

Financial Analysis & Management of Academic Programs and Net Profitability

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Introduction

Who have we here ???

I am Bill . . . 24 active years in HE administration as CFO/EVP
Indiana Wesleyan, LeTourneau, Mid-America Christian

This is Scotti . . . 11 years of IT in HE, 3 years in corporate accounting
Director of Business Analysis and Operational Systems

And who are you?!?

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Overview

- I. Understanding the Goal - *and how the right information will be used*
- II. Getting the Calculation Formula Right - *what to include and what to exclude*
- III. Setting up the System - *for collecting the right data . . . consistently*
- IV. Conducting Good Analysis – *and communicating the results clearly*
- V. Serving the President and Chief Academic Officer Well – *providing good counsel*
- VI. Final Thoughts
- VII. Q & A

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Understanding the Goal

and how the right information will be used

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Understanding the Goal

Where do Programs Fit?

- Three ways to grow: people, places and programs
- So programs are key to revenue stream
- Do we know which of our programs are profitable

The GOAL

- to know whether programs are profitable . . . or not
- to know the level of profitability

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-- and how the right information will be used

“Back in the day” we used the information to decide whether to start a class

Example: Direct + Indirect = x
 Number of students minus attrition = y
 If y is equal or greater than x then it was a go

With online and open enrollment vs. on-ground and cohort groups, though not as simple, the goal is the same

Decide how we are going to count the costs, define what makes up the breakeven points, choose the overhead model and determine the profitability

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-- and how the right information will be used

Once we know the profitability of a program, we can decide:

- Whether to continue the program
- How often to offer or start a program
- Whether to “sunset” a program

We may have mission critical programs that we are willing to subsidize; understanding/knowing profitability, we can now know the cost to the organization

- Also, this type of information can be used to drive our marketing and enhance recruitment

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Getting the Calculation Formula Right

what to include and what to exclude

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Getting the Calculation Formula Right . . .

So how do we do this? Here is a way that has worked . . .

Identify “break-even” at three points

1. Direct costs of program
2. Direct + Indirect costs of program
3. Direct + Indirect + Overhead costs of program

Critical to define categories of costs and be consistent

Also, important to decide how to handle Overhead - two models

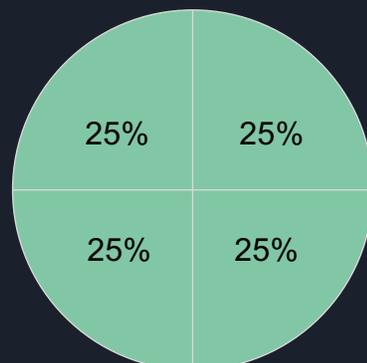
1. Each program carries it's “fair share”
2. Each program contributes to overhead

Once we know the profitability of a program, we can make real-time decisions.

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Getting the Calculation Formula Right (cont.)

“Fair Share OH” Model



“OH Contribution” Model



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Getting the Calculation Formula Right (cont.)

... what to include and what to exclude

- Ensure overhead is covered; but does not have to be equal for every program
- Determine how to cover subsidized (mission driven) programs
- Include retention -- actually attrition -- numbers in your calculations
- Decide how to allocate /accounts receivables/bad debt

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Getting the Calculation Formula Right (cont)

Establish an approach that is feasible for the way you do business

- If cohorts, then class groups work!!!
- If not, then might consider by student category

Recognize, that however we do it, we must:

- Define the terms
- Record assumptions

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Setting up the System

for collecting the right data . . . consistently

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Setting up the System

Ensure you know the capabilities of your resources

- Tech-savvy employee in the business office
- IT employee with a business/finance understanding

Ensure the relationships between departments - Interdepartmental Communication

- Talk with those impacted; get buy-in and avoid we/they
- Better transfer of knowledge
 - duties
 - responsibilities
 - data points to consider
- Define stakeholders and level of influence (RACI Method)

Even without the BEST resources, accurate and consistent data can still be accomplished

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for collecting the right data . . .consistently

Establish the desired outcomes – what does the President want to see?

- Listen and restate
- Don't interpret, just absorb

Provide early and provide samples - establishes "roadmap" bearings

- Create fictitious visualizations that illustrate the collected talking points
 - Data points are important, but not data accuracy
 - This is what it COULD look like
- Gather feedback (repeat initial approach from above)

Establish a "control" set (i.e. one Academic Program for one Fiscal Year)

- Builds confidence in the data representation
- Creates the infrastructure base for the entire project

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for collecting the right data . . .consistently

Ensure you (CFO) oversees all decision points

- Approved (appropriate stakeholder)
- Documented (project deliverables, assumptions, decisions)

Keep President informed with consistent updates.

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Conducting Good Analysis

and communicating the results clearly

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Conducting Good Analysis

If we have done the above, we are poised for a good analysis

- Go back to the goal
- Ensure you have developed the relationships . . . before you need them
- Know the information you need and where/how to get it
- Establish and test your assumptions
- Ask whether the approach is sound; will it provide what is needed for decision-making?
- Have we defined the terms?
- Have we established the breakeven points?

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and communicating the results

Communication of the results will not matter, if we have not laid the foundation

- Do we have buy-in from those impacted? Particularly of the assumptions . . .
- Have we kept the appropriate people informed along the way?

The results should be clear, unequivocal with back-up data available

- We “tend the garden” and get down in the weeds
- We provide summaries and dashboards

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Serving the President and Chief Academic Officer Well

Providing good counsel

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Serving the President and CAO Well

Prez and CAO get to enjoy the “fruits” of our labor

What does Prez need to see whether he wants to or not?

- Accounts Receivables/Aging/Collections/Bad Debt
- Impact of Retention – student success is more than a hashtag

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Final Thoughts

May I commend these books to your reading . . . if you have not already read them!

- Good to Great | Jim Collins
- 4 Disciplines of Execution | Chris McChesney & Sean Covey
- Scaling Up | Verne Harnish

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