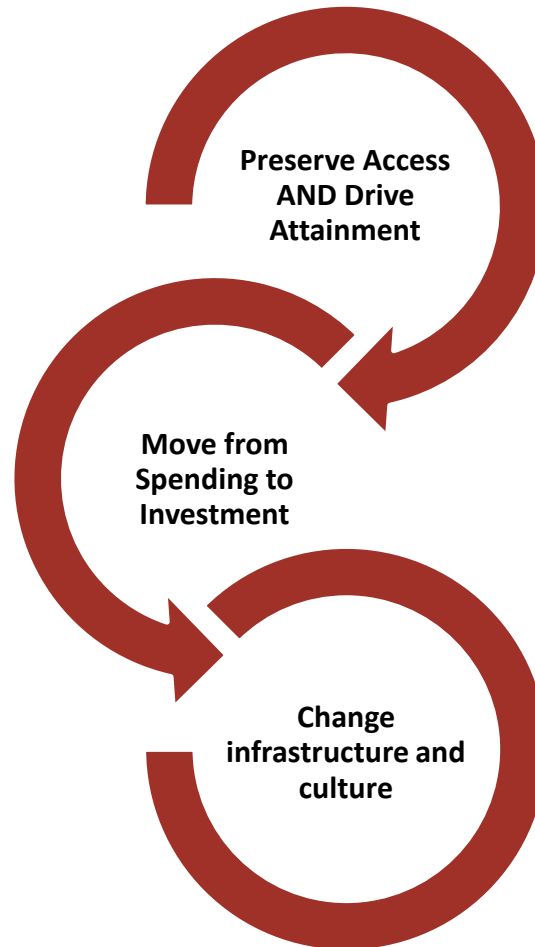
from mission to market

Why Talk About the Business Model in Higher Education?

Need to Shift the Frame:

from Cost Cutting to **Maximizing** Return on Investment

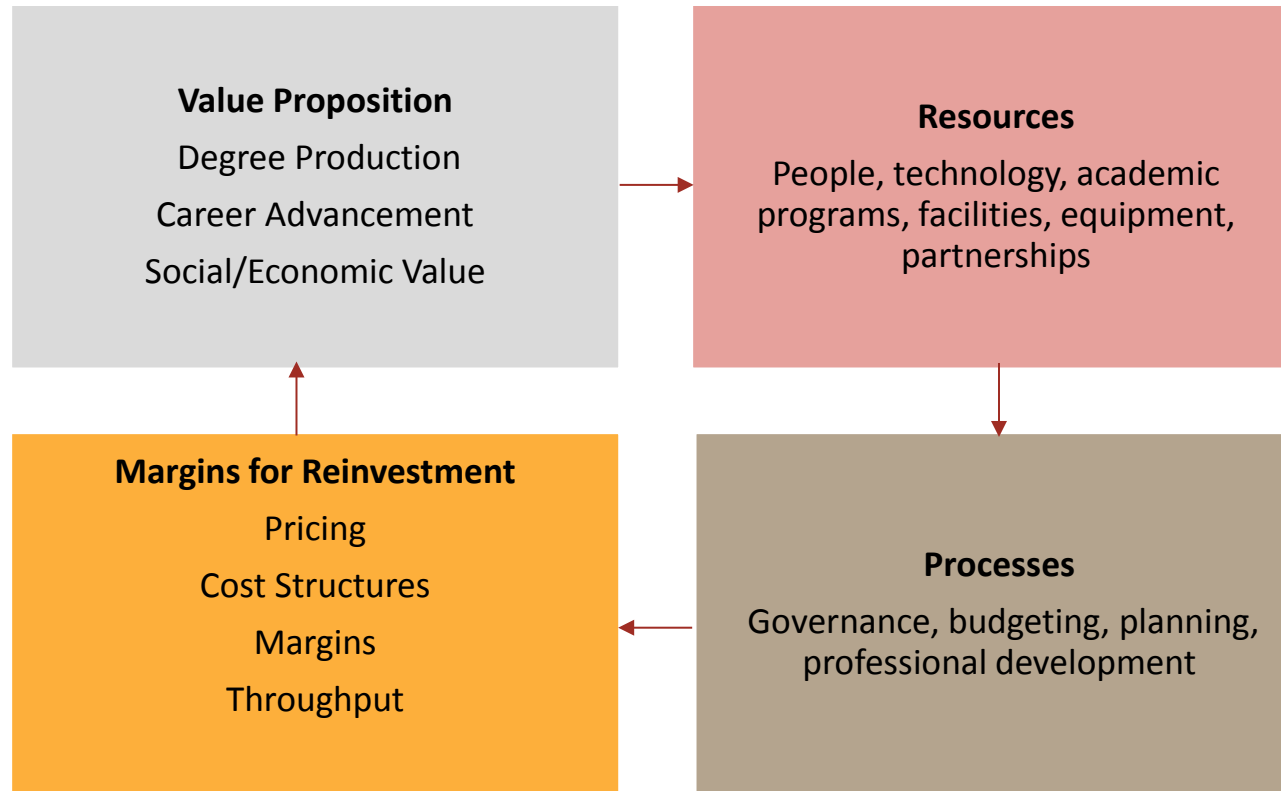
then we must get a **better return on investment** from current resources through understanding levers to change the business model...



If we are to **preserve access and increase attainment**, in a world of constrained resources and fewer students...

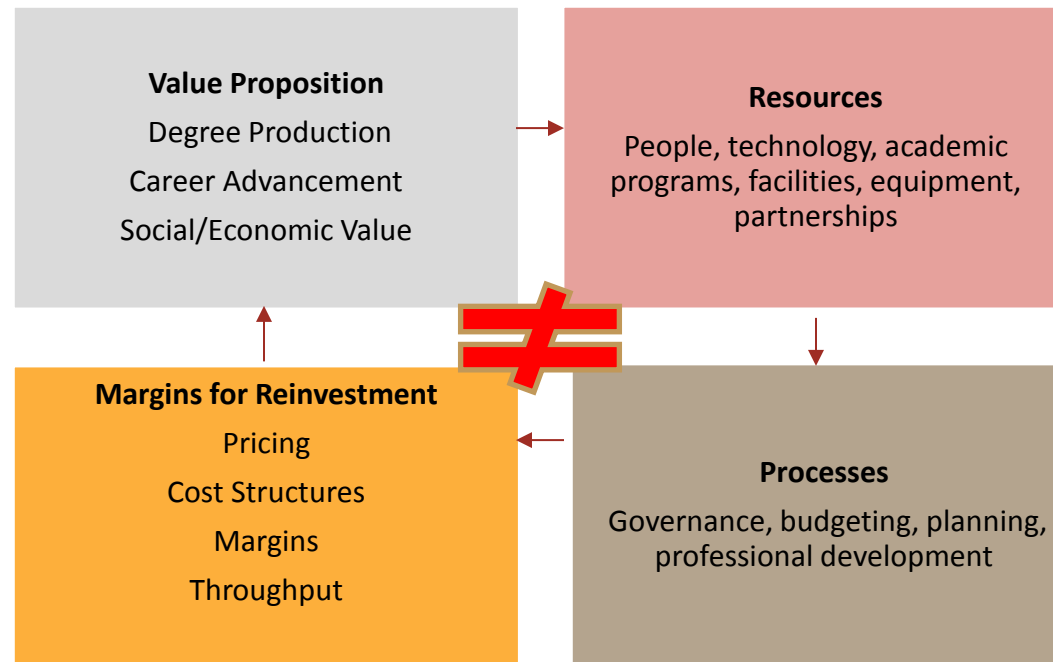
which will require a strategic approach connecting **financial practice** with **institutional change models**.

What Do We Mean by “Business Model”

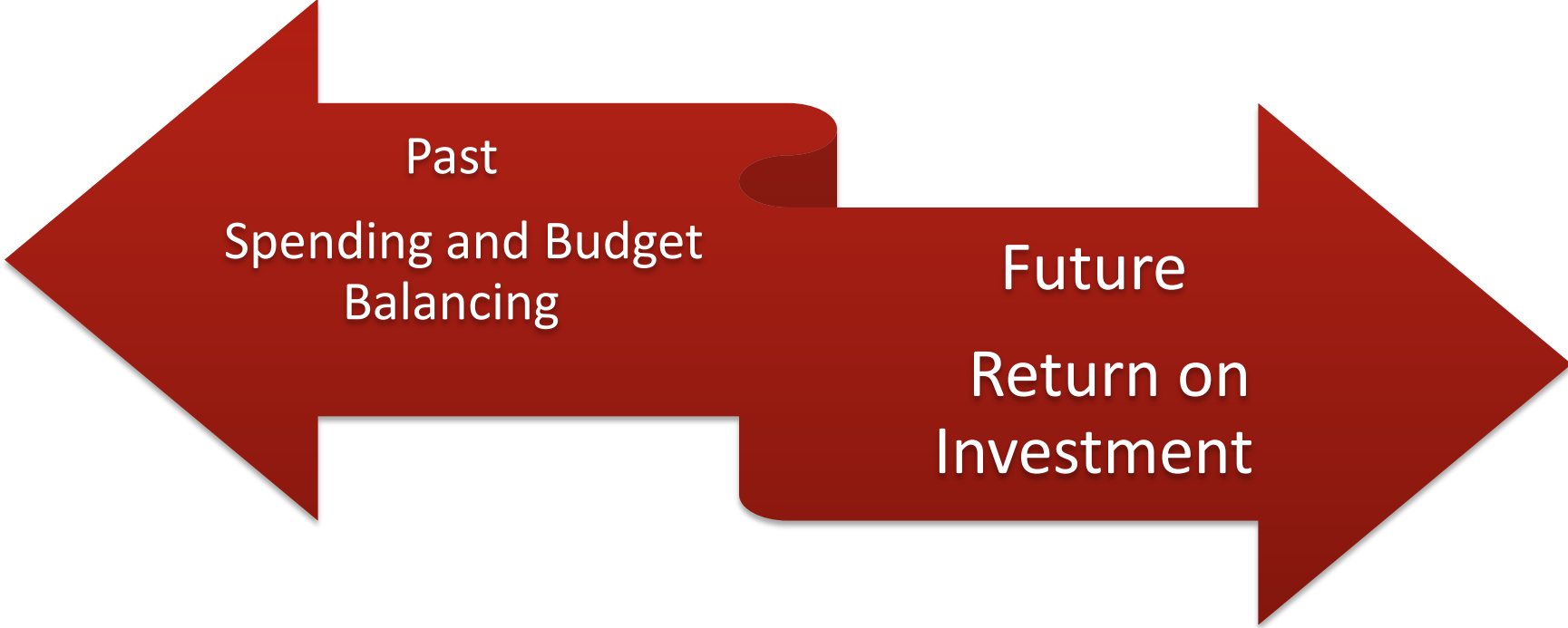


What's the Problem?

We have made the protection of resources and processes (the “stuff” and the way we’ve always done things) our value proposition, preventing us from reimagining how we might address the needs of students more efficiently

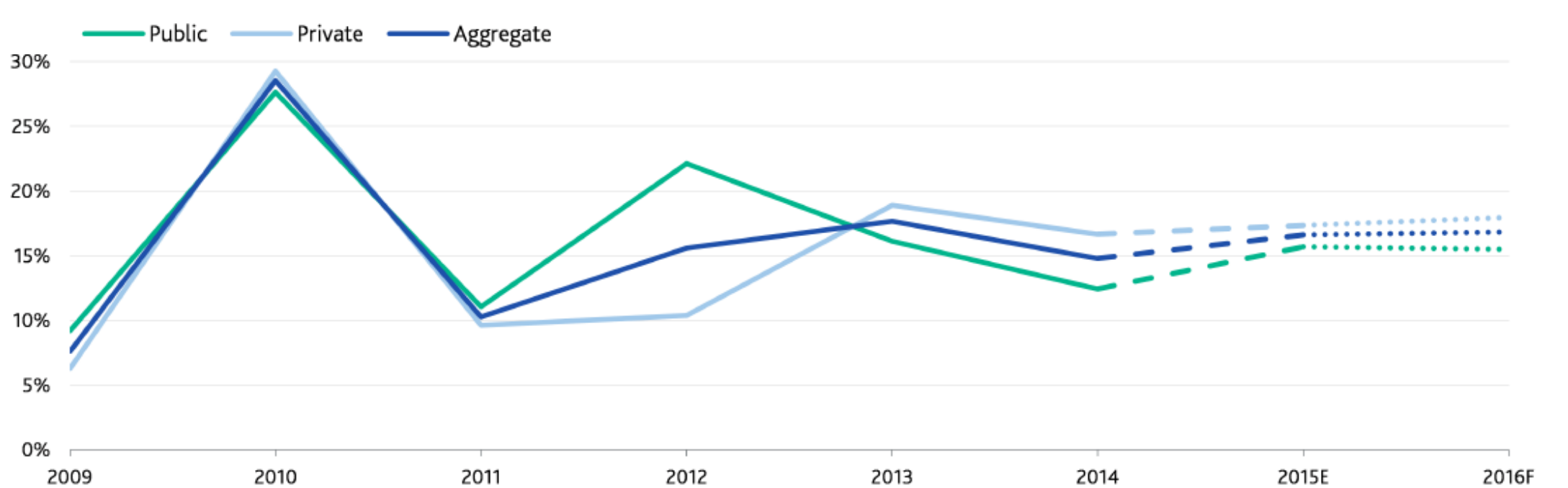


Need to Redefine the Goal



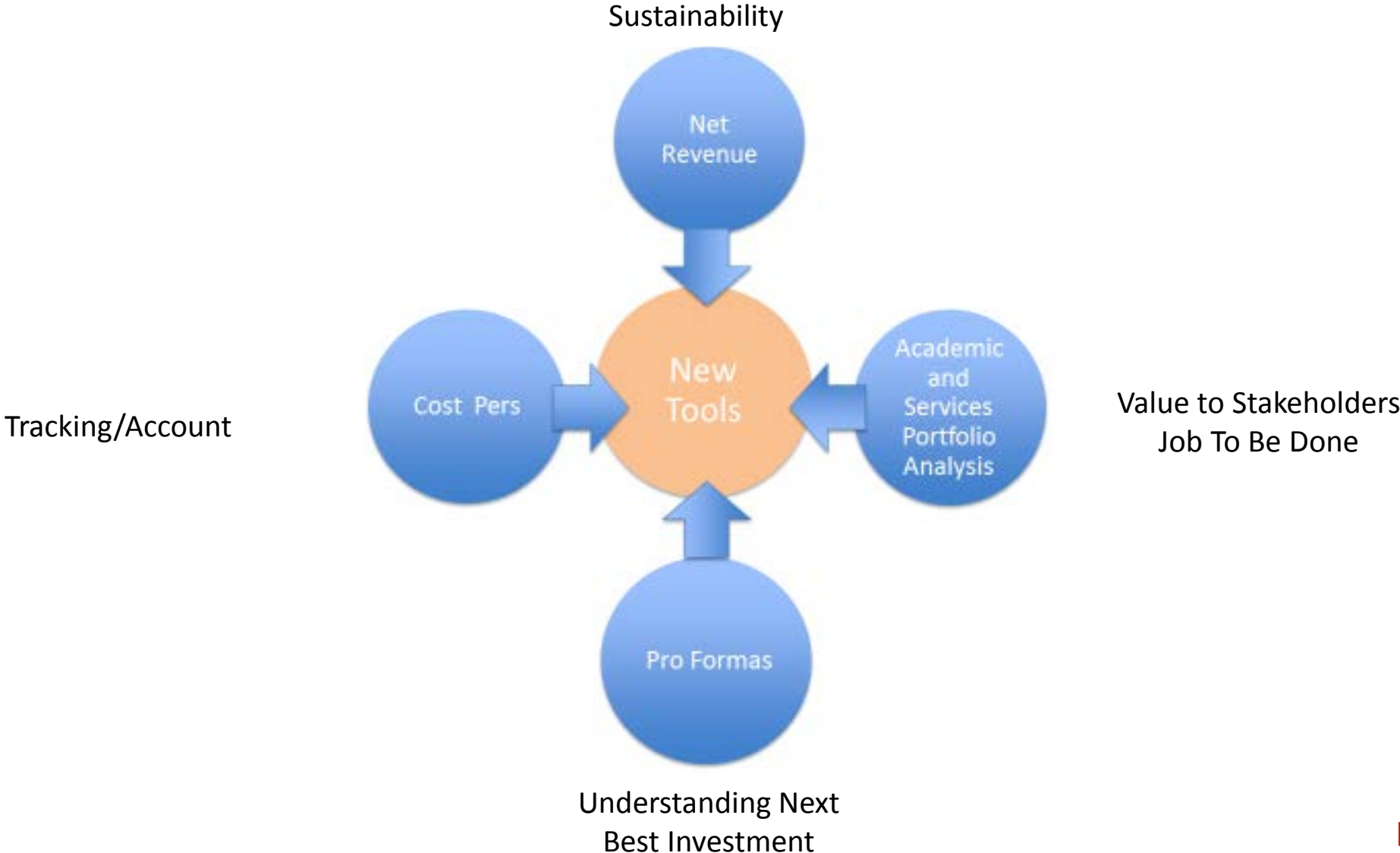
Continued Need to Reduce Cost and Increase Efficiencies

Between 15% and 20% of Universities will Need to Cut Costs to Maintain Operating Stability
Percentage of Universities Reducing Expenses over Prior Year



Source: Moody's Investors Service; Moody's Investors Service estimate

Creating a New Tool Box to Adopt a Return on Investment Lens



Net Revenue - Understanding Financial Sustainability

Net Revenue Modeling - By Division

	Undergraduate	PT Undergraduate	Accelerated	Graduate	Institutes	Total
Revenue	15,686,486	2,481,446	3,999,994	10,266,637	464,207	32,898,770
Tuition Discounting	5,656,577	40,026	0	876,158	0	6,572,761
Discounted Revenue	10,029,909	2,441,420	3,999,994	9,390,479	464,207	26,326,009
Total Discount %	36.06%	1.61%	0.00%	8.53%	0.00%	19.98%

	Undergraduate	PT Undergraduate	Accelerated	Graduate	Institutes	Total
Discounted Revenue	10,029,909	2,441,420	3,999,994	9,390,479	464,207	26,326,009
Direct Costs	8,284,316	1,277,669	1,554,435	2,874,851	347,933	14,339,204
Net Revenue	1,745,593	1,163,751	2,445,559	6,515,628	116,274	11,986,805
Net Revenue %	17%	48%	61%	69%	25%	46%


	Undergraduate	PT Undergraduate	Accelerated	Graduate	Institutes	Total
Discounted Revenue	10,029,909	2,441,420	3,999,994	9,390,479	464,207	26,326,009
Total Direct and Allocated Cost	9,954,583	2,366,828	3,149,668	7,858,580	347,933	23,677,592
Net Revenue	75,326	74,592	850,326	1,531,899	116,274	2,648,417
Net Revenue % - FY 2010	0.8%	3.1%	21.3%	16.3%		10.1%
Net Revenue % - FY 2009	2.1%	18.8%	28.8%	25.0%		16.5%
Net Revenue % - FY 2008	5.5%	23.0%	20.0%	25.0%		16.0%

Net Revenue - Understanding Financial Sustainability

Net Revenue Modeling - By Division

	Undergraduate
Revenue	15,686,486
Tuition Discounting	5,656,577
Discounted Revenue	10,029,909
Total Discount %	36.06%


The undergraduate program appears profitable when measuring gross revenue



	Undergraduate
Discounted Revenue	10,029,909
Direct Costs	8,284,316
Net Revenue	1,745,593
Net Revenue %	17%

	Undergraduate
Discounted Revenue	10,029,909
Total Direct and Allocated Cost	9,954,583
Net Revenue	75,326
Net Revenue % - FY 2010	0.8%
Net Revenue % - FY 2009	2.1%
Net Revenue % - FY 2008	5.5%

But is barely breaking even when measuring net revenue



Cost “Pers”

- Higher education must pay less attention to total cost and more attention to cost per unit
- Sample Cost pers:
 - Cost per Completion
 - Cost of Student Credit Hours Completed (vs attempted)
 - Net Revenue Impact for Every 1% Change in Retention
 - Cost to Achieve Gateway Course Completion

Business Pro Formas – What's In It For Me?

- Pro Forma analysis benefits stakeholders
 - Sets an expectation for analysis
 - Creates milestones throughout the process –Go/No Go
 - Resources are identified up front to support the initiative
 - Creates accountability

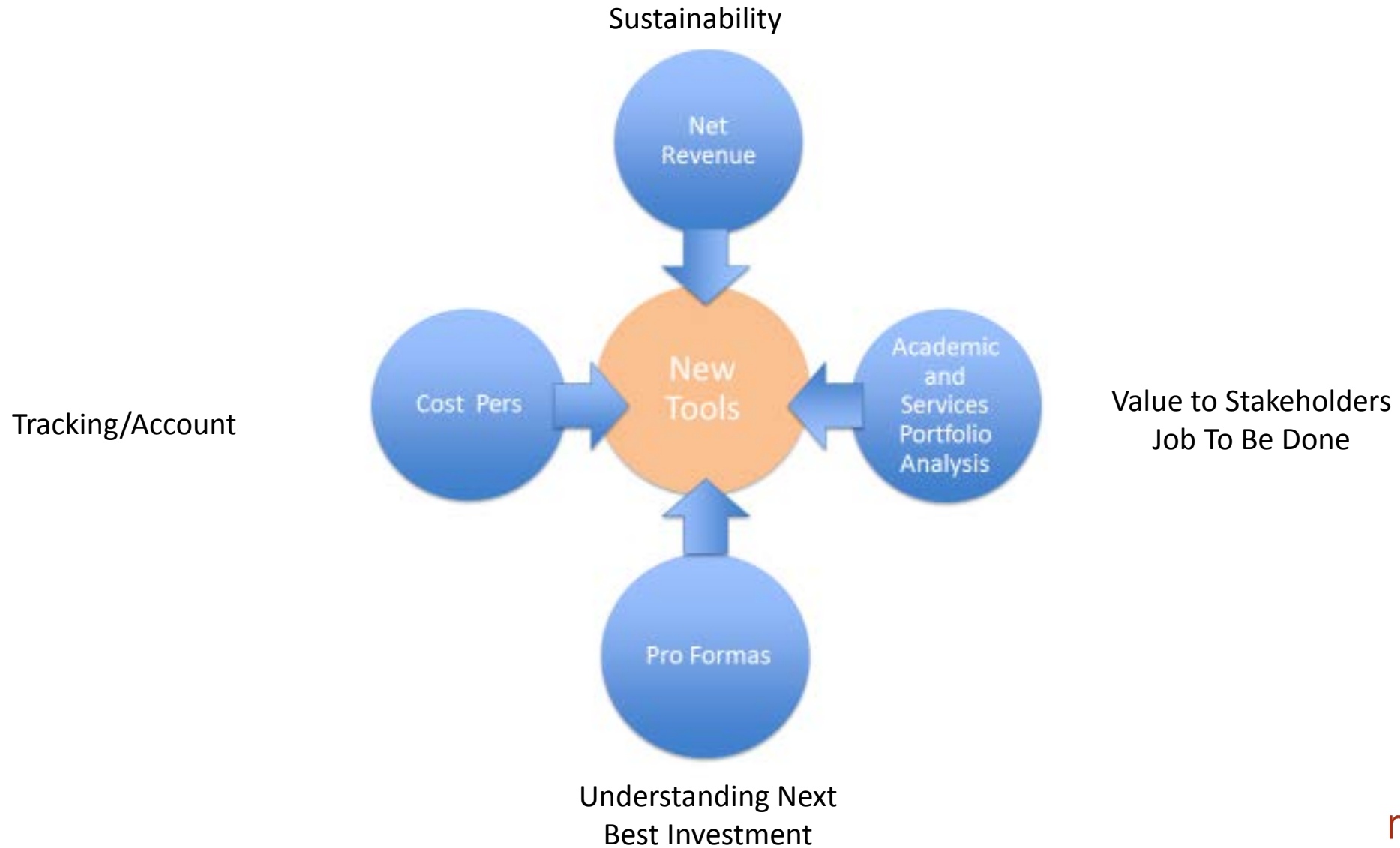
ROI Lens in Action - Adopting an ER Room Triage Model for Advising

	Academic	Career	Financial	Personal
Tier 1 Standard	High GPA	Clear Goals	FAFSA Complete	No major life issues identified
Tier 2 Specialized	Borderline GPA Limited Dev Ed	Knows general discipline	Late with Paperwork	Single Parent
Tier 3 Intensive	Low GPA/Not College Ready	Undecided	Needs an Appeal	Caring for seriously ill relative

Triage Models for Mandatory Advising

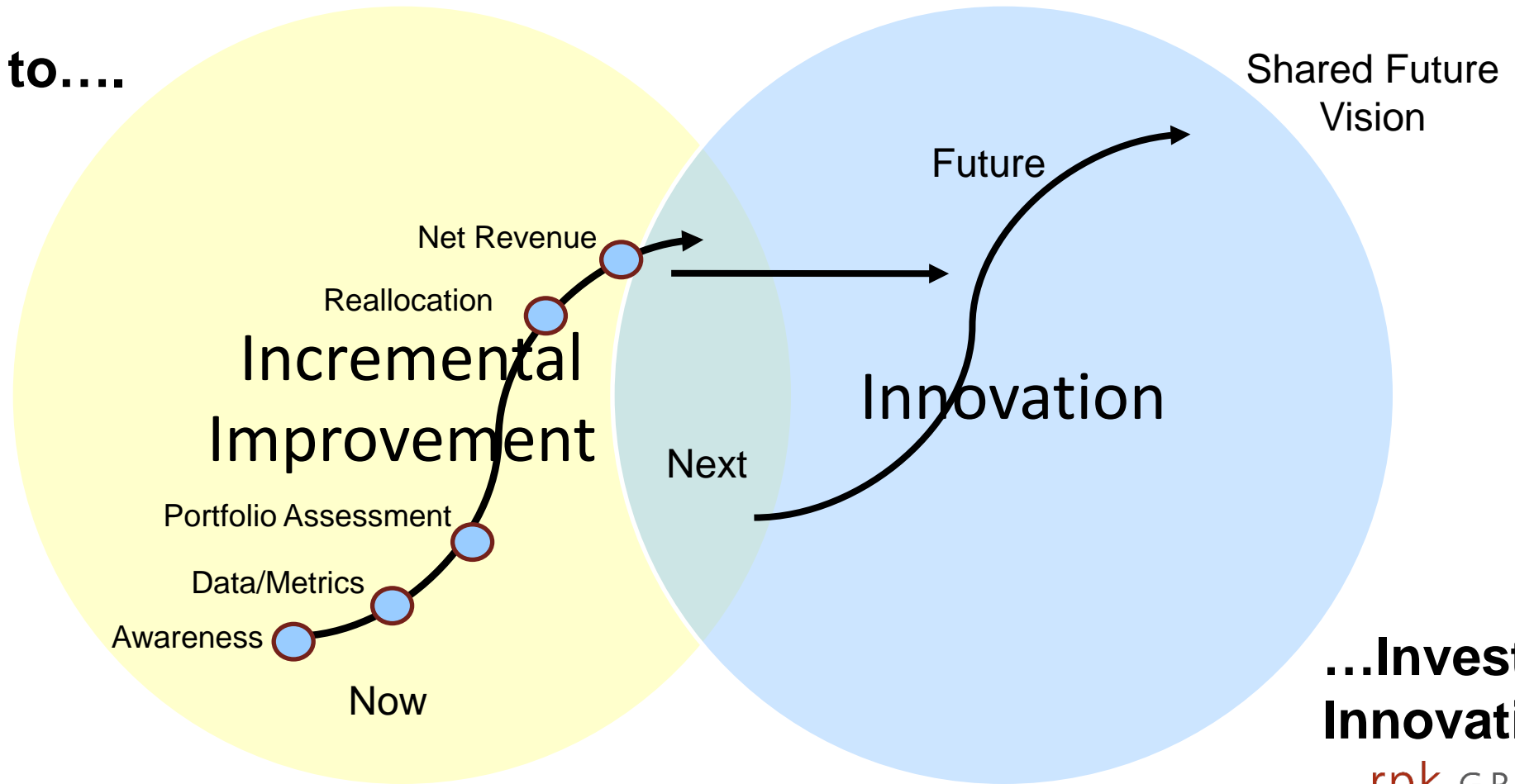
	Service Office	Academic
Standard	Academic Advising	\$ 42.40
	Financial Aid	\$ 36.16
	Career Services	\$ 21.15
	New Student Orientation	\$ 1.71
	Total	\$ 101.41
Specialized	Academic Advising	\$ 60.42
	Financial Aid	\$ 48.21
	Career Services	\$ 21.15
	New Student Orientation	\$ 1.71
	Total	\$ 131.48
Intensive	Academic Advising	\$ 106.00
	Financial Aid	\$ 51.65
	Career Services	\$ 21.15
	New Student Orientation	\$ 1.71
	Total	\$ 180.51

Creating a New Tool Box to Adopt a Return on Investment Lens



How Can We Jump From One Curve to the Next?

**Harvest
Resources to....**



**...Invest in
Innovation**

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To continue the dialogue . . .

- Rick Staisloff, Principal

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