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Institutional Sustainability: The Right Business Model

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Agenda

- What is a Business Model?
- Conducting a Business Model Audit
- Learning from the Market
- (Re)Building a Business Model
- Managing & Monitoring

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What is a Business Model?

The essential features of a Business Model and why the truth matters beyond the audit

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Fiduciary Responsibility

Beyond the audit, financial controls, ratios, and cash flow, Senior Leadership *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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The Business Model

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

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The Role of the Business Model in Financial Health

- Impacts:
  - Cash flow
  - Profitability
  - Long-term sustainability
- Connection to financial statements and overall financial picture

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The Importance of Knowing Your Business Model

- Strategic decision-making
- Forecasting and planning
- Identifying weaknesses and risks
- Adaptation and innovation
- Optimizing performance

Loving Reminder

Hope
is not a strategy

Conducting a Business Model Audit

Measuring facts, identifying healthy ranges, and spotting "danger zones"

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?
- How do these impact:
  - ✓Cash flow
  - ✓Long-term sustainability

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
  - ✓Net Fixed Assets vs. Long Term Debt

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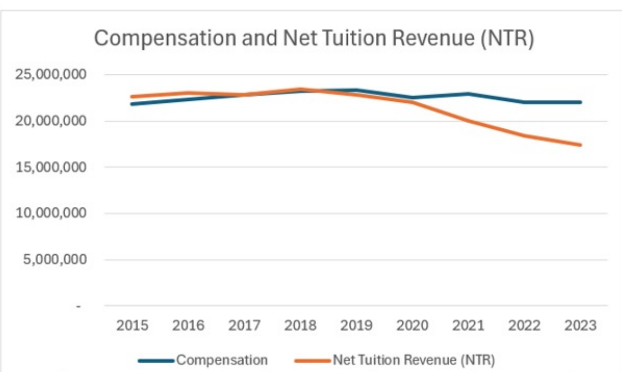
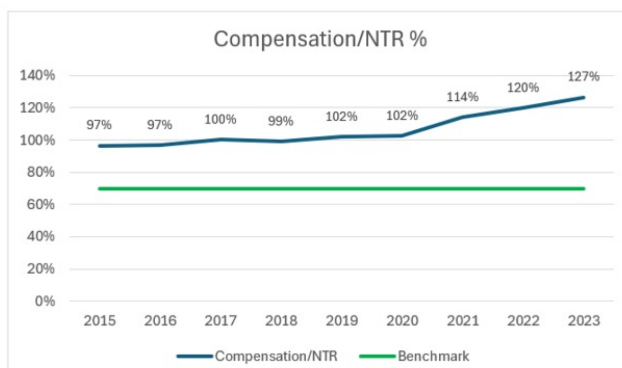
Compensation/Net Tuition Revenue (NTR)





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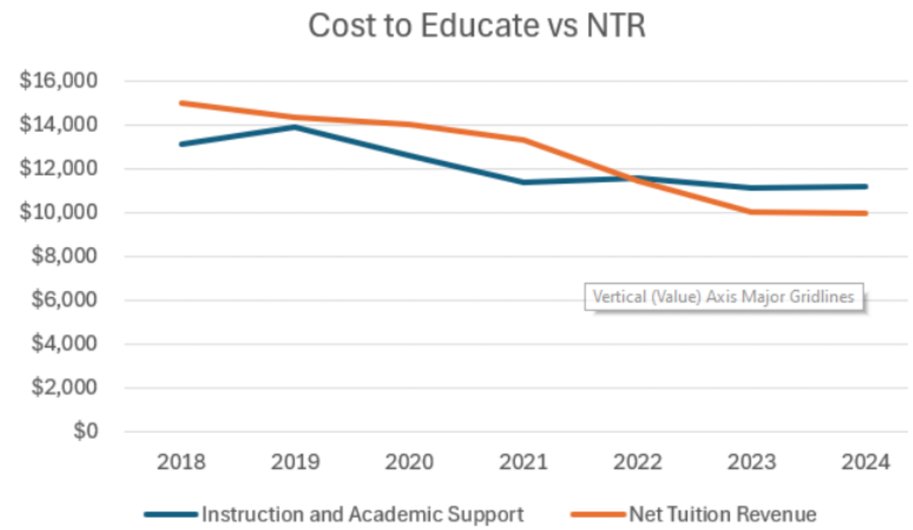

	2018	2019	2020	2021	2022	2023	2024
Cost to Educate	$13,121	$13,872	$12,609	$11,365	$11,564	$11,139	$11,190
Net Tuition Revenue	$14,976	$14,296	$13,999	$13,321	$11,430	$10,021	$9,961

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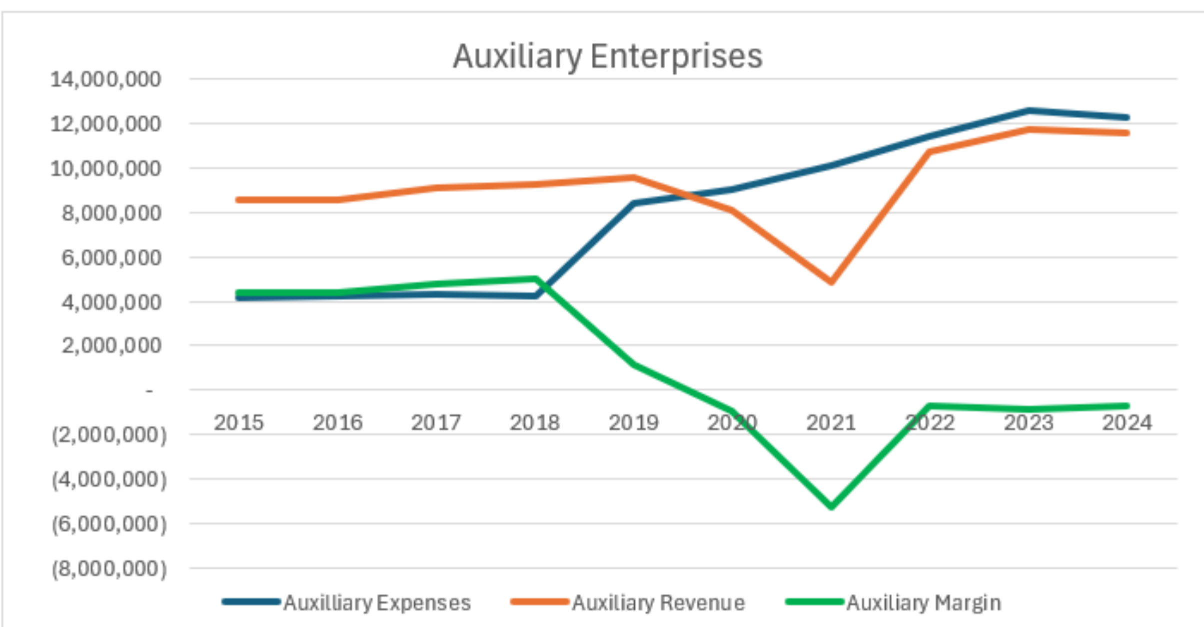

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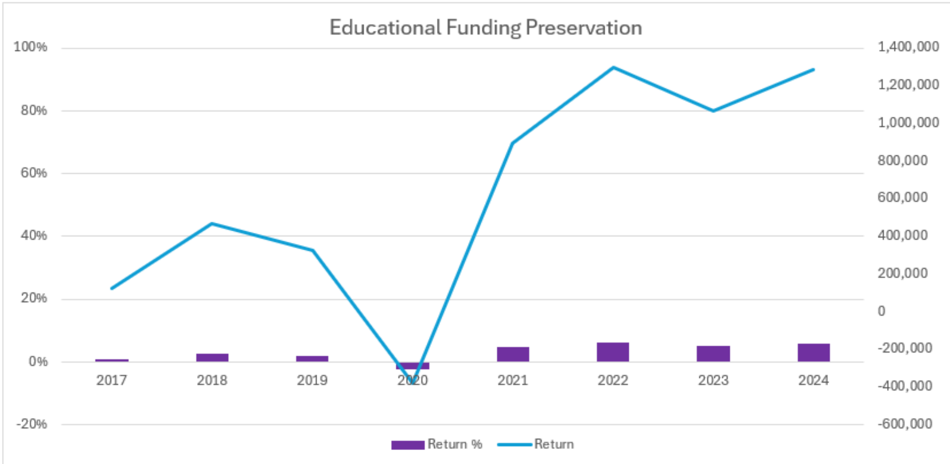

	2017	2018	2019	2020	2021	2022	2023	2024
iliary Revenues	19,743,521	19,914,961	19,961,402	17,942,124	19,953,822	21,267,155	21,895,942	22,808,967
Auxiliary Expenses	13,465,221	13,387,272	13,498,459	12,340,711	12,666,782	13,360,343	13,706,527	14,430,400
Auxiliaries, Net	6,278,300	6,527,689	6,462,943	5,601,413	7,287,040	7,906,812	8,189,415	8,378,567
Student Services	6,156,280	6,060,629	6,135,435	5,980,452	6,392,797	6,611,546	7,124,300	7,093,451
Return	122,020	467,060	327,508	(379,039)	894,243	1,295,266	1,065,115	1,285,116
Return %	1%	2%	2%	-2%	4%	6%	5%	6%

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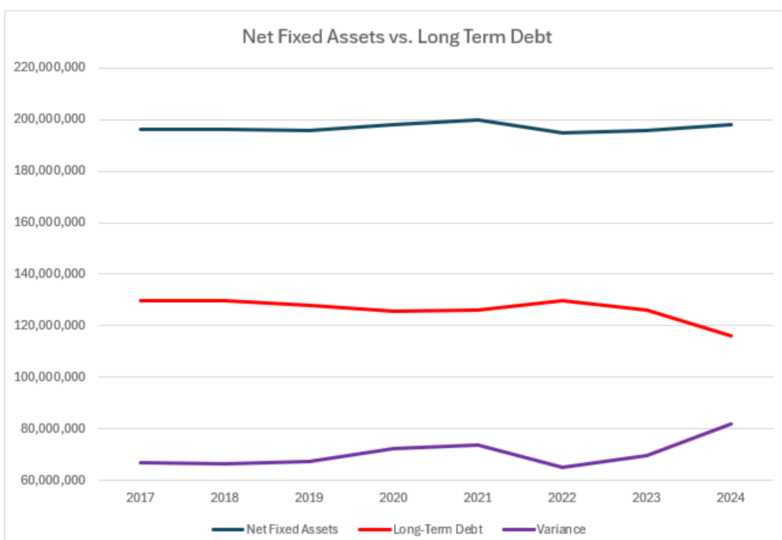

	2017	2018	2019	2020	2021	2022	2023	2024
Net Fixed Assets	196,432,857	196,350,405	195,545,432	198,110,882	199,730,786	195,073,452	195,897,542	197,828,467
Long-Term Debt	129,696,459	129,817,538	128,111,859	125,865,871	126,084,333	129,807,704	126,091,639	115,915,764
Variance	66,736,398	66,532,867	67,433,573	72,245,011	73,646,453	65,265,748	69,805,903	81,912,703
NFA:LTD	66%	66%	66%	64%	63%	67%	64%	59%

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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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Learning from the Market

Real Talk: How institutions often close

Symptom vs. Cause

Running out of cash is the immediate “cause”

But the underlying disease is the broken business model

Chain of Failure

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Leadership Anemia

- Resistance to change
- Hope as a strategy
- “We’ve done enough”
- Over time vs. all at once
- Axe vs. scalpel

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Sustainability Scorecard

Example College	X X X	= Entry Cell	2024	< Fiscal Year	
CALCULATIONS	*(in 000s)*	RAW	WEIGHT	WEIGHTED	FINAL
Change in NTR	2,551	0.04	3.0	0.12	0.12
Capital Improvement	(8,386)	-0.09	3.0	-0.27	-0.25
Operating Liquidity	25,253	0.27	3.0	0.82	0.25
CY Change in Unrestricted Net Assets	1,951	0.02	3.0	0.06	0.06
CY Unrestricted operating expenses	92,149			Total =	**0.2**
					MONITOR

	Fiscal Year 2024	Fiscal Year 2023		
Net Tuition Revenue (NTR) Δ	65,103	62,552	2,551	NTR Δ
Long Term Debt Δ	80,437	74,484		
Right of Use Assets Δ	1,371	2,206		
Right of Use Liabilities Δ	1,313	2,221		
CY Capital Spending	3,385			
CY Depreciation Expense	5,891		(8,386)	Capital Improvement
Cash on hand	11,364			

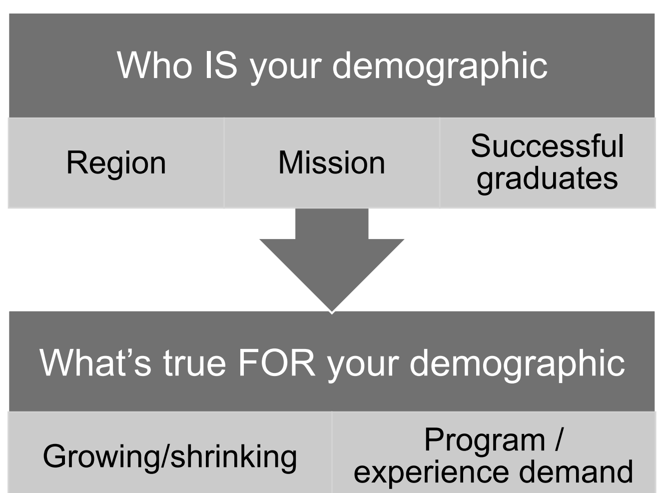
The Two-Year Warning

- Schools under -0.5 on Sustainability scorecards are prime for closure within 2-3 years
- Schools from 0.0-0.2 are in “Monitor” status
  - More time to turn the ship

Market Realities

- Demographic shifts
- Government funding
- Public opinion shifts
  - Employers
  - Prospective families

Enrollment Trends



Board Training

- Shift the conversation
  - FROM “financial challenges”
  - TO “structural causes”
- Governance at the RIGHT level
- Mix of support for & challenge to administration

(Re)building a Business Model

Creative adjustments, triage measures, and ongoing communication.

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- ✓Identify key areas to tackle
- ✓Name champions – Sr Leader & worker bees
- ✓Measurement & timelines built in

Levels of Adjustment

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

Levels of Adjustment

- ✓Innovation: Adapting to market trends
  - ✓Investment in new programs
  - ✓Sunset of past programs
  - ✓Value proposition investment

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Levels of Adjustment

- ✓Refinement: Optimizing current model elements
  - ✓Collapsing majors to tracks

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Levels of Adjustment

- ✓Triage: Emergency fixes to avoid collapse
  - ✓Prioritizing cash flow management
  - ✓Cost-cutting
  - ✓Reevaluating partners

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Leadership Training & Communication

- Connect operational metrics & institutional flourishing
- Right info at the right time to the right people

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Managing & Monitoring

Creative adjustments, triage measures, and ongoing communication.

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Monitoring Process

Choose:

- Metrics
- Benchmarks
- Action Items
- Go/no go criteria

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Trends to Review

- Compensation/NTR
- Cost to Educate/NTR
- Educational Funding Preservation
- Marginal Revenue Analysis

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Real-time Sustainability

- Updating Sustainability Scorecard
- Measure operating cash + AP levels for immediate “weather the storm” capacity
- “Monitor” zone ----------> leadership attention
- Assess “Change in NTR” as a primary driver

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Accurate Forecasting

- Project trad/non-trad NTR separately to note trends
- Include expected Net Assets Released
- Scenario Planning
- Drill into key areas where information has been scarce
  - Continuous improvement!

COMP4cast® tool can help

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Example College

PY Actual, CY Projection and 5Y Forecast

X X X = *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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Stress-Testing the Model

- What-if scenarios
- Impact of tuition increases vs. FF discount rate
- Operational spending cuts vs. debt issuance for capital funding
- Measure the impact:
  - Cash
  - Financial Responsibility Scores
  - Debt Covenants

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)

Mission-Critical Analysis

- What does it take to make a widget?
- Higher ed widgets ---------> credit hours sold
- Identify programs to:
  - Resource
  - Refine
  - Reconsider
- Set program-specific benchmarks

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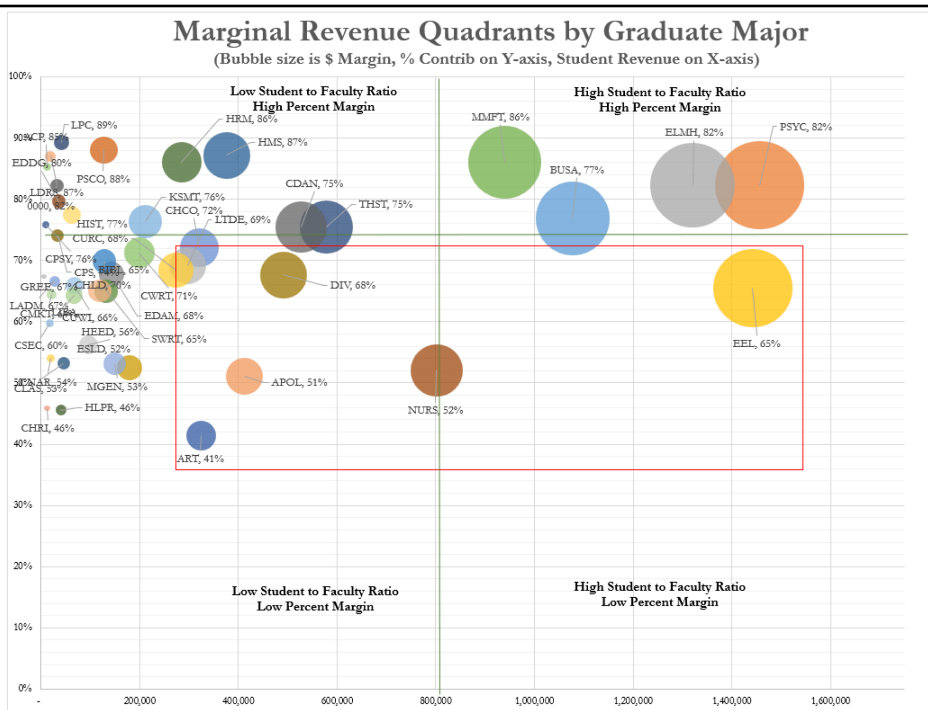

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Culture-Building

- Data generosity
- Data-informed decisions
- Ownership of metrics
- Conversation & collaboration
- Measurement & innovation

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Thank you!

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