Academic Program Review

Touching the Third Rail of Higher Education Finance

Rick Staisloff, Principal

October 17, 2012

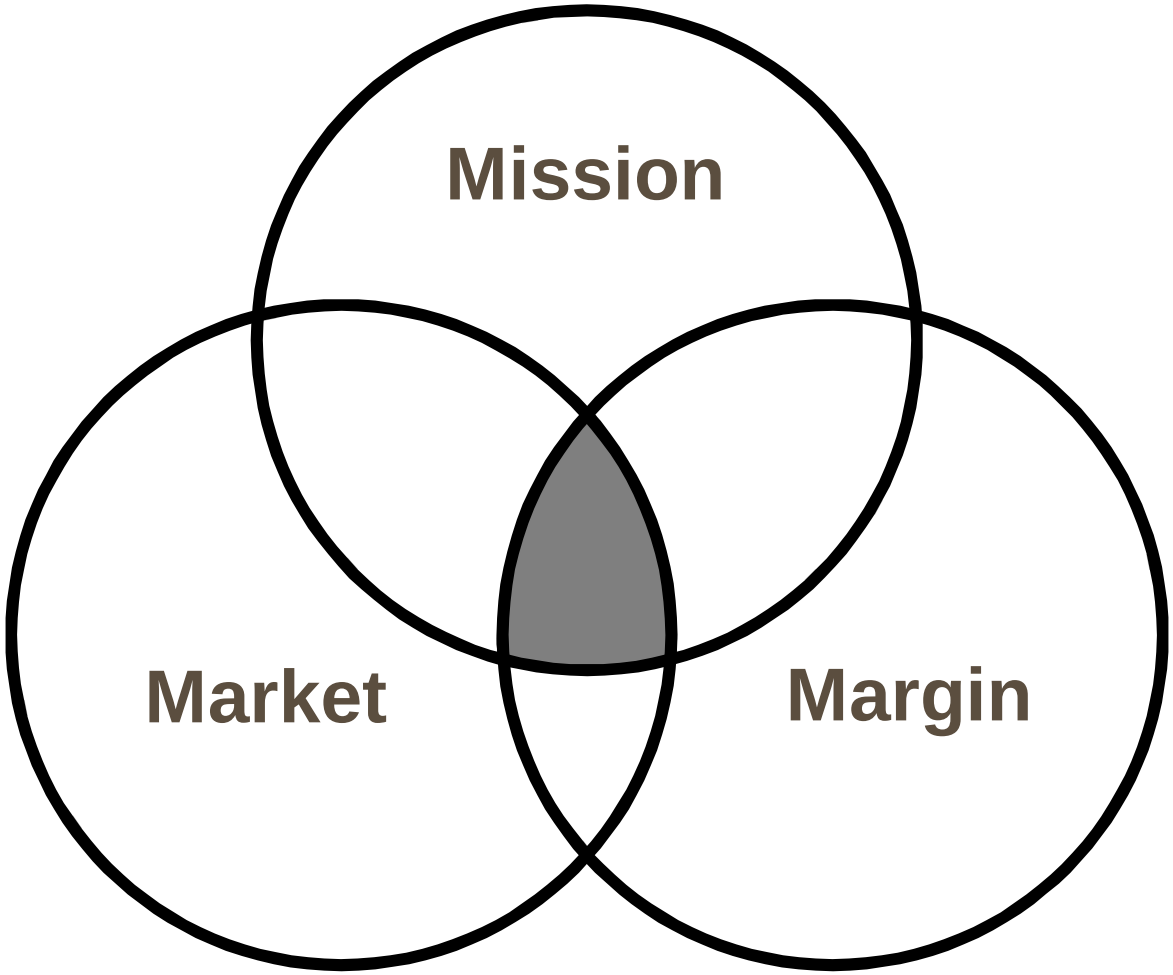
rpk GROUP
from mission to market

Webinar Objectives

- Use strategic cost and demand analysis for improved academic program decision making
- Learn how to implement program review best practice
- Create a change agenda that supports strategic reallocation

rpk GROUP
from mission to market

Managing the New Normal



rpk GROUP
from mission to market

Mission, Market and Margin

Living at the Intersection of Mission, Market and Margin:

Three Questions

What are we good at? (Mission)

What do people want? (Market)

How do we bring these together in a way that is true to our mission and generates resources? (Margin)

rpk GROUP
from mission to market

How should we respond to the external and internal environment?

1. Know where your economic engines are
2. Focus on mission/market/margin opportunities
3. Have the courage to reallocate

rpk GROUP
from mission to market

Academic Portfolio Analysis

- For successful academic portfolio analysis, institutions must be clear about the rules of the game
  - How assessment will occur
  - How the data and analysis will be used
- Data can only be used effectively when seen in comparison to an appropriate benchmark group

rpk GROUP
from mission to market

Academic Portfolio Analysis - Tools

- Net Revenue
- Cost Structures
- Student Demand and Yield
- Scorecards
- Business Plan Pro Formas

rpk GROUP
from mission to market

Getting to Net Revenue

- **An understanding of net revenue is an essential component of determining return on investment**
- **Represents a key cultural shift in the move from "spending" to "investing"**
- **Calculating net revenue requires:**
  - **Right General Ledger Structure**
  - **Cost Center Based Budgeting**

rpk GROUP
from mission to market

Net Revenue – Sample Analysis

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%

rpk GROUP
from mission to market

Net Revenue – Sample Analysis

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

rpk GROUP
from mission to market

Net Revenue – Pitfalls to Avoid

- Remember that you are creating a model, and that no model is perfect
- Failed attempts at calculating net revenue typically result from over complication of allocation formulas – keep it simple

rpk GROUP
from mission to market

Getting to Net Revenue

- Cross Subsidies:
  - Almost all institutions have subsidized academic programs
  - Cross subsidies are not bad, however institutions need to be more transparent about where they occur
  - When determining the appropriateness of a subsidy, institutions should consider:
    - Program's relation to mission
    - How long the subsidy should occur
    - Amount of the subsidy

rpk GROUP
from mission to market

Understanding Academic Cost Structures

1. Question - Are departmental costs higher or lower than the benchmark group?

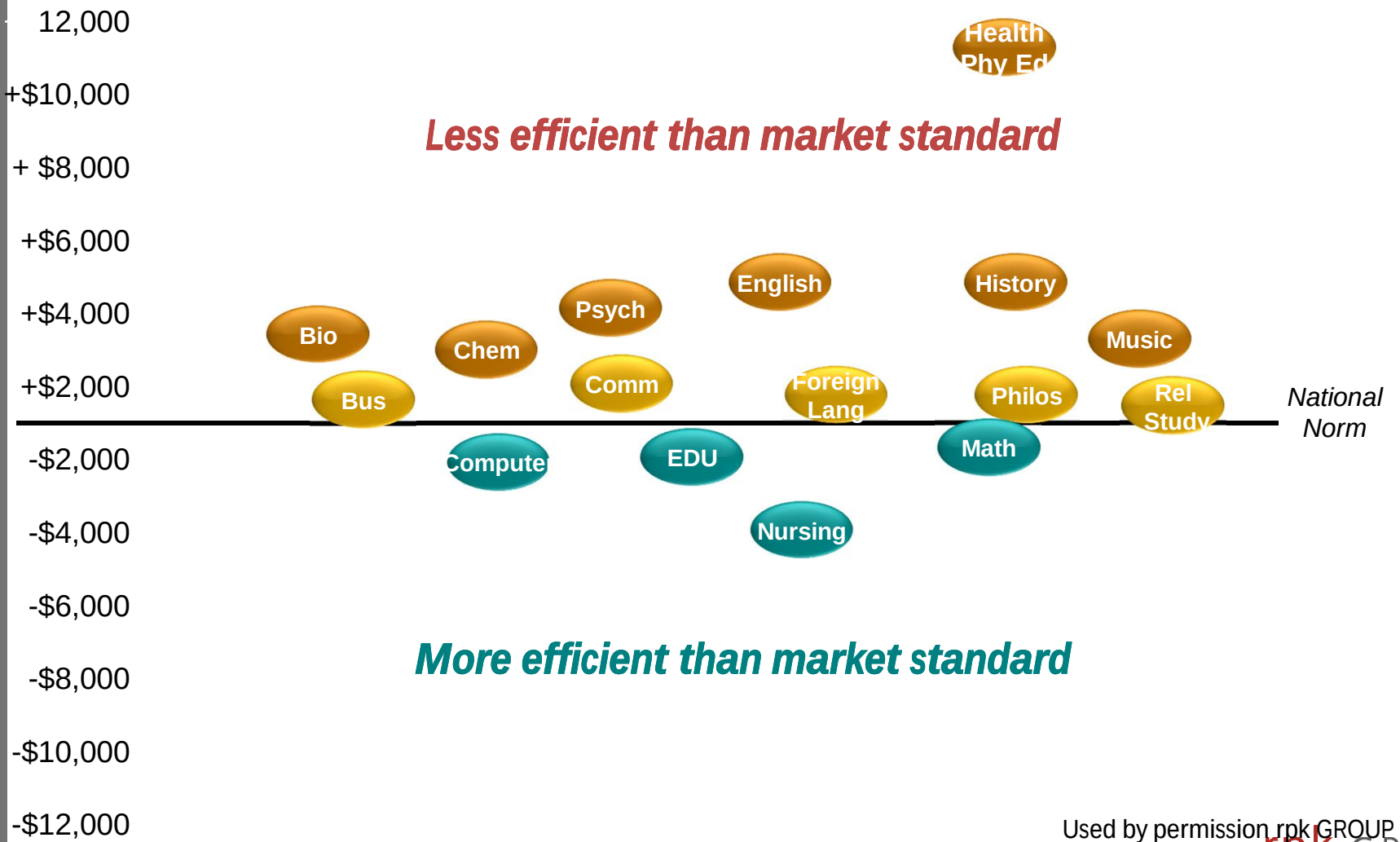
   Metric - Cost per unit - Student Credit Hour and Full-time equivalent

2. Question – Is the department more or less efficient?

   Metric - Throughput – Student credit hours generated by each faculty member

rpk GROUP
from mission to market

Sample Metric - Direct Instructional Expenditure per FTE Student

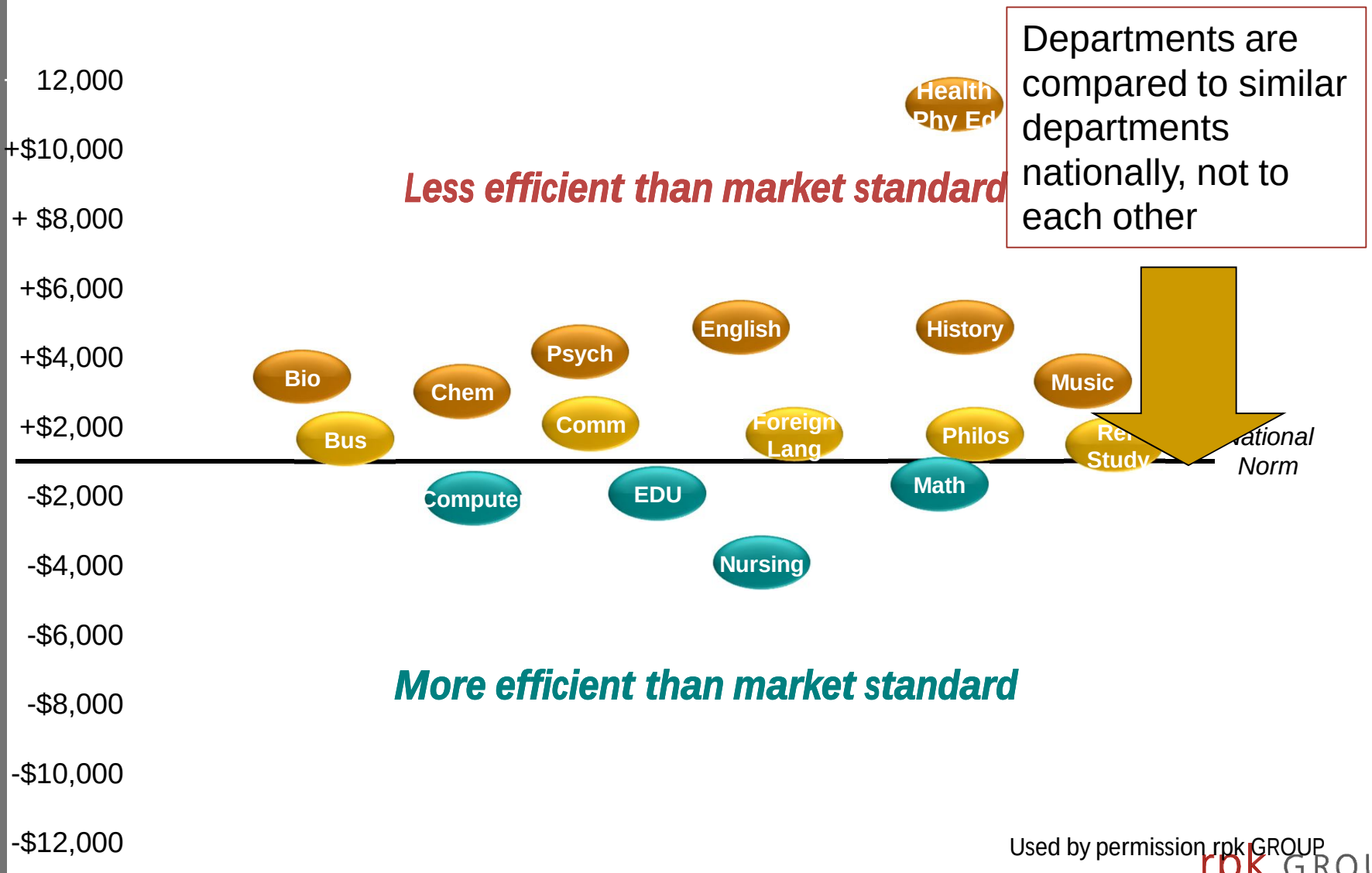


Source: Delaware Instructional Cost Study

Used by permission rpk GROUP

rpk GROUP
from mission to market

Sample Metric - Direct Instructional Expenditure per FTE Student



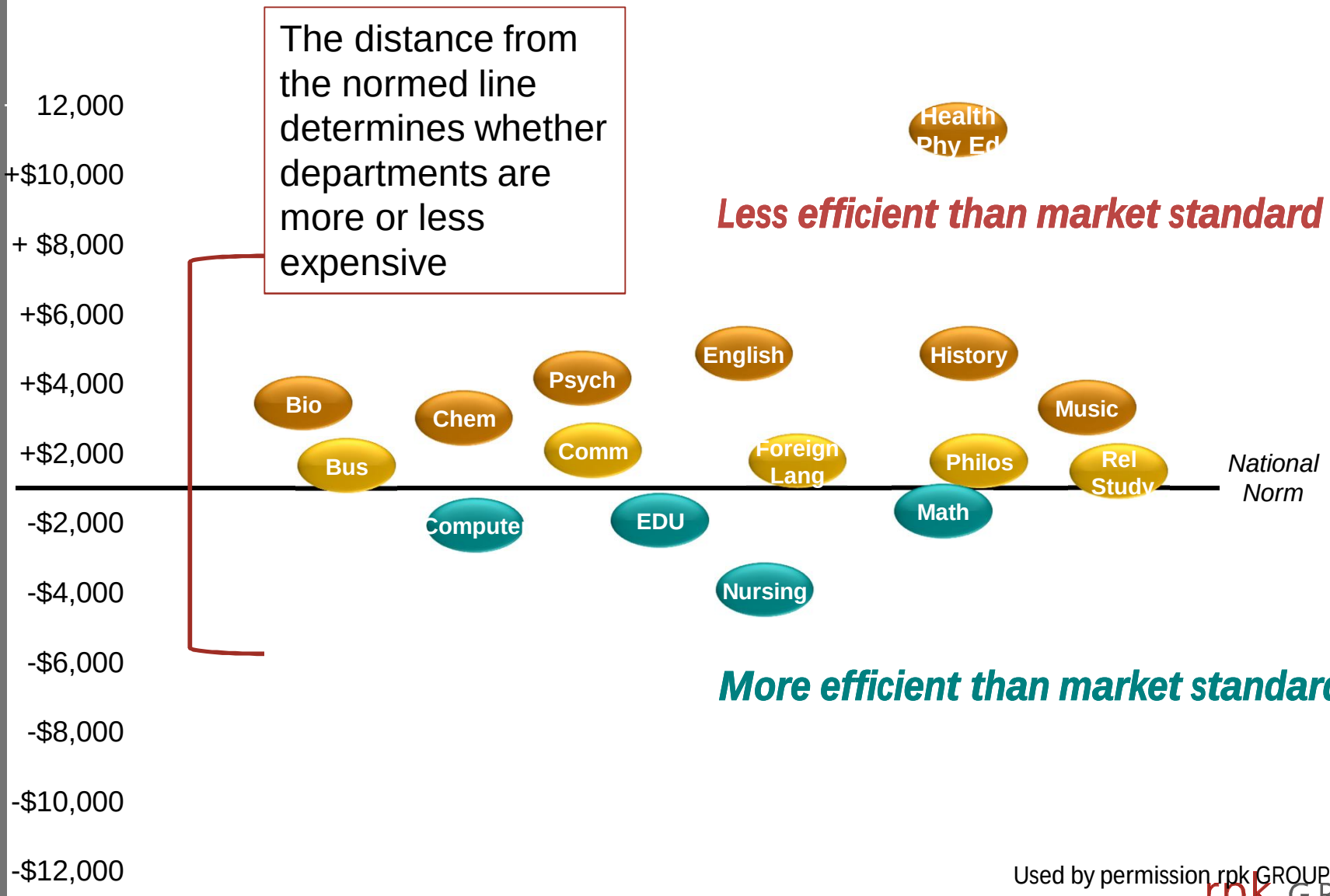
Departments are compared to similar departments nationally, not to each other

Source: Delaware Instructional Cost Study

Used by permission rpk GROUP

rpk GROUP
from mission to market

Sample Metric - Direct Instructional Expenditure per FTE Student

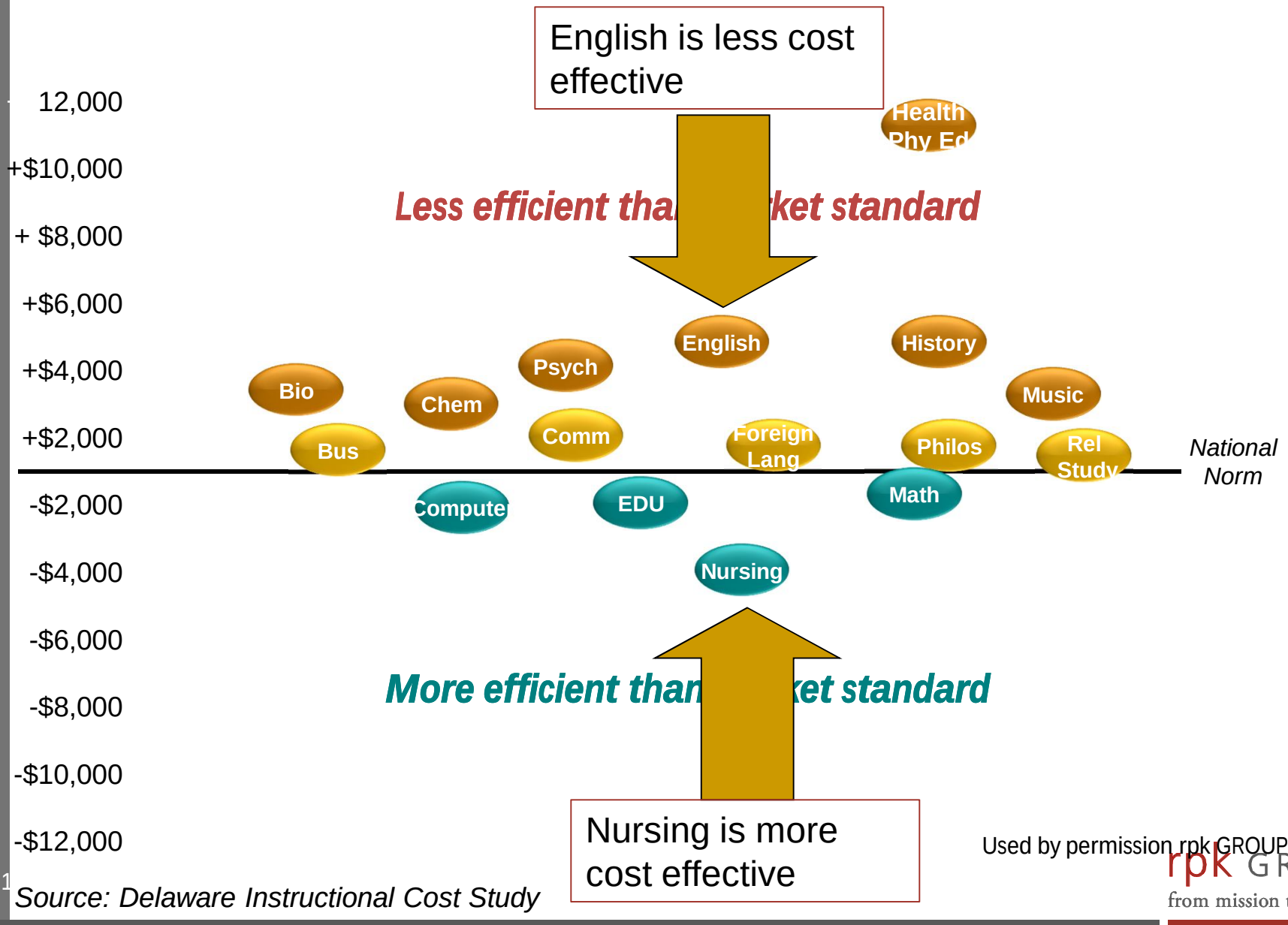


Source: Delaware Instructional Cost Study

Used by permission rpk GROUP

rpk GROUP
from mission to market

Sample Metric - Direct Instructional Expenditure per FTE Student



Source: Delaware Instructional Cost Study

Used by permission rpk GROUP

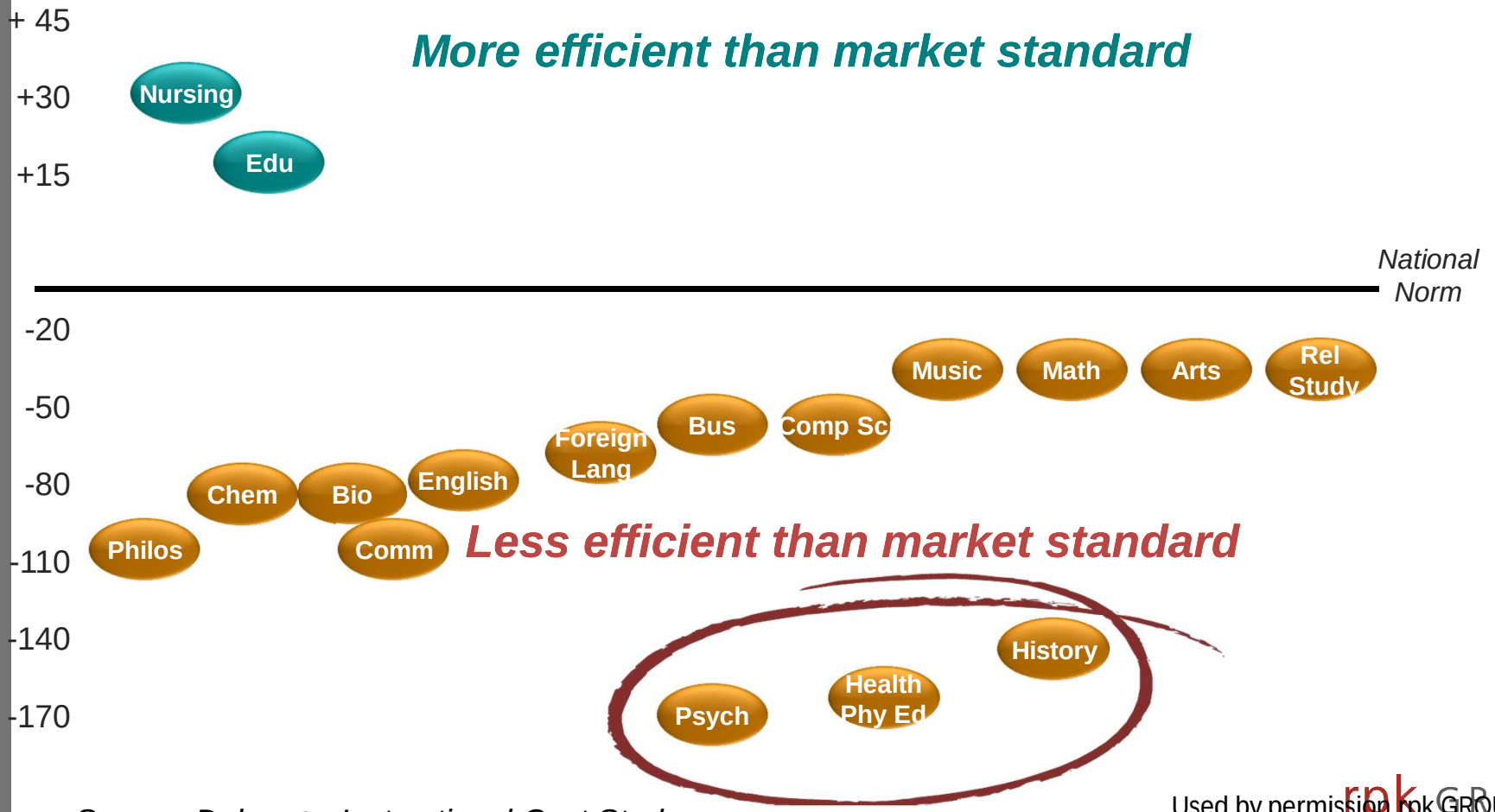
rpk GROUP
from mission to market

Cost Effectiveness

- Once they determine the relative cost effectiveness, institutions can identify departments for additional focus and drill down to determine why cost structures vary.
- Key areas of focus for the drill down include:
  - Labor Costs as a % of Total Department Costs
  - Mix of Full-time and Part-time faculty
  - Mix of faculty rank
  - Average SCH taught by FTE faculty (throughput)
  - Average class size

rpk GROUP
from mission to market

Sample Metric - Student Credit Hours per FTE Faculty



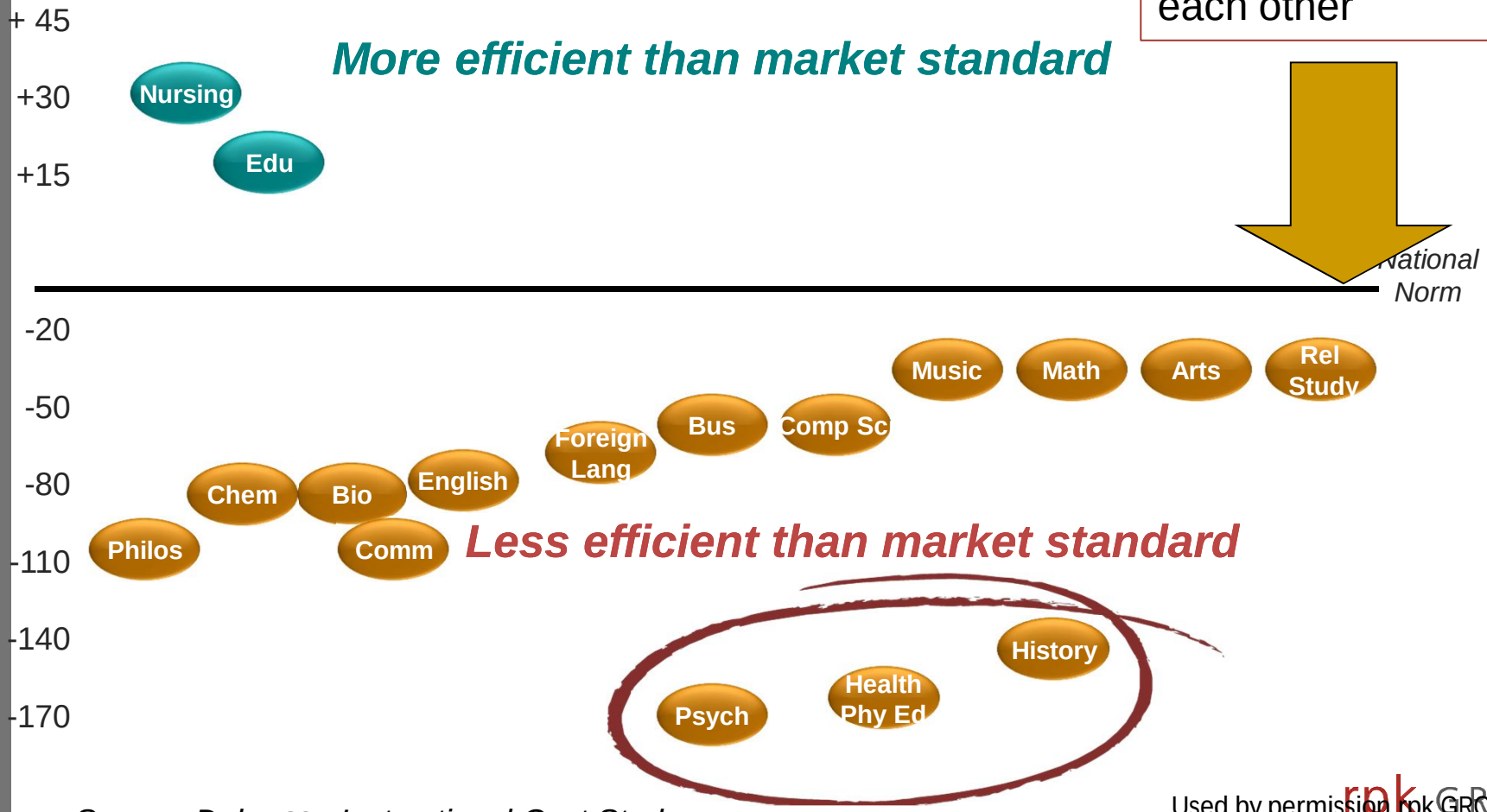
Source: Delaware Instructional Cost Study

Used by permission rpk GROUP

rpk GROUP
from mission to market

Student Credit Hours per FTE Faculty

Departments are compared to similar departments nationally, not to each other

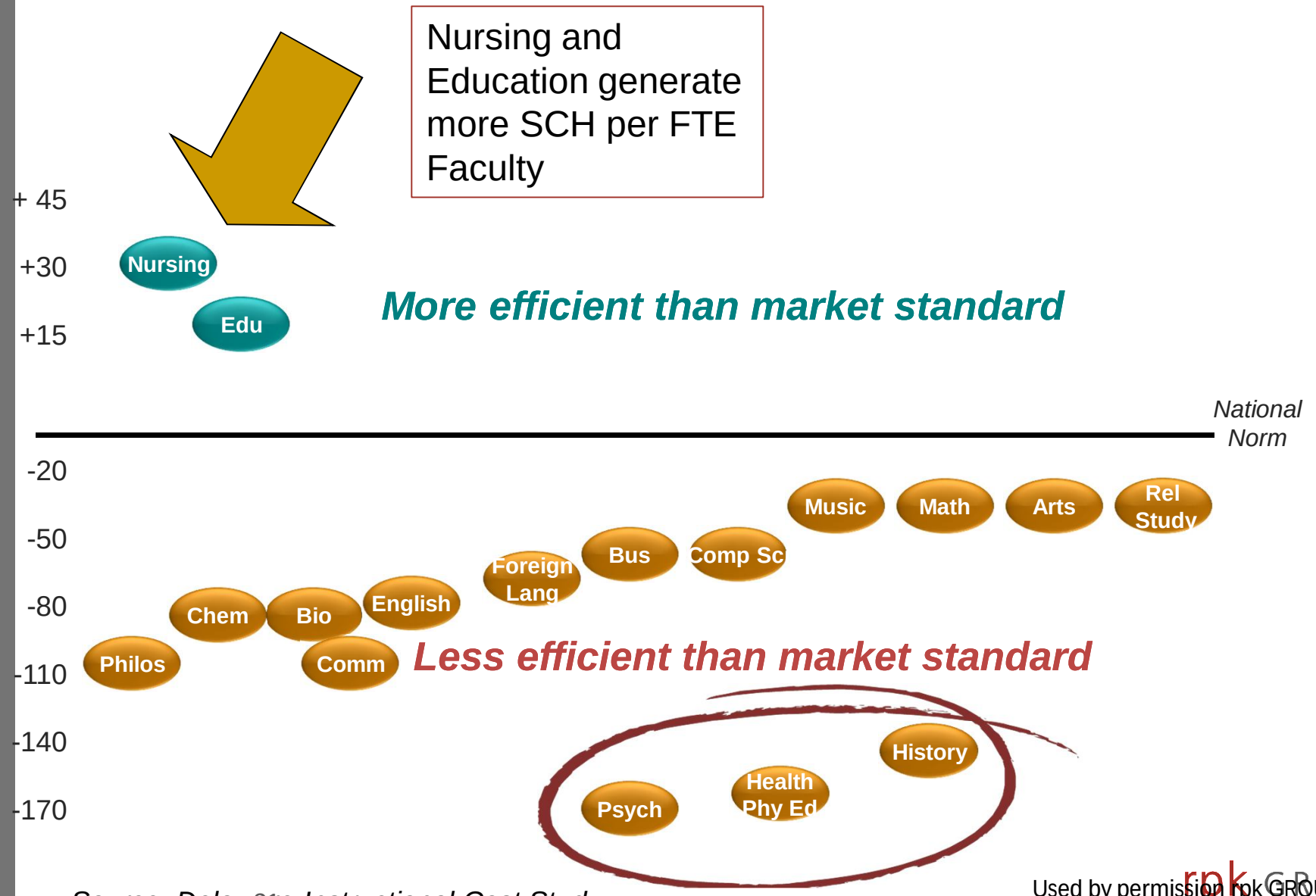


Source: Delaware Instructional Cost Study

Used by permission rpk GROUP

rpk GROUP
from mission to market

Student Credit Hours per FTE Faculty



Source: Delaware Instructional Cost Study

Used by permission rpk GROUP

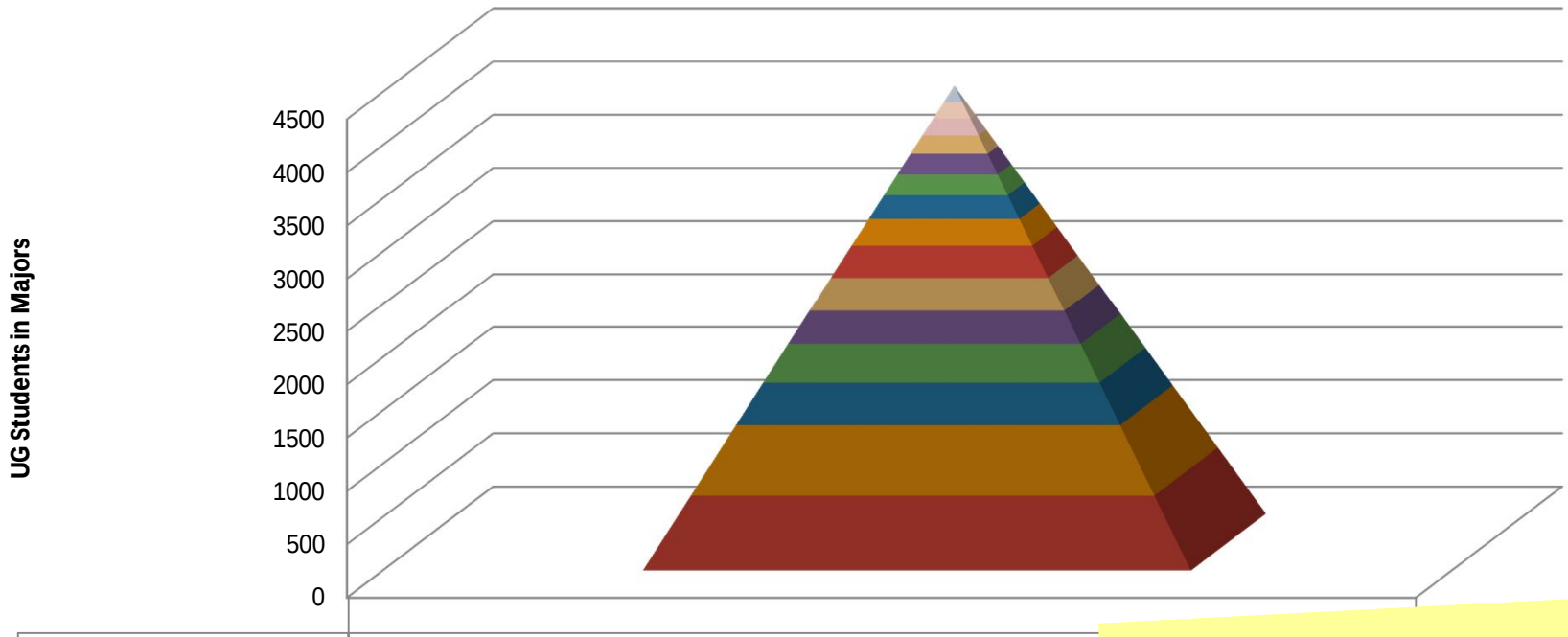
rpk GROUP
from mission to market

Tapping Into Student Demand

- Which programs house most of the institution's students?
- How well am I responding to market demand?
  - Current academic portfolio
  - Untapped opportunities
- What is my student yield, particularly within high demand programs?

rpk GROUP
from mission to market

Undergraduate Students by Major - Fall 2011

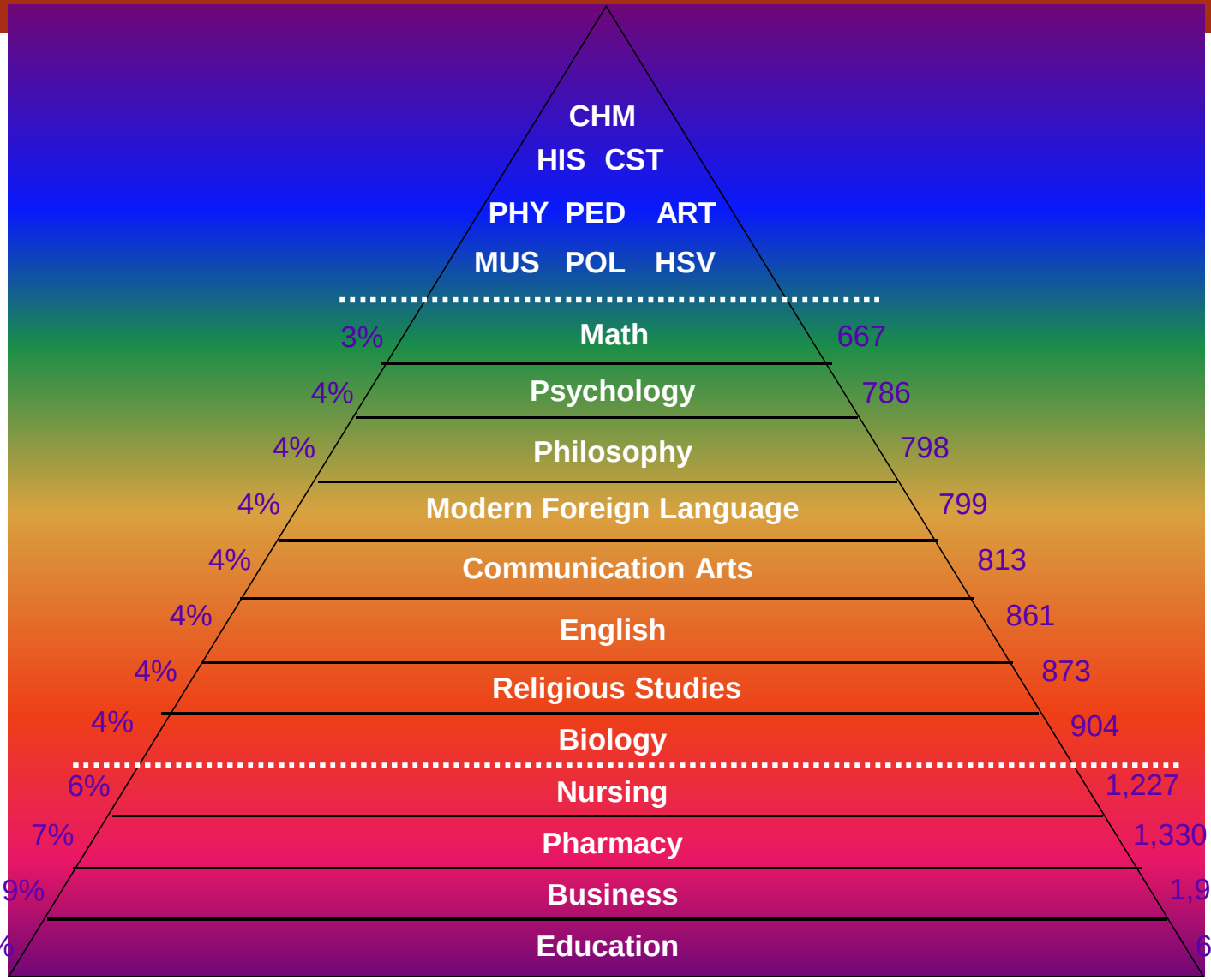


Computer Information Systems	145
English	148
Graphic Design	149
Safety Management	162
Marketing	182
Social Work	184
Elem Ed Early Childhood (B-3)	211
Accountancy	236
Physical Education	286
Psychology	295
Management	296
Elementary Education (1-6)	342
Biology	375
Nursing	622
Criminal Justice	662

Students in these 15 majors represent 44.9% of all undergraduate students

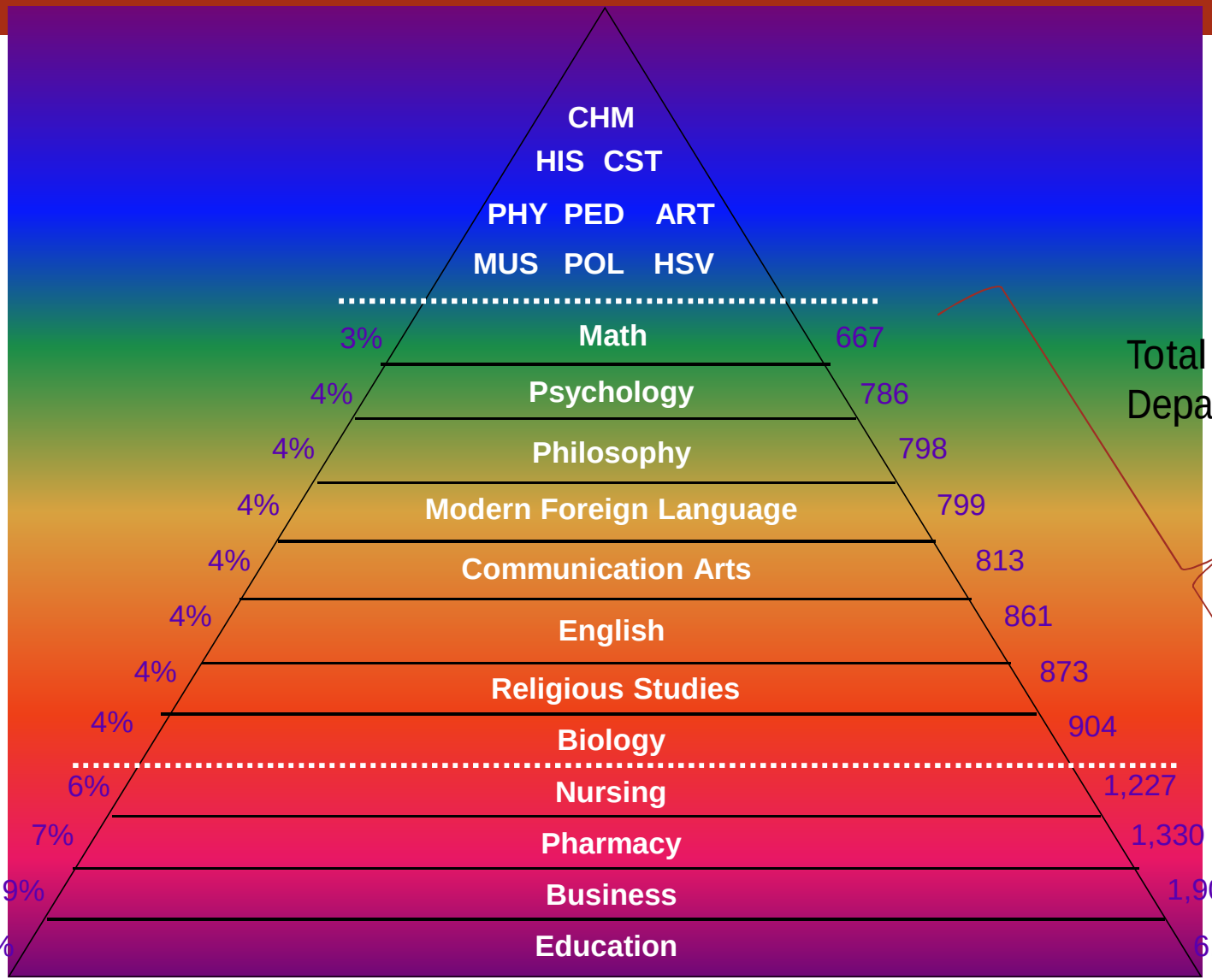
rpk GROUP
from mission to market

What Drives Student Activity?



rpk GROUP
from mission to market

What Drives Activity?

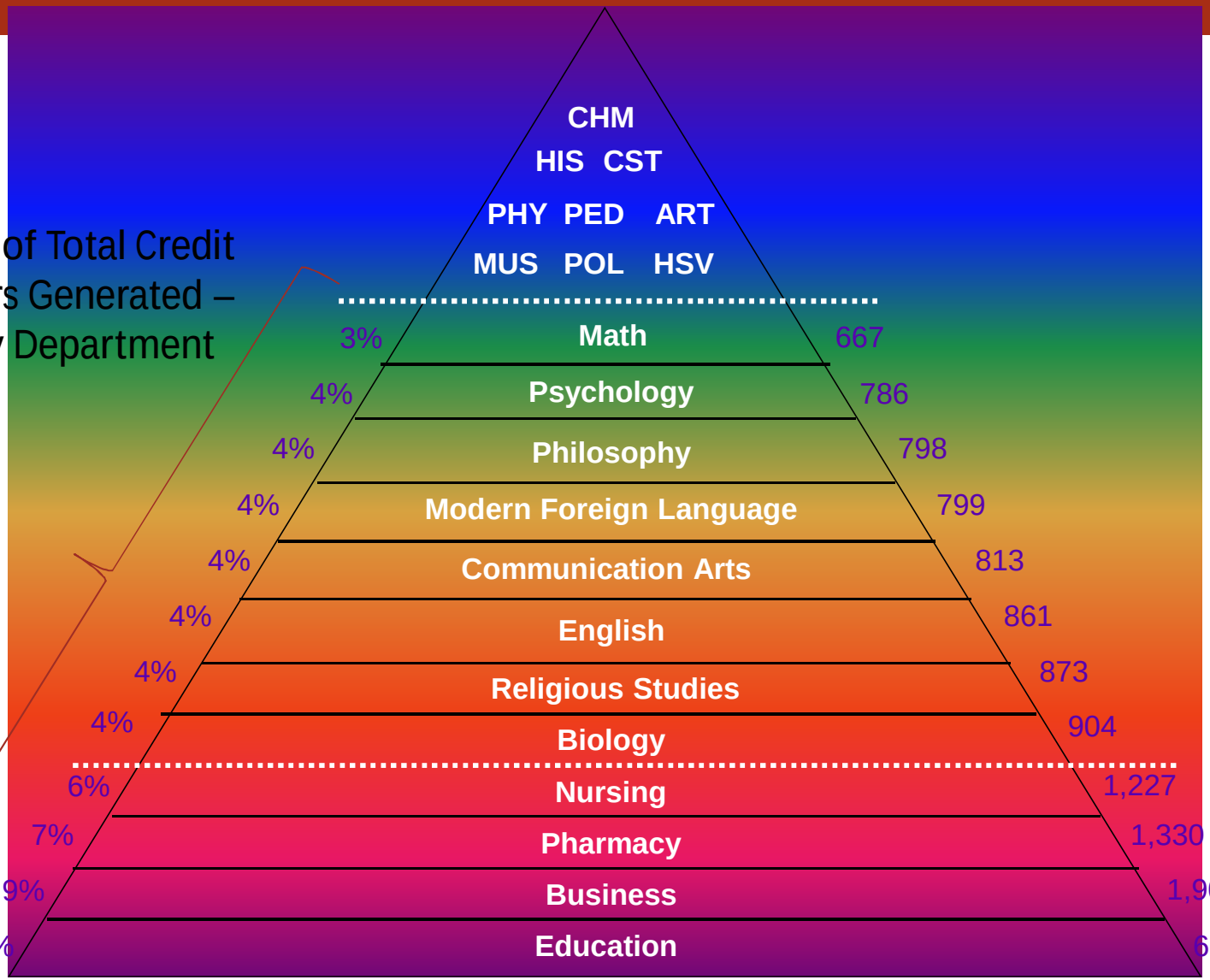


Total Credit Hrs by Department

rpk GROUP
from mission to market

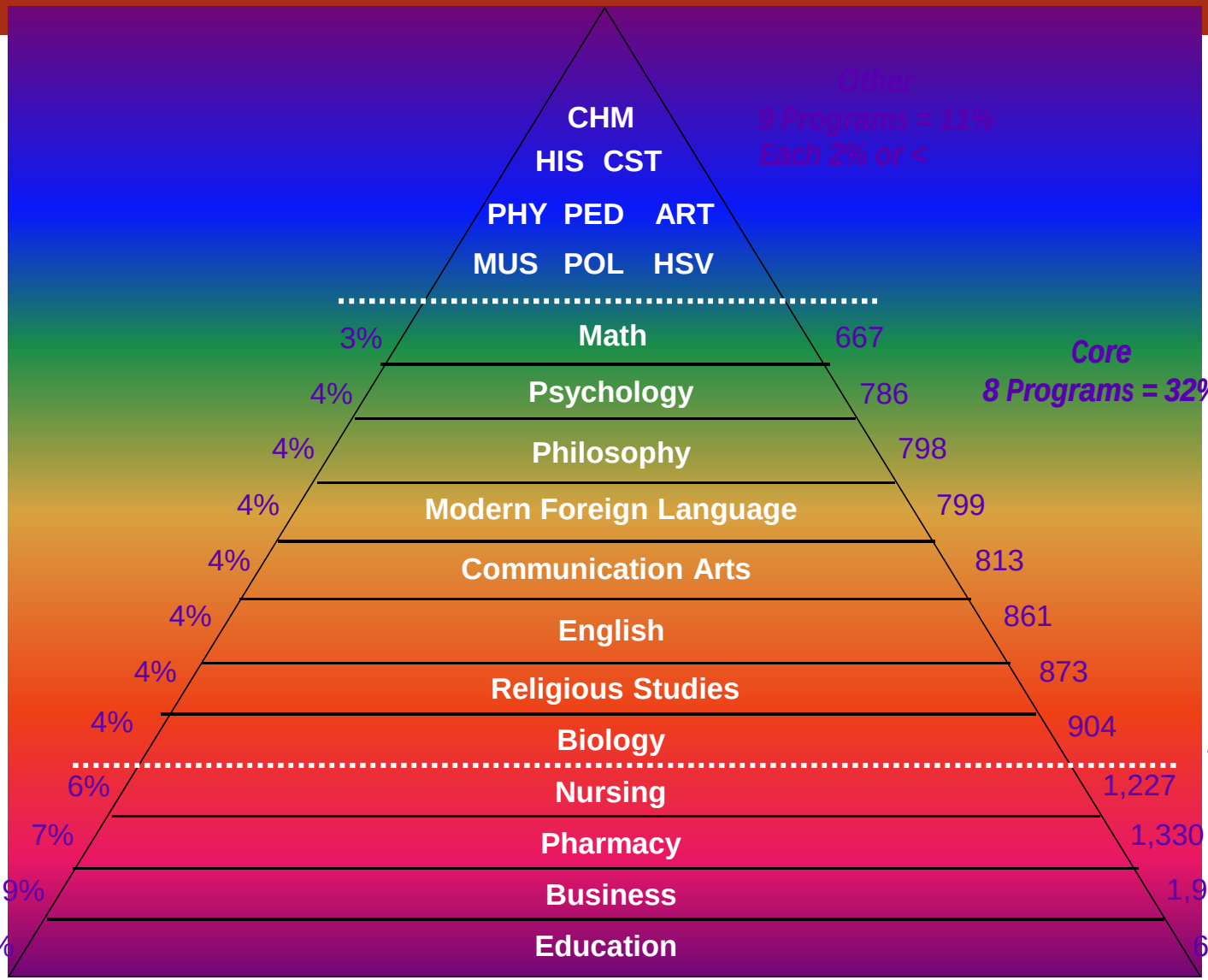
What Drives Activity?

% of Total Credit Hrs Generated – By Department



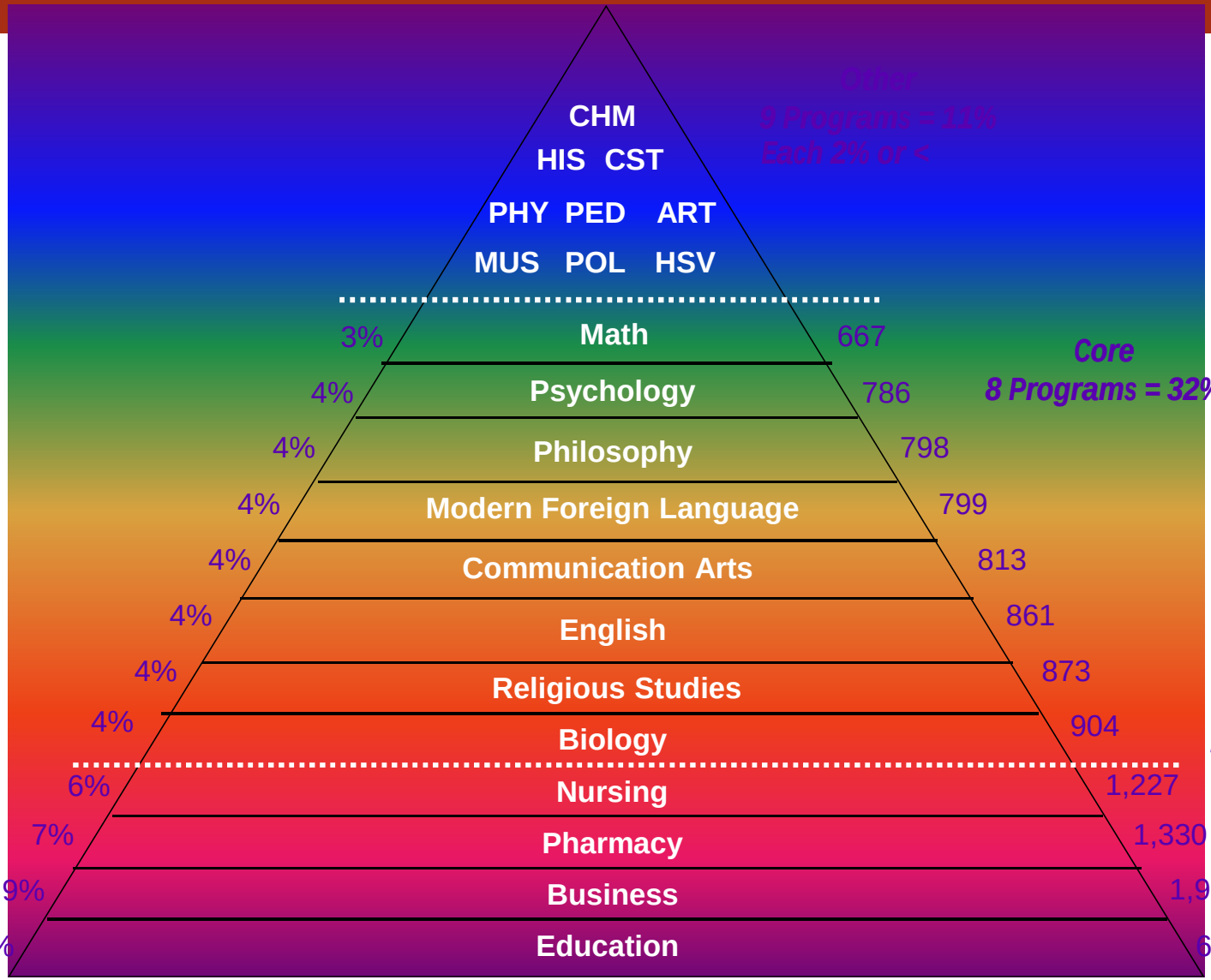
rpk GROUP
from mission to market

What Drives Activity?



rpk GROUP
from mission to market

What Drives Activity?



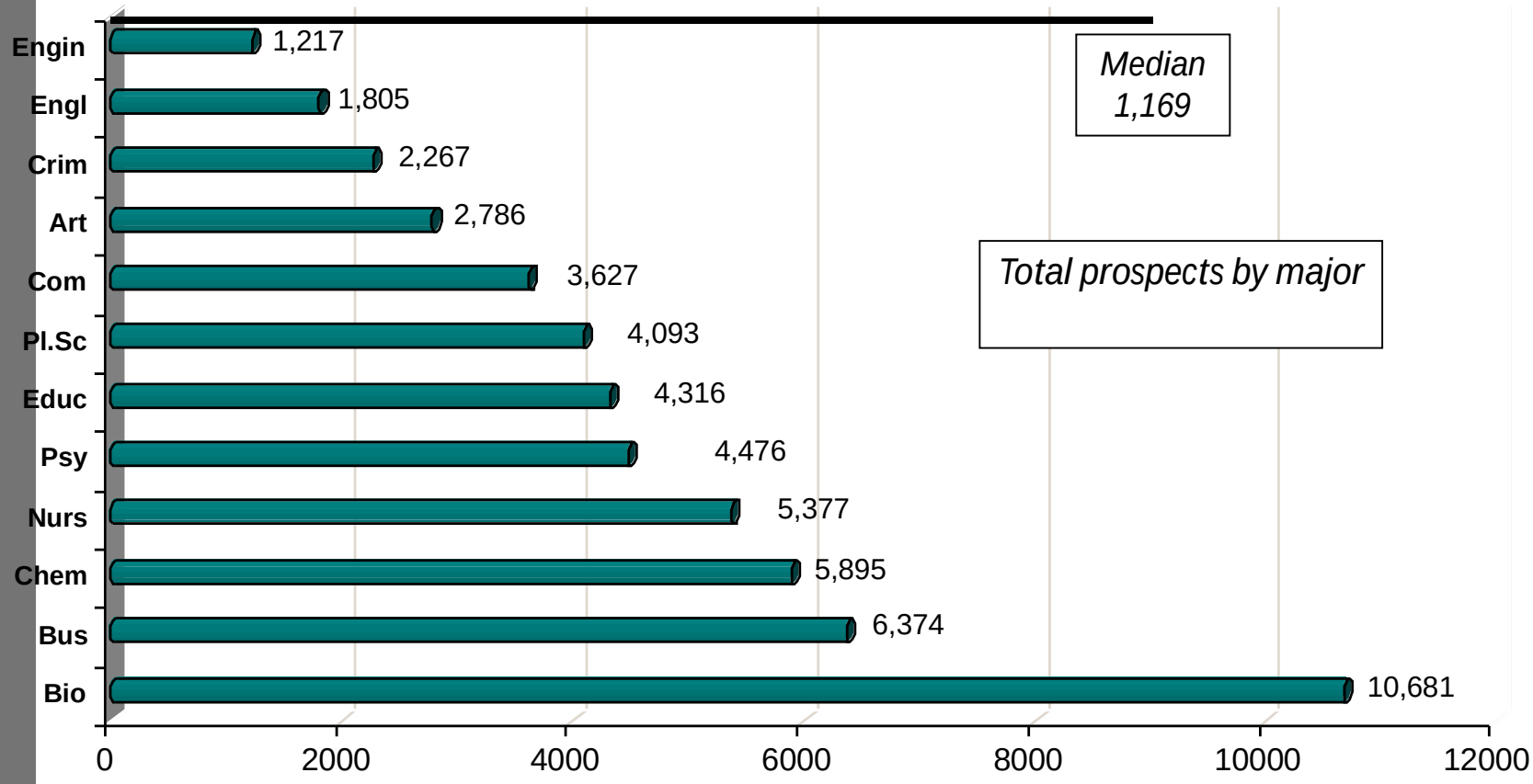
rpk GROUP
from mission to market

Demand in the Market

- In order to drive revenue from tuition and fees (and indirectly from auxiliaries), we must understand student demand in the market.
- The following analysis assesses the highest level of student interest – at the time of inquiry.

rpk GROUP
from mission to market

Demand – What Do People Want?



rpk GROUP
from mission to market

Demand in the Market

- Student demand can also be measured at the point of application, acceptance and attendance.
- By tracking student demand, we can determine how well we are capturing the market that is already aware of the University, and the programs and majors that are attracting student attention.

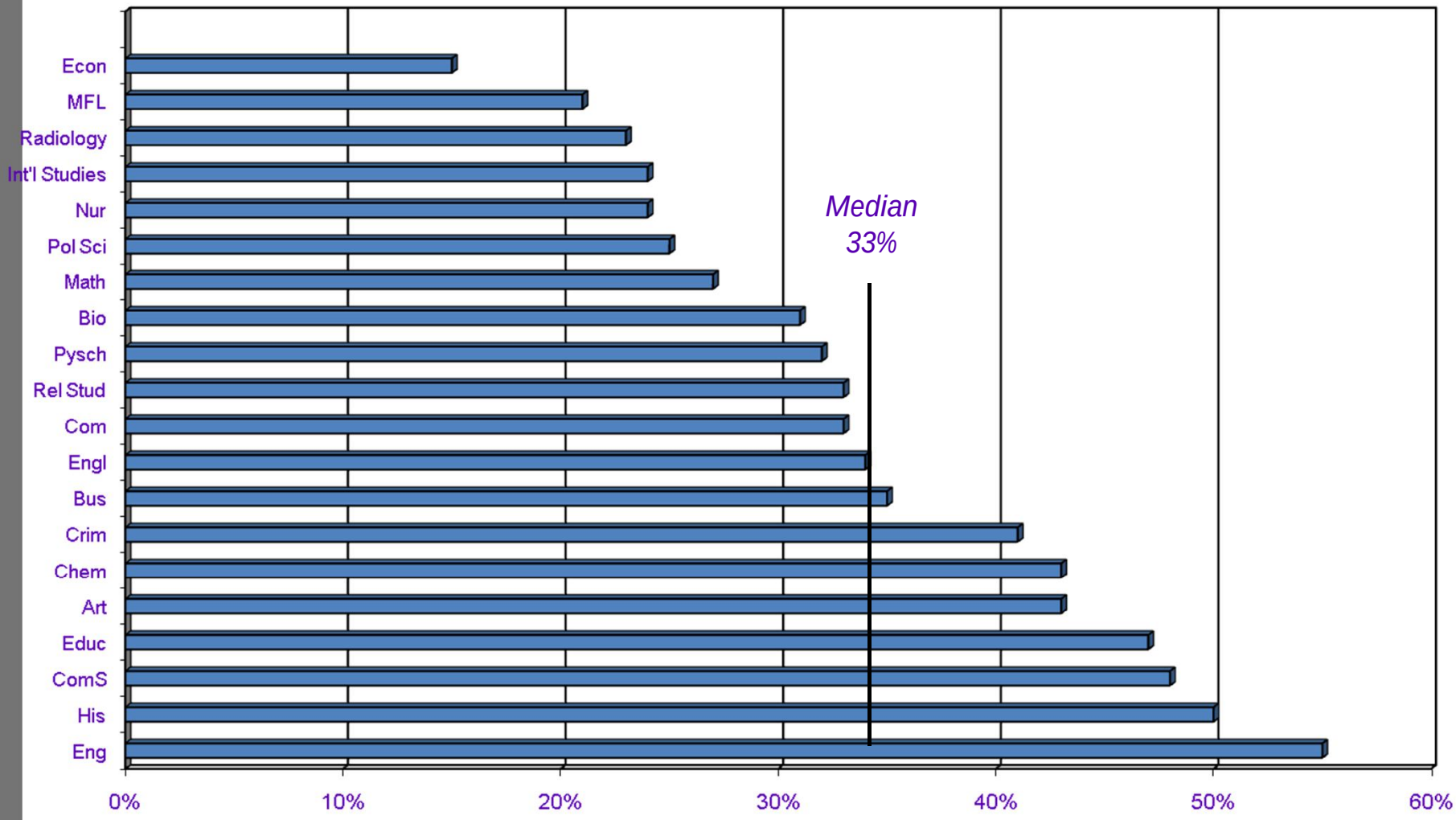
rpk GROUP
from mission to market

Student Yield

- Student yield indicates what percentage of interested students actually end up attending the University.
- As with demand, yield can be measured at various milestones in the enrollment process – inquiry, application, acceptance and attendance

rpk GROUP
from mission to market

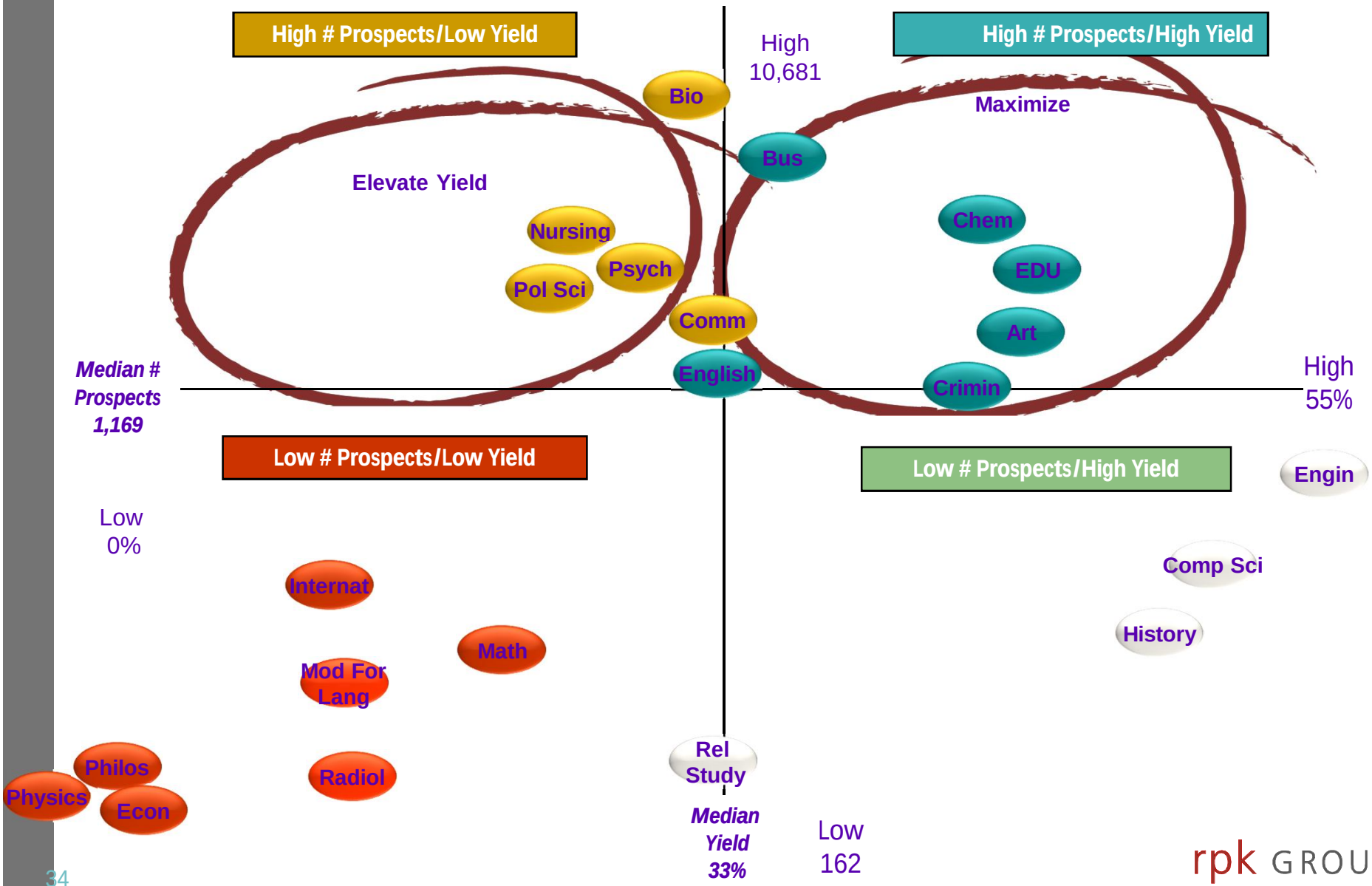
Yield – Percentage of Accepted Students Who Attend



Used by permission rpk GROUP

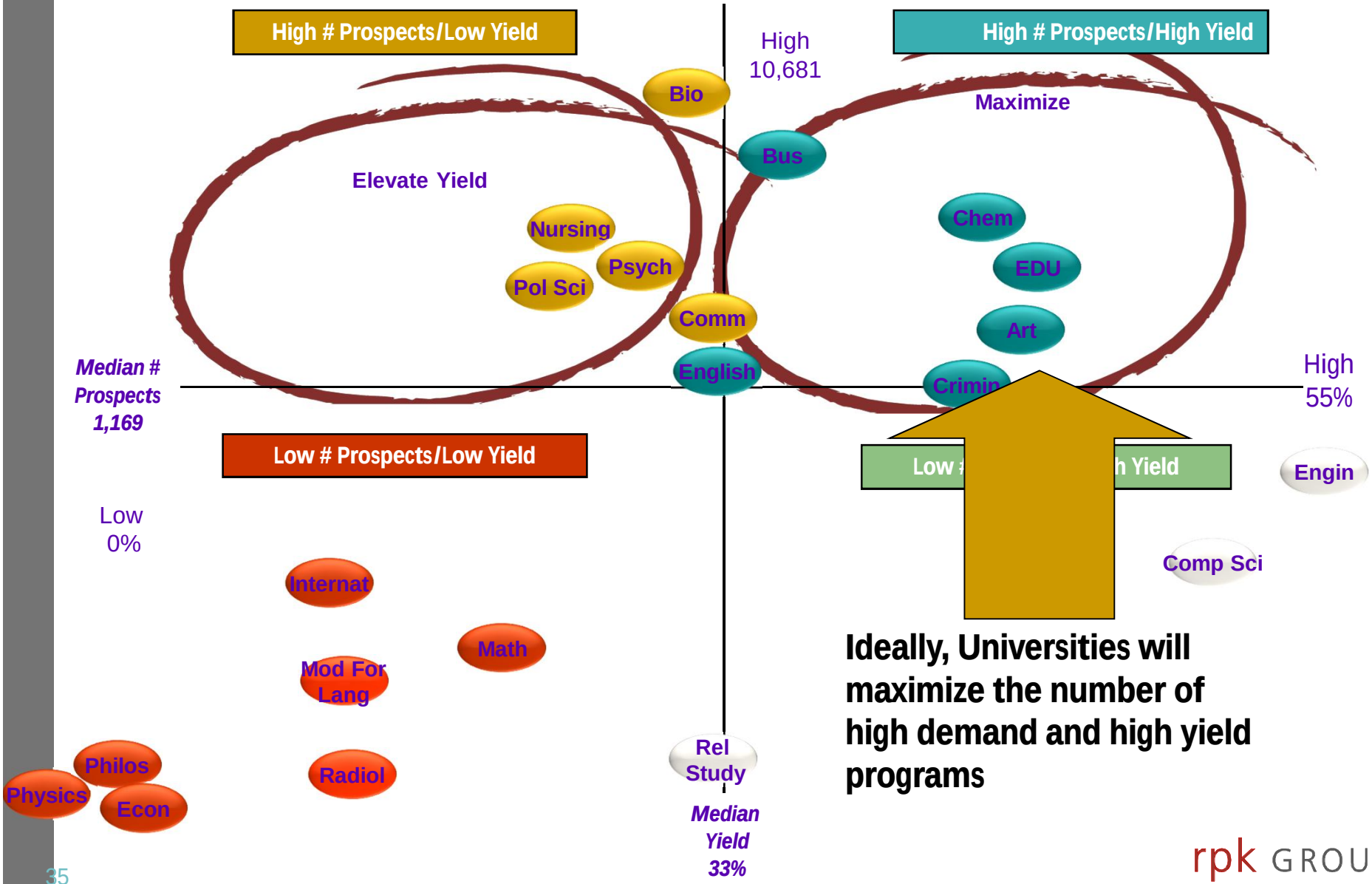
rpk GROUP
from mission to market

of Prospects vs. Yield (accepted to enrolled)



rpk GROUP
from mission to market

of Prospects vs. Yield (accepted to enrolled)



Ideally, Universities will maximize the number of high demand and high yield programs

rpk GROUP
from mission to market

Using Scorecards in Academic Portfolio Analysis

- A review of an academic program involves multiple variables, both qualitative and quantitative

rpk GROUP
from mission to market

Using Scorecards in Academic Portfolio Analysis

- Scorecard variables could include data such as:
  - Relation to mission
  - Market Demand
  - Student Yield
  - Retention and Graduation Rates
  - SCH Generation
  - Efficiency
  - Net Revenue

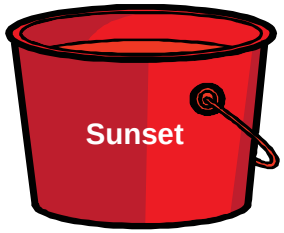
rpk GROUP
from mission to market

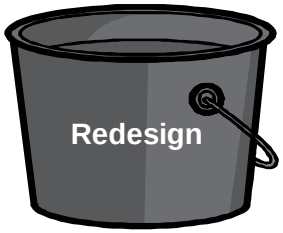
Sample Academic Program Review Scorecard

	Mission	Demand	Conversion	Contribution	Efficiency	Net Revenue	Graduates
Program	Mission	# Prospects	Yield	Credit Hours	Student Cr Hr/FTE Faculty	Direct and Indirect AllocatedCost Model	Annual Number of Graduates
A	Yes	> 5,000	>33%	> 1,000	Above Benchmark	Positive	Above Target
B	Yes	< 1,000	< 33%	> 500	At Benchmark	Positive	At Target
C	Yes	> 1,000	< 33%	> 500	Below Benchmark	Negative	Below Target
D	No	< 1,000	< 33%	< 500	Below Benchmark	Negative	Below Target

rpk GROUP
from mission to market

Sample Academic Program Review Scorecard





- Based on the scorecard review, programs can be placed into one of four categories:
  - Grow
  - Maintain
  - Redesign
  - Sunset

rpk GROUP
from mission to market

Untapped Market Opportunities

- In addition to increasing yield in high demand programs, institutions must also examine new market opportunities.
- Assessing the market
  - Current employers
  - Governmental sources
    - Areas of workforce shortage
    - Economic development agencies
- It is usually easier to begin by building on existing areas of strength
- **Key question: Who owns business development at your institution?**

rpk GROUP
from mission to market

Business Plan Pro Formas

- A more detailed analysis of proposed or existing academic programs can be provided through the use of pro formas
- Pro Formas project revenue and expense activity in order to determine start-up costs and return on investment
- Pro Formas also serve as an important accountability tool

rpk GROUP
from mission to market

Business Plan Pro Formas

- Before financial analysis begins, programs should undergo the a review based upon:
  - *Relation to mission*
  - *Market analysis*
  - *Competition*

- This analysis should be test externally through peer review and dialog with local employers

rpk GROUP
from mission to market

Business Plan – What To Include

- A pro forma analysis should include the following:
  - At least two years of actual and three years of projected data
  - Enrollment
  - Revenue
  - Expense
  - Analysis of program start-up costs and break even requirement

rpk GROUP
from mission to market

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

- Pro Forma analysis benefits academic departments
  - Sets an expectation for analysis. Departments must do their homework before proposing investments.
  - Creates milestones throughout the process. Departments need only complete one step at a time. For example, if relation to mission, market demand and competition are not positive, there is no need to move forward with revenue and expense projections.
  - Once the review is completed, the pro forma should flow easily into the budget process. In this way, resources are identified up front to support the program.
  - Pro forma analysis builds accountability by projecting enrollment, setting resource requirements and the expected return on investment.

rpk GROUP
from mission to market

Successful Academic Portfolio Review

- Communicates the rules of the game up front
- Is based on data
- Benchmarks departments/programs
- Includes a mix of qualitative and quantitative factors

rpk GROUP
from mission to market

A Strategic Finance Agenda

rpk GROUP
from mission to market

To continue the dialogue . . .

- Rick Staisloff, Principal

rpkGROUP

rstaisloff@rpkgroup.com

410-591-9018

rpk GROUP
from mission to market