

# How to Review Your Business Model: Some Best Practices

BY RICK STAISLOFF

IN JANUARY, THE RATING AGENCY MOODY'S revised its outlook for the entire American higher education sector to negative as a result of the mounting pressures on college and university revenue sources. Moody's analysts noted that while institutions have been restraining costs in response to the weak economic conditions, they have only just begun to rethink their traditional business model.

## TAKEAWAYS

How can institutions examine their business model? Best practices suggest a three-pronged approach:

- 1 First, focus on the interplay of mission, market, and margin. This gives board members a framework to evaluate program and service offerings at an institution.
- 2 Second, understand where your economic engines are. What drives student enrollment activity and net revenue on the campus?
- 3 Third, have the courage to reallocate resources. These resources can include not just dollars, but human resources such as faculty and administrators, as well as capital resources like facilities.

Indeed, for most of the past 50 years, higher education has followed the same model: consistent price increases and ever-expanding programs and services, with too little attention paid to return on investment, market demand, and student outcomes. The changed landscape in the higher education sector since 2008, however, is increasingly forcing institutions to examine this long-standing model and to start making changes. Leading those changes and overcoming internal resistance to them will require strong leadership, especially from governing boards.

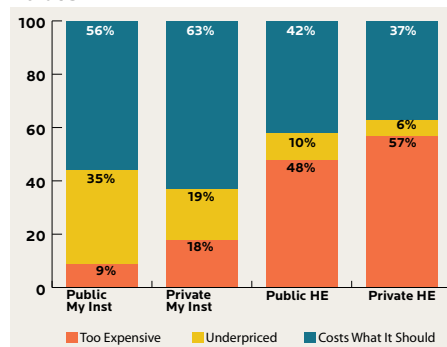
Will institutions do more than just talk about their business models? Too often, the change process has been derailed by inertia, confusion over roles and responsibilities, and a lack of good data. Even when boards and senior leadership have been interested in investigating a change in business strategy, they have often been unclear about the best place to start the analysis and the conversation. While a review of the business model on each campus will ultimately reflect the distinct culture, values, and programs of that institution, best practices are already emerging to help institutional leaders begin the challenging process of reinvention that must take place.

## Defining the Problem

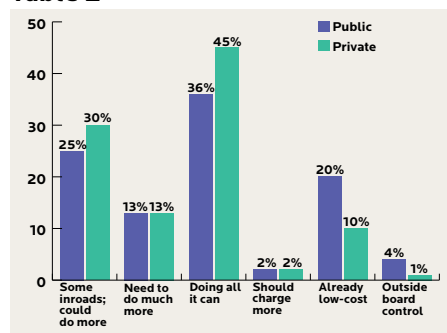
To date, the conversation around finance in higher education has focused largely on issues of price and cost containment. Continually escalating prices and concerns about whether many students will be able to afford college have kept tuition and fee increases in the public eye. The response of institutions and boards to pricing issues has been mixed, however.

The 2012 AGB Survey of Higher Education Governance revealed that a large majority of board members at both public and private institutions believe that their institution “costs what it should.” Yet, at the same time, a majority of respondents also said that higher education as a whole was “too expensive.” In addition, when asked about affordability, the largest group of respondents at both public and private institutions responded that their institution was “doing all it can.” Finally, survey responses to a question about cost containment revealed that only 7 percent

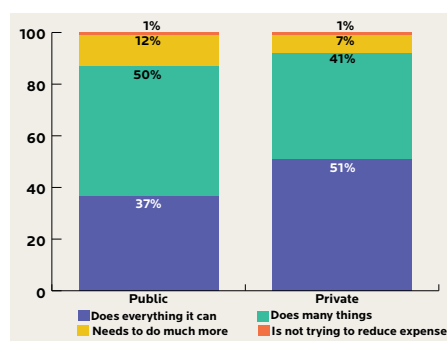
**Table 1**



**Table 2**



**Table 3**



to 12 percent of board members felt that their institution “needs to do much more.” None of those responses would suggest that higher education as a whole is maximizing its efforts to limit price increases and contain costs, must less reconsidering its basic business model. (See Tables 1–3.)

Ideally, colleges, universities, and systems should be moving beyond a focus on price and cost containment toward a broader, more holistic view, one that connects their mission with current market forces. Achieving clarity about its current and future business model would ultimately allow a college or university to make confident decisions about resource allocation, effectively manage financial risk, and drive forward toward its strategic vision.

Contrary to current buzz in many boardrooms, adopting a new business model does not automatically mean that an institution must abandon its traditional instructional delivery vehicles and offer massive open online courses (MOOCs). Multiple business models and paths to student success will continue in the higher education sector, including elements of the traditional business models we see today. As part of any rethinking of their model, however, institutions will have to focus on student outcomes and how to allocate limited resources to ensure success for students and the financial health of the institution.

## Three Examples of Revised Business Models

What might an institution’s review of its business model actually look like? I’ve presented below three actual examples from different sectors of higher education.

### Example 1: Public Research University

This institution’s key challenge was to deal with declining state appropriations, which had fallen from 45 percent to 25 percent of total revenues over the past decade. Furthermore, state policy makers were unable to identify what future annual funding levels might be or to establish firm funding commitments within any given fiscal year, making budgetary planning for the institution especially difficult.

In response, the institution launched a strategic finance initiative to reduce state appropriations to less than 5 percent of total revenues and replace those funds largely by increased net tuition revenue from growth in international students and those in STEM disciplines. In addition, the university elected to more than double its graduate enrollments from 15 percent to 40 percent of the total student population. Finally, productivity and efficiencies were increased by moving to a year-round academic schedule. That schedule would also better serve the needs of the growing number of international students, supporting their desire to progress through the curriculum more quickly and reducing their stay in the United States.

### Example 2: Private Liberal-Arts College

Faced with declining net tuition revenue

from its traditional undergraduate population, the college underwent a complete academic portfolio review. That review included an analysis of net revenue drivers under a fully allocated cost model. As a result of that analysis, the institution reallocated resources to focus on the health sciences: a mission strength and area of strong market demand.

The college made investments in health-science programs at the undergraduate, master's, and doctoral level and, as a result, captured more students willing to pay full tuition for the opportunity to study in those high-demand programs. In addition, it shifted program offerings from the main campus to employers' sites as part of a "go to the student strategy" and an enhancement of the college's focus on connecting students to their chosen profession. Although the institution was highly leveraged during the implementation of this business model, the board and senior leadership were able to invest confidently since their rigorous analysis had demonstrated strong market demand and the potential to generate significant net revenue. Senior leadership also put in place new metrics to track the plan's progress and to support the board's oversight role.

**Example 3: Public Community College**

In response to declining demographics in the region, this college conducted a full review of its academic programs. It eliminated credit offerings without demonstrated

market demand and only offered noncredit programs that generated positive net revenues. And it consolidated physical facilities that had previously covered multiple campuses.

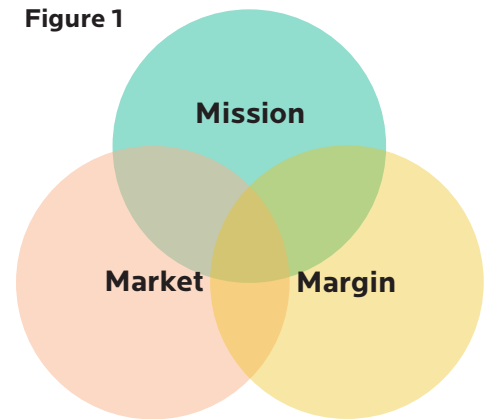
The college also conducted a complete review of administrative costs, resulting in annual base-budget savings of \$4 million and the creation of new tools and metrics to demonstrate to the board and other external constituencies the college's good stewardship of resources. Those combined efforts all aligned with the president's goal of creating a "strategic finance culture" at the institution—one that would focus on institutional mission while also ensuring net revenue generation, increased performance, and improved operating efficiencies.

In all three examples described above, institutional leaders among the board, senior administration, faculty, and staff made difficult changes to the institution's business model. (See Table 4.) The process used in each case respected the existing mission and governance structures of the institution, while seeking new ways to live out that mission and identify the necessary resources to achieve the strategic vision.

**A Framework for Thinking about Business Models**

How can colleges, universities, and systems—and their boards—respond to the changes in the external environment and

**Figure 1**



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examine their business model? Best practices suggest a three-pronged approach. First, focus on mission, market, and margin opportunities. Second, understand where your economic engines are. Third, have the courage to reallocate resources.

The interplay of mission, market, and margin gives board members and other college and university leaders a framework to evaluate program and service offerings at an institution. Specifically, this framework refers to:

- Mission: What are we good at?
- Market: What do people want?
- Margin: How do we bring these together in a way that is true to our mission and generates resources? (See Figure 1.)

Ideally, institutions can focus on providing programs and services that operate at the intersection of those three components.

Boards and senior administrators must also understand where their economic engines are. What drives student enrollment activity and net revenue on the campus? Institutions often are surprised to see the compression of student enrollment activity on their campuses—typically measured as student credit-hour production or student full-time-equivalent enrollment by program or department. It is not unusual to find up to 50 percent of total student credit-hour production coming from less than a dozen programs. Similarly, the number of top enrollment-producing programs that also generate net revenue is usually small. Those programs with a significant percentage of overall enrollment, combined with net revenue generation, deserve careful attention for investment of time and resources.

**Table 4**

Industry Sector	Key Challenge	Business Model Response
Public Research University	Falling and indeterminate state funding	<ul style="list-style-type: none"> <li>• Reduce state funding to 5 percent of revenue</li> <li>• Focus on STEM, especially graduate level</li> <li>• Grow graduate enrollment</li> <li>• Teach year round</li> </ul>
Private Liberal-Arts College	Insufficient net revenue from core undergraduate programs	<ul style="list-style-type: none"> <li>• Conduct academic portfolio review, focusing on net revenue generation</li> <li>• Focus on health sciences</li> <li>• Move instruction to employer sites</li> </ul>
Public Community College	Declining demographics	<ul style="list-style-type: none"> <li>• Eliminate unprofitable non-credit offerings</li> <li>• Conduct administrative cost and academic portfolio review</li> <li>• Consolidate physical campuses</li> </ul>

## Case Study:

# University of Central Missouri Strategic Governance for Student Success Model

Soon after his arrival on campus in 2010, Charles Ambrose, president of the University of Central Missouri (UCM), embarked on what was to become the University's "Strategic Governance for Student Success" model—a comprehensive review of the institution's business model.

This review has ultimately involved an academic program review, administrative cost reductions, strategic positioning, new instructional delivery models, and revised institutional metrics. The entire project has focused on aligning UCM behind one goal: increasing student success.

The university launched the review in response to the changing external environment, particularly the likelihood of continued reductions in appropriations from the state of Missouri, combined with the state's movement toward a performance-based funding model. In addition, Ambrose

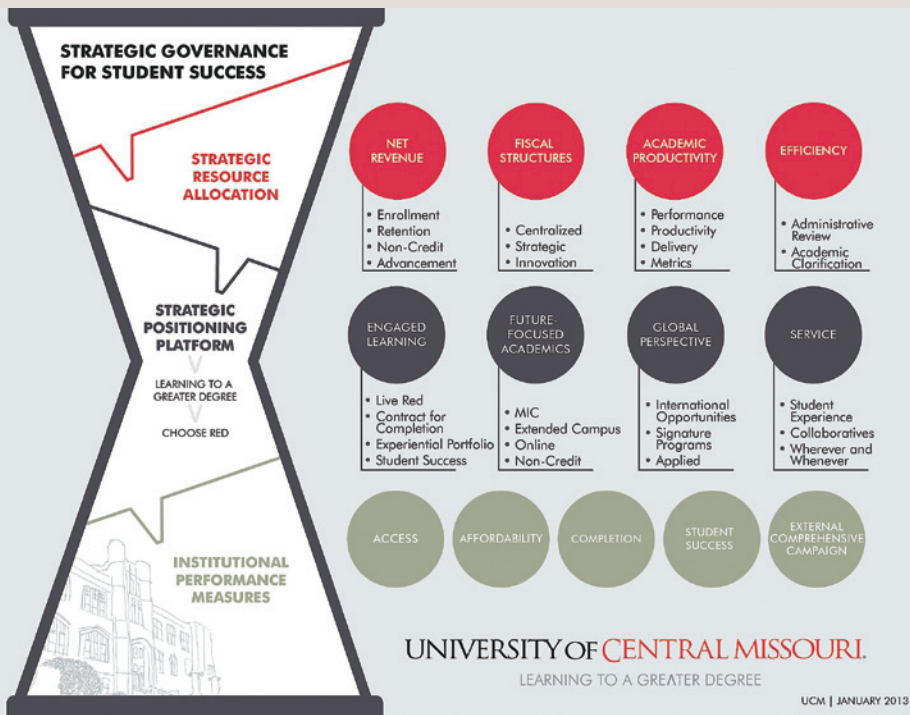
review ultimately resulted in a restructuring from five colleges down to four, and a reduction from 33 to 25 academic departments. Those restructurings yielded base-budget savings of \$612,000 annually. Now, the institution has also begun a process to identify signature programs under a mission-market-margin model and to start the next round of academic portfolio analysis. As described below, engagement with faculty and staff throughout the process, as well as the development of a robust communication plan, has allowed the university to pursue this review process without significant pushback from the campus community.

Following up on the success of the academic portfolio review, the university focused on reducing academic costs and enhancing revenues. A lead facilitators group coordinated the work of six teams focusing on the following areas:

- Areas of Duplication/Policies
- Organizational Assessment
- Facilities
- New Revenue/Auxiliaries
- Technology
- Purchasing/Contracts

UCM began the process with an academic portfolio review rather than leading with a more typical review of administrative costs. This

**Figure 1:**  
**University of Central Missouri Strategic Governance for Student Success Model**



Once institutional leaders are clear about where their economic engines are, appropriate decisions can be made about new investments and reallocation of resources. These resources, of course, can include not just dollars, but human resources such as faculty and administrators, as well as capital resources like facilities.

## Structuring a Business Model Review

### Preparing to Launch

A successful business model review requires thoughtful planning. Boards and top administrators must focus on three key areas. They should:

**1. Create a baseline of data.** Institutional leaders must be able to clearly answer the "Where are we now?" question. That assessment demands good institutional data on enrollment trends (institutionally, by school or college, and by major and department), revenue and expense trends, and market demand for various programs and services. Such institutional data must also be considered in light of benchmarking to an appropriate peer group.

**2. Identify stakeholders and determine who should serve on the leadership team.** When considering stakeholders, leadership should be clear in distinguishing between those people who will provide

input and those who will make decisions. Input can be obtained broadly from the board, top administrators, and faculty senate leaders. A relatively smaller group, however, should be charged with decision making. In most cases, this decision-making group or leadership team will be formed from the senior administrative leadership on the campus.

### 3. Develop a communications plan.

Reviewing the institutional business model naturally leads to difficult questions around the number and type of programs and services necessary to drive the institutional mission. In advance of the review, the institution will want a clearly defined

# Success

As a sign of the institution's support for the "Strategic Governance Model for Student Success," more than 300 faculty and staff volunteers responded when the call went out to serve on the committees.

The lead group gave each of the six teams a specific charge, and then asked it to conduct its review using three core objectives:

1. To provide opportunities to enhance the success and experience of UCM students;
2. To create opportunities to fulfill the university mission while enhancing student service and satisfaction; and
3. To create efficiencies and cost savings for the university.

The six teams ultimately identified over \$2 million in immediate base-budget savings, about \$500,000 in one-time savings, and an additional 50 proposals for revenue generation and cost savings in the coming years. Those academic and administrative cost savings, combined with initiatives to reduce energy consumption, refinance debt,

and capture personnel savings, have yielded total savings of \$7.8 million between fiscal years 2011 and 2013.

The administration also developed a strategic positioning platform that includes a positioning statement and describes the special attributes of UCM, the benefits it provides to various audiences and constituencies, and the "reasons to believe" in the institution. The platform provides a clear and concise means to communicate the elements of UCM that make it distinctive within a competitive and crowded higher education market. Internally, it also helps align resources with the institution's mission.

While the academic portfolio underwent review, the university also pursued new instructional delivery models. This move to explore new models was most evident in the institution's Innovation Campus, a public/private partnership involving secondary schools, corporate sponsors, and the state of Missouri. The Innovation Campus allows high-school students to begin taking college courses during their junior year, with the goal of completing their bachelor's degrees from UCM in four years

or less and without debt.

The final component of the "Strategic Governance Model for Student Success" includes the creation of a new benchmark group for the university, as well as a set of key performance indicators around the areas of access, college completion, affordability, and engagement. These KPIs link directly to the institution's strategic vision, as well as to the state's emerging performance-based funding initiative.

In conjunction with the three elements of the model noted above, the leadership team at UCM developed a comprehensive communications strategy for the project. This strategy took the form of a series of memoranda to the campus community. The communications clearly framed the university's strategic vision, the challenges posed by the external environment, and the framework for analysis. At each stage, various constituencies were informed about the work under the model, as well as any recommendations, decisions, and outcomes concerning it. A regular cycle of institutional town hall meetings and smaller group sessions at the depart-

mental level supplemented those memorandums.

Marvin E. "Bunky" Wright, president of the UCM Board of Governors, notes how he has watched over the last two years as UCM "tightened its belt and accomplished more with less." These budget reallocations occurred in conjunction with enrollment increases. Wright marvels at how positive the atmosphere is at the university—a result, he feels, of the level of engagement throughout the community and consistent communication around what has and can be accomplished. "This is refreshing to the board," says Wright. "Not everyone agrees. But everyone is working toward the same goal: to increase student success."

The various components of the UCM "Strategic Governance for Student Success" model together create a powerful business model that aligns the institution's mission with its strategic goals. "Our business model review was exactly the answer the board needed to help the university to continue to prosper in the current environment," says Wright. "Now, the sky is the limit as to where we can take the institution."

communication plan that outlines the purpose, process, timeline, and participants. Boards and other institutional leaders should be as transparent as possible in their decision making and when setting new directions.

Board engagement and support during this pre-launch phase is necessary for success. The board must first fully support the institution's decision to move forward with the business model review. It also must ensure that a clear and tangible picture of the external environment and the institution's current business model has been created through the use of appropriate data and metrics. Finally, the board should review and approve the process, players,

and timeline for the review, and then hold senior leadership accountable for following this plan.

## During the Review

Although the inability to develop a viable business model may ultimately lead the institution to reconsider its mission, the business model review is not intended to create a new institutional mission. The model should be firmly rooted in the existing mission of the institution, allowing the institution to achieve its strategic goals and vision.

As a first step in reviewing its business model, a college or university must be clear about what drives revenue. It

must project how its revenue streams will change over time. Will governmental appropriations remain the same or decline? How will pricing sensitivities impact net tuition and fee revenue—for instance, will a certain level of tuition encourage or discourage some students from applying? Will federal grant dollars be stable or not?

Increasingly, both public and private institutions rely on self-generated revenues, largely in the form of tuition and fees, auxiliaries, and grants. This move toward a private funding model, therefore, requires careful attention to the program and service offerings that drive these revenue sources.

Using a mission-market-margin framework, the business model review can identify core program and service strengths. Often, colleges and universities think of these programs and services as their “signatures,” allowing them to establish brand identity and focus resources. These strengths need not be completely unique, but they should reflect offerings that distinguish the institution in some way. The evidence of their quality should be tangible, rooted in student outcomes, accreditation reviews, and assessments such as licensure exams.

Next, the leadership team should evaluate those strengths in terms of market demand. Many quality programs and services for which there is no longer an interest among students, parents, employers, and others can be found on college campuses. Only by identifying strengths that connect to market demand will an institution be able to generate the level of student activity necessary to support its business model.

Finally, the institution’s programs and services must be analyzed by the leadership team to determine their net revenue generation. Historically, higher education has focused its revenue analysis on gross revenues. Net revenue, using a fully allocated cost model, allows the institution to determine what is truly supporting the bottom line. Using the mission-market-margin framework, boards and senior administrators can discover the programs and services that either are or can be economic engines on their campuses, generating resources that ultimately allow for reinvestment in the entire college or university.

### **Making the New Business Model Work**

The board has a crucial role to play in oversight of the business model. Is the institution moving toward its enrollment and net revenue goals? Are approved investments and reallocations being made? Senior leadership, in turn, must carry out the action plan to implement the model. Throughout all of these activities, continued communication to all stakeholders must be a priority.

Once the institution completes its review, it will also need to establish pro-

cesses and metrics to monitor its progress toward the strategic vision that the business model supports. Such metrics often take the form of institutional key performance indicators (KPIs) and dashboards. Some examples of KPIs are the percent of total revenues contributed by various revenue sources, enrollment trends by type of delivery vehicle—online, traditional, and so on—and cost per student credit hour and degree.

In addition, institutional leaders should review investments in programs and services under a pro forma model that demonstrates current and trending enrollment, revenues, expenses, start-up costs, and net revenues. Using these tools, the institution can turn data and numbers into storytelling, providing the opportunity to communicate often complex financial data broadly throughout the campus community. These tools also allow for institutional tracking and accountability.

### **Pitfalls to Avoid**

Undertaking a comprehensive review and re-envisioning of the institution’s business model comes with challenges. Several of these pitfalls, and emerging best practices to address them, are outlined below.

#### **An unclear vision for the future.**

Change is always difficult, and campus leadership is often faced with the problem of “why now?” Before launching a business model review, senior leadership must clearly outline the current internal and external environment, its strategic vision for the institution, and the challenges to achieving that vision. Appropriate focus on this messaging can allow the process to shift from resistance to change to support for it and how it can lead to the desired future vision.

#### **Confusion over who gets to decide.**

Too often in a change process such as this, institutions are unclear about who gets to provide input and who gets to make decisions. While structures must be created to allow for deep and representative input, a much smaller leadership group should have the final say.

#### **Showing only some pieces of the puzzle.**

A comprehensive business model review is likely to involve multiple projects over an extended period of time. Ideally, the process will be planned in its entirety at the outset, allowing the campus community to see how the various pieces fit into a greater whole.

**Applying short-term thinking to long-term problems.** Most budgeting and financial analysis focuses on funding current services into the next year—in other words, “how can we afford to do what we are already doing?” An effective business model review will consider what the institution should *stop* doing, where it should invest in current programs and services, and new opportunities that will support the strategic vision.

### **Conclusion**

The current attention that colleges and universities are paying to price, cost containment, and, at times, productivity is a positive evolution in higher education. Many of the approaches they are taking, however, are incremental and focused more on perpetuating current business models than on demonstrating the courage to move toward new ones. To remain relevant and serve the future needs of students, institutions must shift their focus from inputs to outcomes, and from spending to investing. As challenging as this shift in thinking may be, good practices are already in evidence, creating confidence that higher education can continue to reinvent itself. ■

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**TSHIP LINKS:** “Rethinking the Business Model: Responsibilities of Governing Boards.” July/August 2012. Carol Christ, “The Power of Strategic Thinking.” March/April 2012. Scott Schulick and Cynthia E. Anderson, “On Track for the Future: A Case Study in Strategic Finance.” November/December 2010. Michael M. Crow, “Toward Institutional Innovation in America’s Colleges and Universities.” May/June 2010.