CFO Colleague

Knowing When Your Business Model is Broken – A Reality Check

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The Fiduciary Responsibility of the CFO

Beyond the audit, financial controls, ratios, and cash flow – the CFO and president must know the truth about their institution's business model. This is the basis for accurate forecasting for the future of the institution.

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Agenda

Key takeaway: **Ensuring your business model is aligned with the institution's long-term financial health and sustainability**

- Understanding the role of business models
- Recognizing signs of potential trouble
- Exploring options for business model adjustments

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Business Model

The role of the business model in the financial picture.

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The Business Model

- Value Proposition
- Revenue Streams
- Customer Segments
- Cost Structure
- Key Resources (human, financial, technological) and Activities

Question

What are four (4) or five (5) major revenue sources for a higher education institution?

Revenue:		
Tuition & Fees--Traditional	30,528,152	
Less: Tuition Discounts (% of tuition)	(17,546,894)	
Net Tuition & Fees--Traditional	12,981,258	
Tuition & Fees--non traditional	4,994,001	
Less: Tuition Discounts	(432,633)	
Net Tuition & Fees-non traditional	4,561,368	
Net Tuition & Fees (growth %)	17,542,626	42.5%
Auxiliary Revenue	10,494,885	25.4%
Non-Student Revenues	6,347,471	15.4%
Assets released from restriction	6,934,164	16.8%
Operating Revenues (growth %)	41,319,146	

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The Role of the Business Model in Financial Health

- How the business model impacts cash flow, profitability, and long-term sustainability
- Connection to financial statements and overall financial picture
  - Value Proposition
  - Revenue Streams
  - Customer Segments
  - Cost Structure
  - Key Resources (human, financial, technological) and Activities

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The Importance of Knowing Your Business Model

- CFOs and presidents must understand their business model beyond financial audits
- How an accurate understanding supports forecasting and decision-making

Forecasting and Planning

Example College
Multi-Year Enrollment Trends
- Traditional Population

X X X = Data Input

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	ACTUAL									FORECAST				
	2017 - 18	2018 - 19	2019 - 20	2020 - 21	2021 - 22	2022 - 23	2023 - 24	Avg		2024 - 25	2025 - 26	2026 - 27	2027 - 28	2028 - 29
Fall Enrollments								extrapolation ->		250	250	251	251	252
1st time Freshmen	223	269	259	247	240	262	238	248		240	260	265	280	295
Freshmen	24	27	33	25	35	35	35	31		31	31	33	34	36
Sophomores	208	195	244	237	222	222	222	221		219	226	249	256	272
Juniors	178	226	180	219	232	232	232	214		221	219	227	250	257
Seniors	231	210	241	234	244	244	244	235		261	254	254	269	300
Others	10	4	3	2	7	7	7	6		5	5	5	5	5
Reported / Forecast Fall Traditional	874	931	960	964	980	1,002	978	956		977	995	1,033	1,094	1,165
								extrapolation ->		65	66	67	68	69
Transfers in	59	54	67	63	66	65	60	62		62	64	66	68	68
New students (Trf & FF)	282	323	326	310	306	327	298	310	32.5%	302	324	331	348	363
Returning students	592	608	634	654	674	675	680	645	67.5%	675	671	702	746	802
Potential to return (prev spring)		623	657	677	697	698	701	676	96.9%					
Return %		97.6%	96.5%	96.6%	96.7%	96.7%	97.0%							
Annualized Traditional NTR (000s)						$14,899	$15,550			$15,876	$16,332	$17,173	$18,617	$20,050

Assessing the Essentials of a Basic Business Model

- Questions to ask:
  - ✓Who are our customers?
  - ✓How do we generate revenue?
  - ✓What are our key costs?

Essentials of a Business Model

Exploring options for business model adjustments.

Business Model Health Check

- What does a healthy higher education business model look like?
- How to spot early warning signs of trouble
- Key indicators
  - ✓Compensation/Net Tuition Revenue (NTR)
  - ✓Cost to Educate versus NTR
  - ✓Auxiliaries and Student Services
  - ✓Cost of Fundraising

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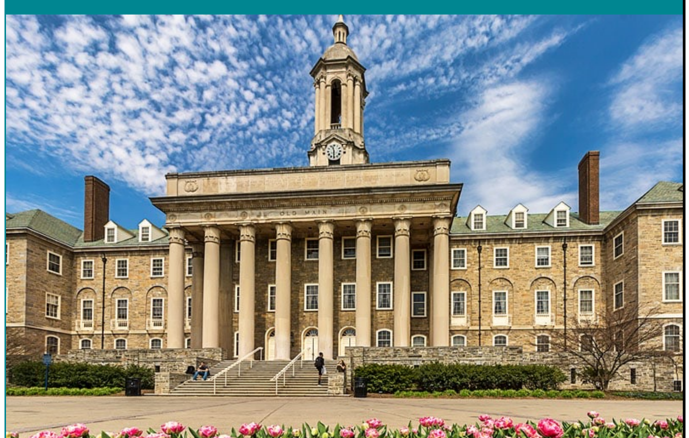
Question

What benchmark % does CFO Colleague recommend for an institution's salaries and benefits (compensation) as a percentage of total net tuition revenue (NTR)?



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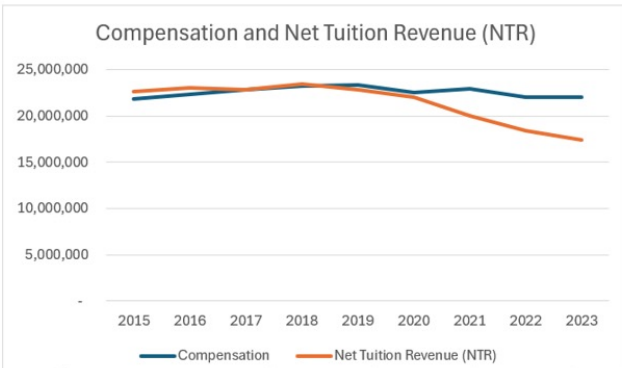
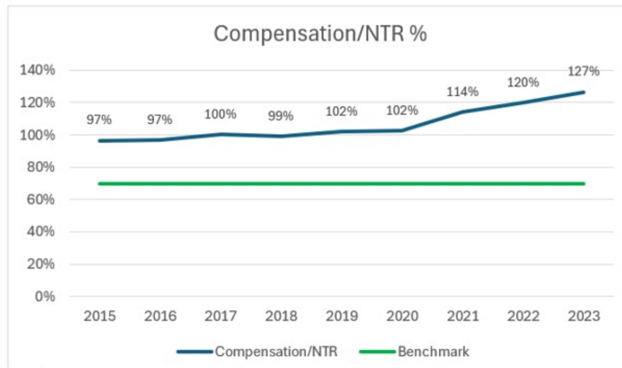
Compensation/Net Tuition Revenue (NTR)





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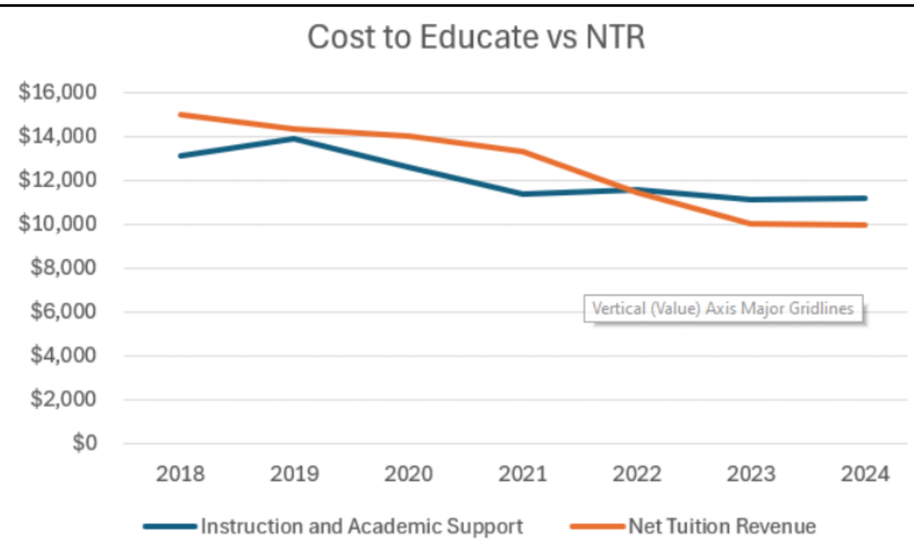

	2018	2019	2020	2021	2022	2023	2024
Cost to Educate	$13,121	$13,872	$12,609	$11,365	$11,564	$11,139	$11,190
Net Tuition Revenue	$14,976	$14,296	$13,999	$13,321	$11,430	$10,021	$9,961

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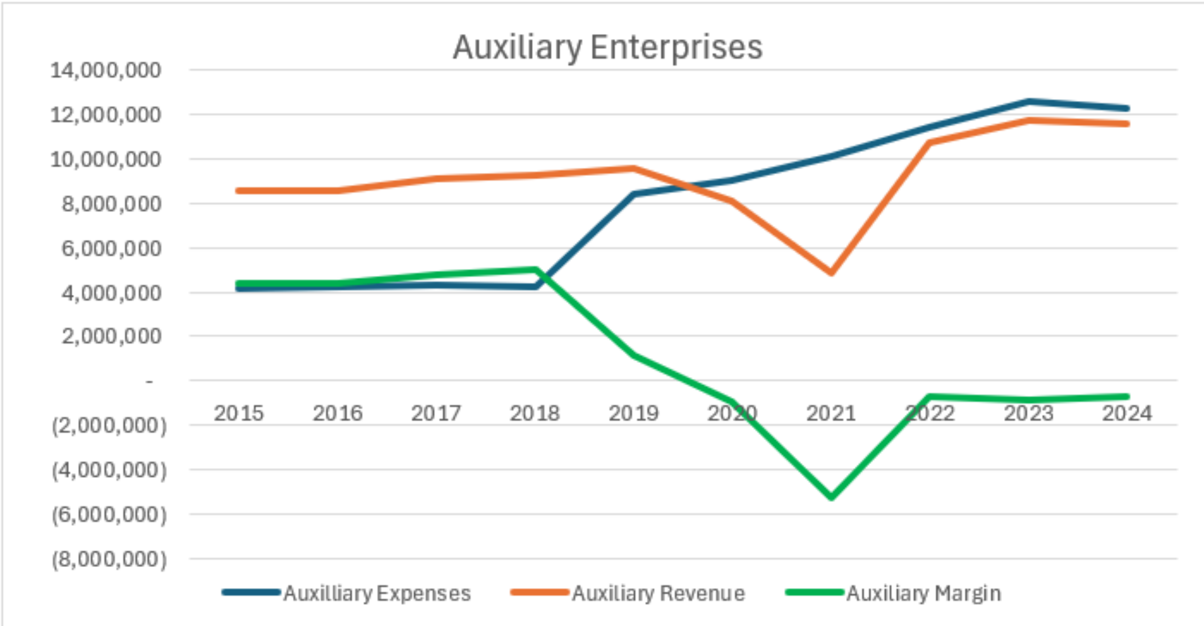

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Evaluating the Business Model

Grasping the range of what's healthy and what's cause for concern or alarm.

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When to Be Concerned: Red Flags for a Broken Business Model

- Key indicators of a struggling business model:
  - ✓Negative cash flow over time
  - ✓Declining enrollment
  - ✓Decreasing NTR (increasing tuition discounting)
  - ✓Declining student and employee retention
  - ✓Unsustainable cost structure
  - ✓Lack of clear differentiation in the market

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Grasping the Range of Health: Healthy vs. Concerning Models

- Spectrum of business model health: Healthy, struggling, broken
- Visual representation of each stage and key metrics to look for
- Differences between a pivot and a complete overhaul

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Diagnosing Your Business Model: A Self-Assessment Tool (Sustainability Index)

Range - low to high	-1.0	1.0
Passing Score	0.00	
Monitor	0.0	0.2

CALCULATIONS		RAW	WEIGHTED	FINAL
Change in NTR	(281,531)	-0.02	-0.05	-0.05
Debt service and lease payments	1,273,224	0.06	0.12	0.12
Calculated operating cash	4,257,521	0.20	0.20	0.20
Change in unrestricted net assets	621,409	0.03	0.09	0.09
Accounts Payable	1,496,773	0.07	0.09	0.09
			Total	0.5
Unrestricted operating expenses	21,676,530			
NTR Last Year	16,507,224			
NTR This Year	16,225,693	(281,531)	Change in NTR	
Principal paid on debt	451,229			
Interest paid	607,553			
Lease payments made	214,442			
Refinanced principal received	0	1,273,224	Debt Service and lease pay'ts	
Cash on hand	5,604,889			
Investments	12,723,693			
Pledges for restricted gifts	400,000			
Net Assets with donor restriction	14,471,061			
Amount of LOC drawn down	0	4,257,521	Calculated Operating Cash	

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Adjustments

Knowing some options for adjustment – from creative to triage.

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Options for Adjustment: When the Business Model Needs Repair

- Strategic options:
  - ✓Innovation: Adapting to market trends
  - ✓Refinement: Optimizing current model elements
  - ✓Triage: Emergency fixes to avoid collapse

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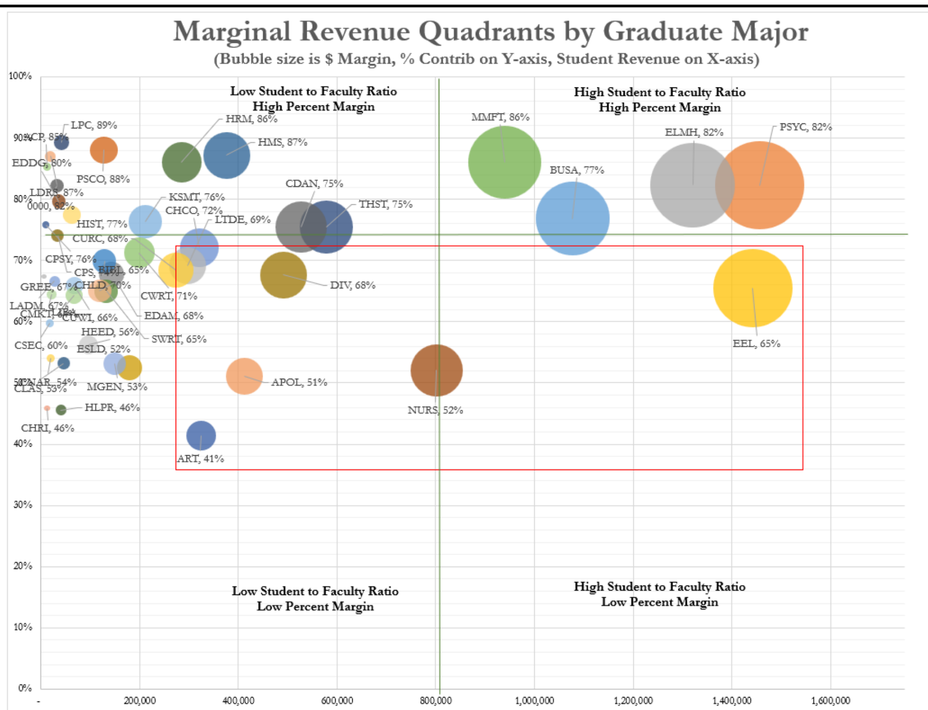

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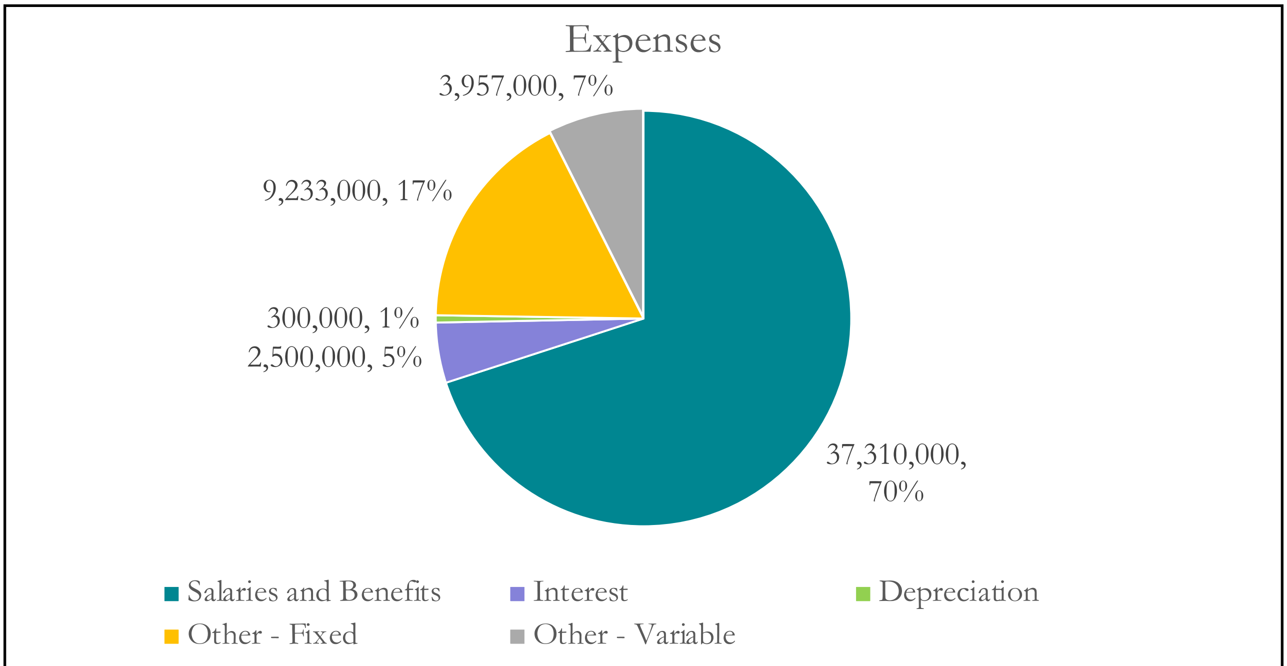
Creative Adjustments: Innovating the Business Model

- Strategies for innovative changes to the business model:
  - ✓Diversifying revenue streams
  - ✓Finding new customer segments
  - ✓Adopting new technologies or business practices

Triage: Fixing a Broken Business Model in Crisis

- Immediate steps to stabilize a business model in crisis:
  - ✓Cost-cutting measures
  - ✓Reevaluating partnerships and suppliers
  - ✓Prioritizing cash flow management



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Forecasting the Future: Building a Sustainable Business Model

- How to use an accurate understanding of your business model for forecasting
- Financial modeling
- The importance of scenario planning

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Example College

PY Actual, CY Projection and 5Y Forecast

XXX = Data Input

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	Growth	Actual	Projected	/ - - - - - F	o r e c	a s t -	- - - -	- - /
% of population changes reflected in expenses	50%	2022 - 23	2023 - 24	2024 - 25	2025 - 26	2026 - 27	2027 - 28	2028 - 29
Revenue:								
Tuition & Fees--Traditional		25,299,836	26,817,983	27,682,804	29,003,422	30,990,817	33,796,805	36,755,568
Less: Tuition Discounts *(% of tuition)*		(10,400,679) *41%*	(11,268,271) *42%*	(11,806,561) *43%*	(12,671,050) *44%*	(13,817,591) *45%*	(15,179,902) *45%*	(16,705,994) *45%*
Net Tuition & Fees--Traditional		14,899,157	15,549,712	15,876,243	16,332,372	17,173,227	18,616,903	20,049,575
Tuition & Fees--non traditional		22,522,338	20,717,564	21,941,332	22,556,658	23,111,984	23,537,310	24,192,636
Less: Tuition Discounts		(2,927,450)	(3,025,000)	(3,100,000)	(3,150,000)	(3,200,000)	(3,200,000)	(3,200,000)
Net Tuition & Fees-non traditional		19,594,888	17,692,564	18,841,332	19,406,658	19,911,984	20,337,310	20,992,636
Net Tuition & Fees *(growth %)*		34,494,045	33,242,276 *-4%*	34,717,575 *4%*	35,739,030 *3%*	37,085,211 *4%*	38,954,213 *5%*	41,042,211 *5%*
Auxiliary Revenue		5,877,554	5,971,780	6,174,472	6,476,876	6,925,961	7,554,997	8,286,671
Non-Student Revenues		4,931,101	4,495,000	3,488,784	3,758,784	3,798,784	3,843,784	3,893,784
Assets released from restriction		1,004,320	2,112,866	1,747,490	1,475,303	1,487,923	1,500,403	1,512,533
Operating Revenues *(growth %)*		46,307,020	45,821,922 *-1%*	46,128,321 *1%*	47,449,993 *3%*	49,297,878 *4%*	51,853,396 *5%*	54,735,198 *6%*

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Example College

Three Scenarios for 2023 - 24

INPUTS		Current Plan	Scenario 1	% Δ	# Δ
Fall 1st Time Freshmen		240	245	2.1%	5
Fall Transfers	volume exp factor	62	65	4.8%	3
Fall Returning Students	10%	675	680	0.7%	5
Spring Fresh to Fall Soph *(a quasi retention facto*		108.6	109.6	0.9%	1.0
FF Discount Rate		47.0%	47.8%	0.8%	points
Tuition Increase		3.5%	2.5%	-1.0%	points
Annual fund donations	volume exp factor	1,350,000	1,150,000	-14.8%	(200,000)
Non Traditional Net Tuition & Fees	40%	17,590,000	18,500,000	5.2%	910,000
Operational spending increases (cuts)		0	56,000	0.2%	
New Building Operations		90,000	50,000	-44.4%	(40,000)
Capital Spending		7,625,000	7,500,000	-1.6%	(125,000)
Capital project gifts received		3,552,500	3,300,000	-7.1%	(252,500)
Net Assets Released - Purpose or Time		2,997,075	5,900,000	96.9%	2,902,925
Line of Credit		2,000,000	1,000,000	-50.0%	(1,000,000)
New Debt Issued for fixed asset acquisition		10,000,000	7,000,000	-30.0%	(3,000,000)

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Tools for Ongoing Business Model Health

- Regular business model audits and assessments
- Key performance indicators (KPIs) to track business model health over time
- CFO Colleague 30 Benchmarks

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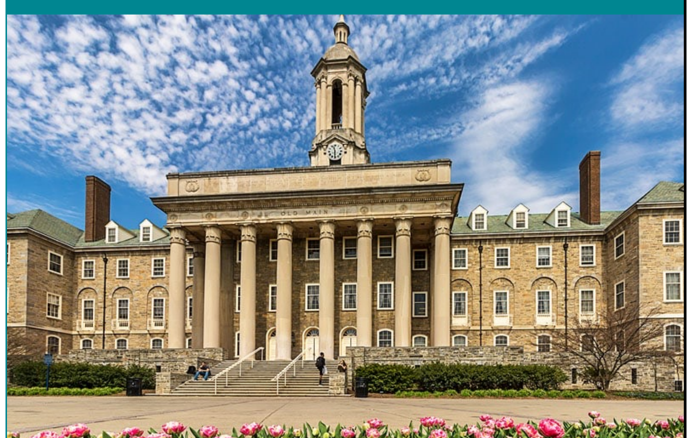
Question

What are some tools for monitoring market trends and competitor analysis?



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Budgeting & Forecasting (COMP4cast®)
Marginal Revenue Analysis
Administrative / Financial Services Assessment
Interim CFO
Interim Controller
Accounting, Analysis, and Audit Support

CFO Coaching/Mentorship
Best Practices
Turnarounds
Accreditation
Dining Program Optimization

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Free!

- COMP4cast® and instructions
- Program Development Analysis
- Thirty (30) Benchmarks

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Partners' Perspectives

CFO Colleague is a financial and operational advisory firm, focused on private higher education. Founded in 2013, the firm has worked with institutions in every region of the U.S. to implement best practices learned from over two hundred (200) partner institutions.

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Volume 213

References:

Undergraduate Enrollment Rises 3% Despite Drop in First-Year Students, Early Data Shows
https://www.highereddive.com/news/undergraduate-enrollment-rises-3-percent-despite-drop-in-first-year-students/730629/

Net Tuition Ticks Up 2% at Private Colleges, Declines at Public Institutions
https://www.highereddive.com/news/net-tuition-private-public-colleges/730632/

Why Proving Program ROI is Higher Ed's Latest Challenge
https://universitybusiness.com/why-proving-program-roi-is-higher-eds-latest-challenge/

Here Is How Higher Ed Employees Are Faring Financially Right Now
https://universitybusiness.com/how-higher-ed-employees-are-faring-financially-right-now/

News from the world of private higher education Business Offices. Tips, tricks, best practices days in the life of university operations.

BUSINESS OFFICE RESET

Recent Topics:

- Tough Times in Higher Ed - Risk Management
- Tough Times in Higher Ed - Senior Leadership
- Cross-Cabinet Communication
- Flipped! - Chart of Accounts
- Flipped! - Bank Reconciliations
- Let's Talk About Marketing

https://www.spreaker.com/show/business-office-reset

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Thank you!

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Investment Policy Statement (IPS)

- Definition and purpose of assets
- Governance roles and responsibilities
- Time horizon
- Return objectives
- Risk parameters
- Asset classification structure
- Allowable allocation ranges
- Investment and trading restrictions
- Rebalancing policy
- IPS review policy

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Definition of Endowments	Perpetual, Term, Quasi
Minimum for Establishing	e.g., $50,000
Investing	
Spending Allocation	Four percent (4%) of the FYE FMV, 36 month rolling average
Process for Distribution	Business Office, Financial Aid, Development

Record Retention Policy

- Electronic and Paper
- Required Retention Periods
- Safeguarding Records
- Record Retention Storage
- Disposal and Destruction of Records

Policy Audit

- Centralized Posting
- Readily Accessible
- Policy Ownership
- Annual Review

Policy Audit

- A systematic review of existing policies
- An analysis of policy-making processes
- An analysis of how policies are being enforced

Policy Audit

1. Inventory your policies
2. Pick the most important policies, & a few more.
3. Talk to the owners of each policy
4. Validate automated enforcement
5. Manually audit the remainder of the policies
6. Prepare general conclusions
7. Document Results

1. History, development, and expectations of the program
2. External demand for the program
3. Internal demand for the program
4. Quality of program inputs and processes
5. Quality of program outcomes
6. Size, scope, and productivity of the program
7. Revenue and other resources generated
8. Costs and other expenses associated with the program
9. Impact, justification, and overall essentiality of the program
10. Opportunity analysis of the program

New Programs

1. Market Growth
2. Market Segment Growth
3. Competition
4. Expected Program Size
5. Career Outcomes
6. Mission Alignment