Resilience and Renewal: Business Model Innovation for a Changing Higher Ed Landscape

We will get started in just a few minutes.

July 30, 2024

ASSOCIATION OF GOVERNING BOARDS OF UNIVERSITIES AND COLLEGES

Webinar Overview

- ❑ Webinar recording and slides are emailed to you.

- ❑ **Structure**:
  - ❑ Conversation & slides
  - ❑ Audience Q&A

- ❑ **Interaction:** Questions and comments are strongly encouraged. Please use the Q&A button to send us questions.

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Meet your Panelists

Chris Moloney, PhD

AGB Associate Vice President and Associate Managing Principal, Consulting

Instructor for Colorado State University and the University of Hawai'i Hilo

Paul Friga, PhD

AGB Strategy Development Practice Leader; Senior Consultant

Former Trustee – Saint Francis University; Former Board Chair at St. Francis & Claire Church

Professor of Strategy & Consulting at UNC CH

Joe Sallustio, EdD

AGB Senior Consultant

VP, Industry Engagement, Ellucian

Former SVP, Lindenwood Global

Michael Torrence, PhD

Motlow State Community College (MSCC) President

Member of the Trusted Learner Network's Governing Body

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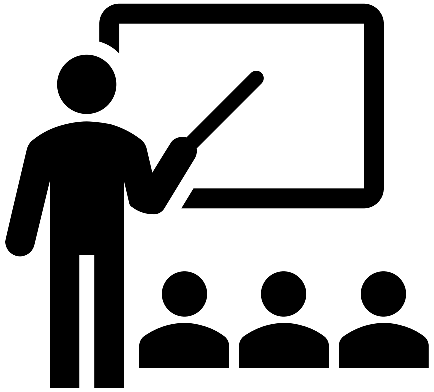
Today's Agenda



1. The Next Decade will be Transformative for Higher Education
2. We can Leverage Innovation Models from Industry
3. Case-study Motlow State Community College

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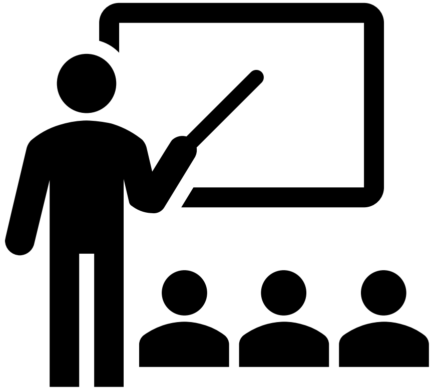

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Poll Question 1

What do you think is the biggest challenge to innovation in higher education today?

a) Financial Constraints

b) Technological Barriers

c) Resistance to Change

d) Regulatory Hurdles

e) Other (Specify in Chat)

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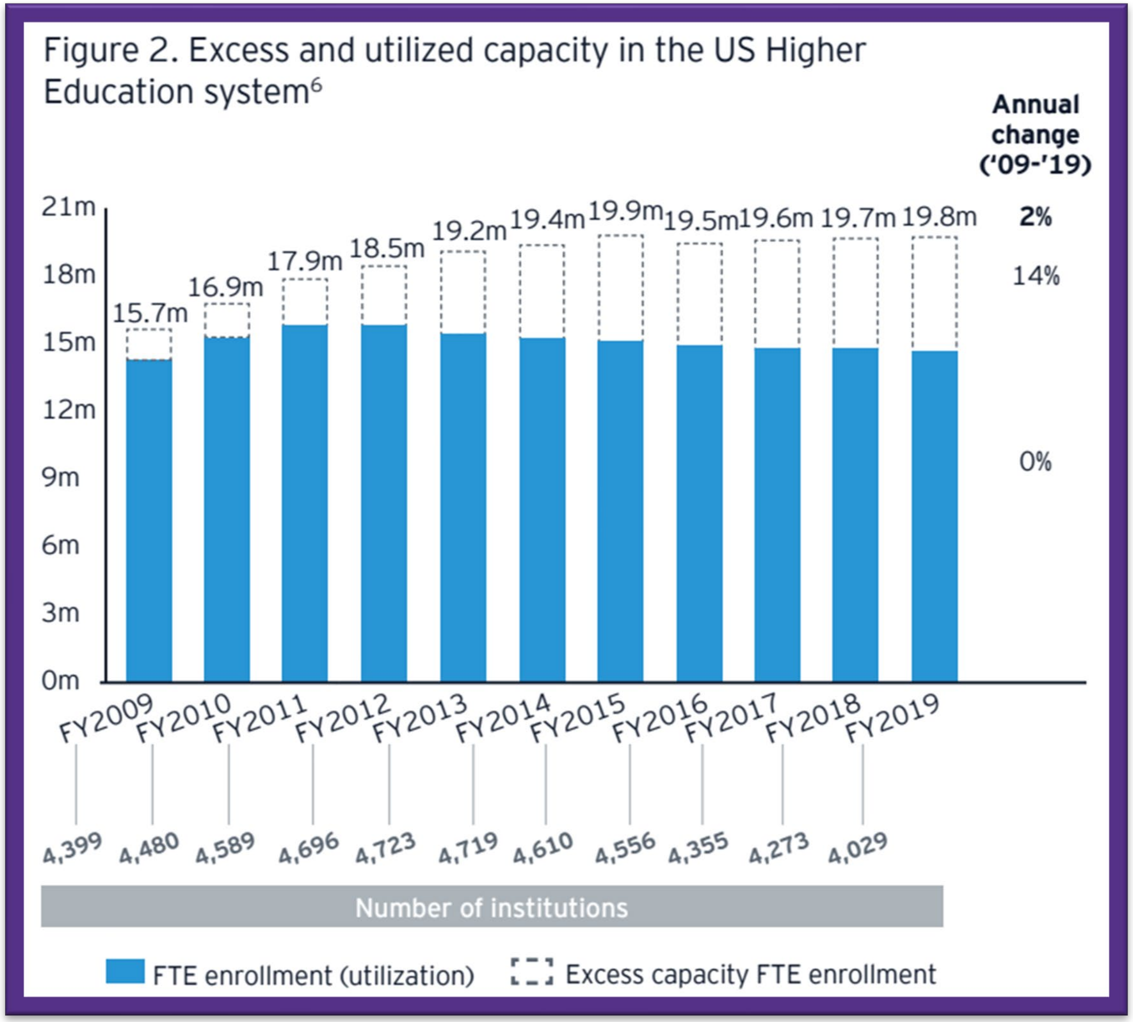
We Have An Oversupply Of Traditional Education For Highschool Graduates And Increasing Demand For Rescaling The Workforce And New Content



Source(s): EY Parthenon

Decreasing numbers of high school graduates

Decreasing interest in four-year education / questions of ROI

The cost of excess capacity could be as high as $50 billion annually

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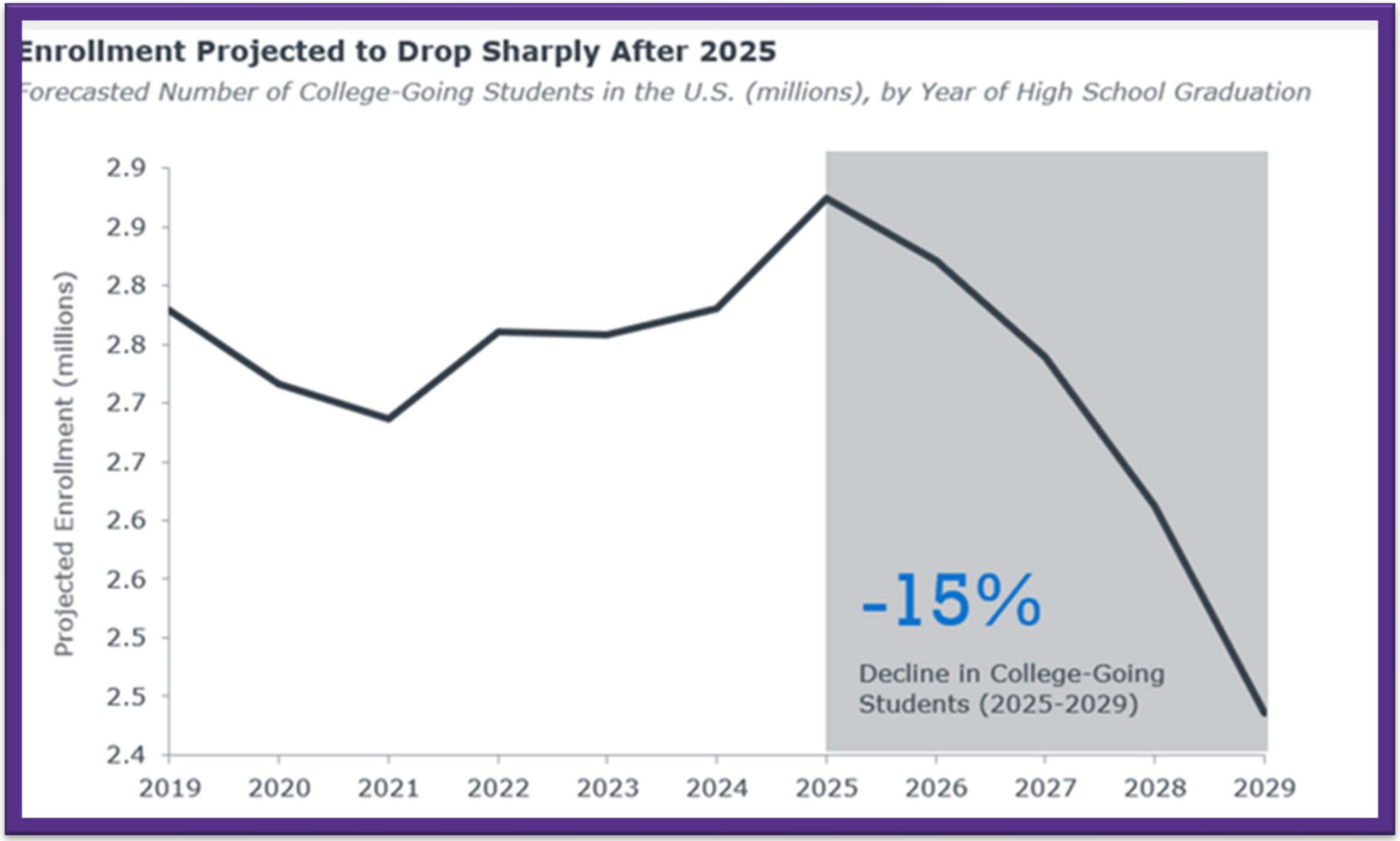
Declining Number Of High School Graduates And Fewer Enrollments Are Causing Financial Pressure



Update on Recent Enrollments:

Undergraduate enrollment remains 15% below 2010 levels, the most recent headcount peak. Analysts expect enrollment to continue shrinking because of a strong labor market and the resumption of student loan payments.

Enrollment has recently declined at all levels, with the steepest declines in the undergraduate sector. Here, enrollments have fallen year-over-year for the past two years, **-4.9% in spring 2021, -4.7% in spring 2022,** and another **-0.2% in spring 2023.**

However, graduate-level enrollments have been more resilient throughout the pandemic. They decreased by only -0.1% in spring 2020, grew by 4.6% in spring 2021, declined -0.8% in spring 2022, and declined again by -2.2% in spring 2023.

Source(s): EAB "What the looming demographic storm means for your state"; FitchRatings, 2022; State of the Education Market 2023: Trends and Insights in Key Graduate Disciplines – Wiley; Forbes; Higher Ed Dive

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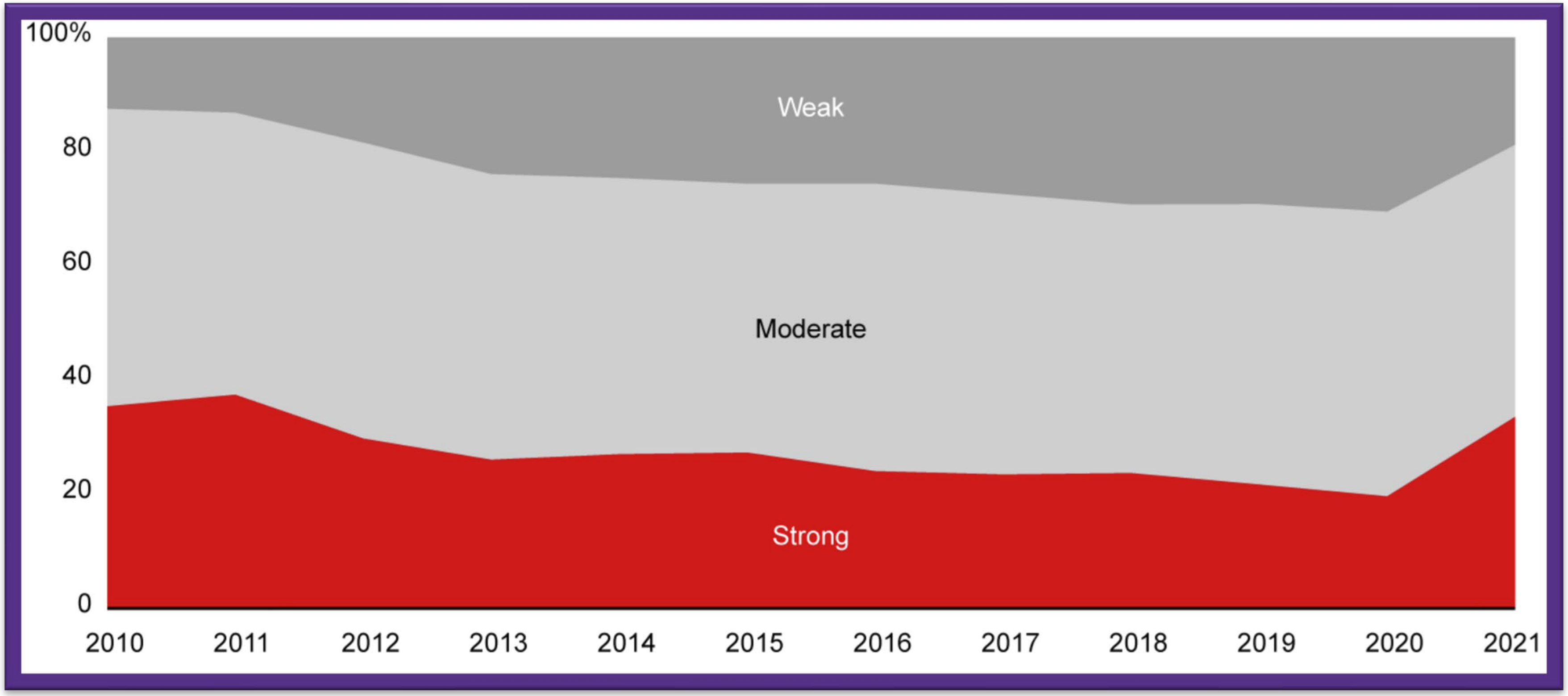
Innovation is no longer optional The Majority of Universities and Colleges Are In a Weak to Moderate Financial Position



Nearly 1/3 Of Universities Face an Unsustainable Financial Future

The annual composite score measures a university's resiliency based on three equally weighted metrics: **primary reserve ratio, net margin**, and **three-year enrollment growth**

Note: n=1,504

Temporary uptick due to significant federal support and strong endowment returns (not likely to be sustainable).

Source: "The Financially Sustainable University: The Lost Decade", Bain

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Expenses Continue to Grow and Now Exceed Revenues on Average

Balance Sheets

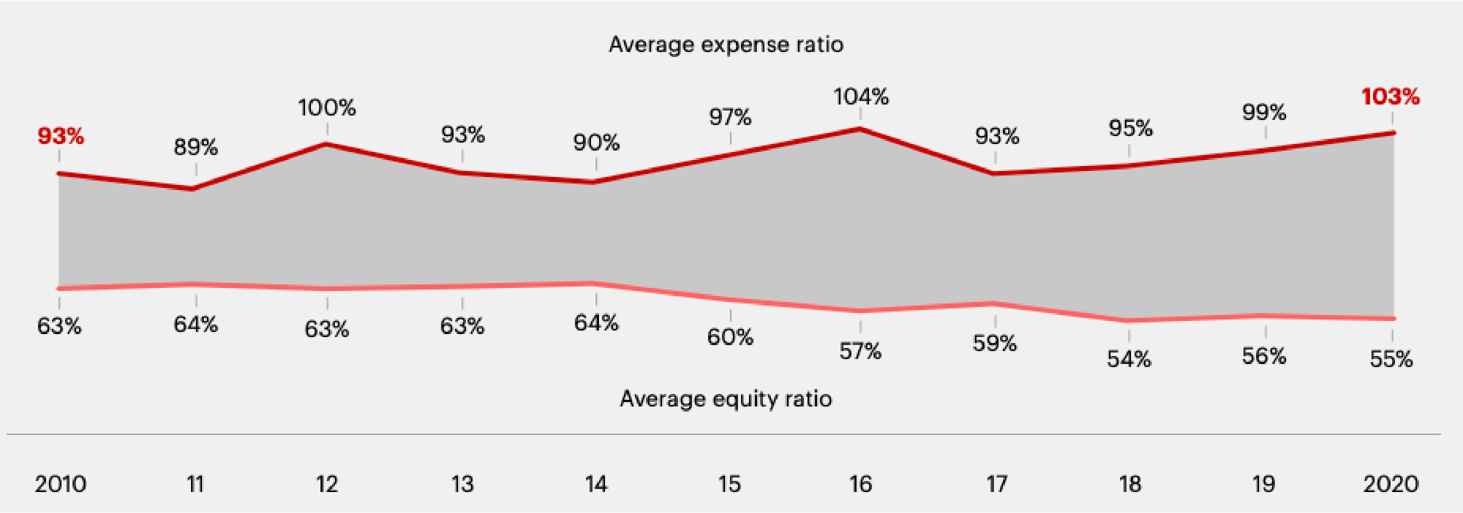
Average equity ratios have declined by **8 percentage points**

34% of universities saw equity ratios drop more than **5%**

Income Statements

Average expense ratios have increased by **10 percentage points**

56% of universities saw expense ratios increase by more than **5%**



Source(s): "The Financially Sustainable University: The Lost Decade", Bain

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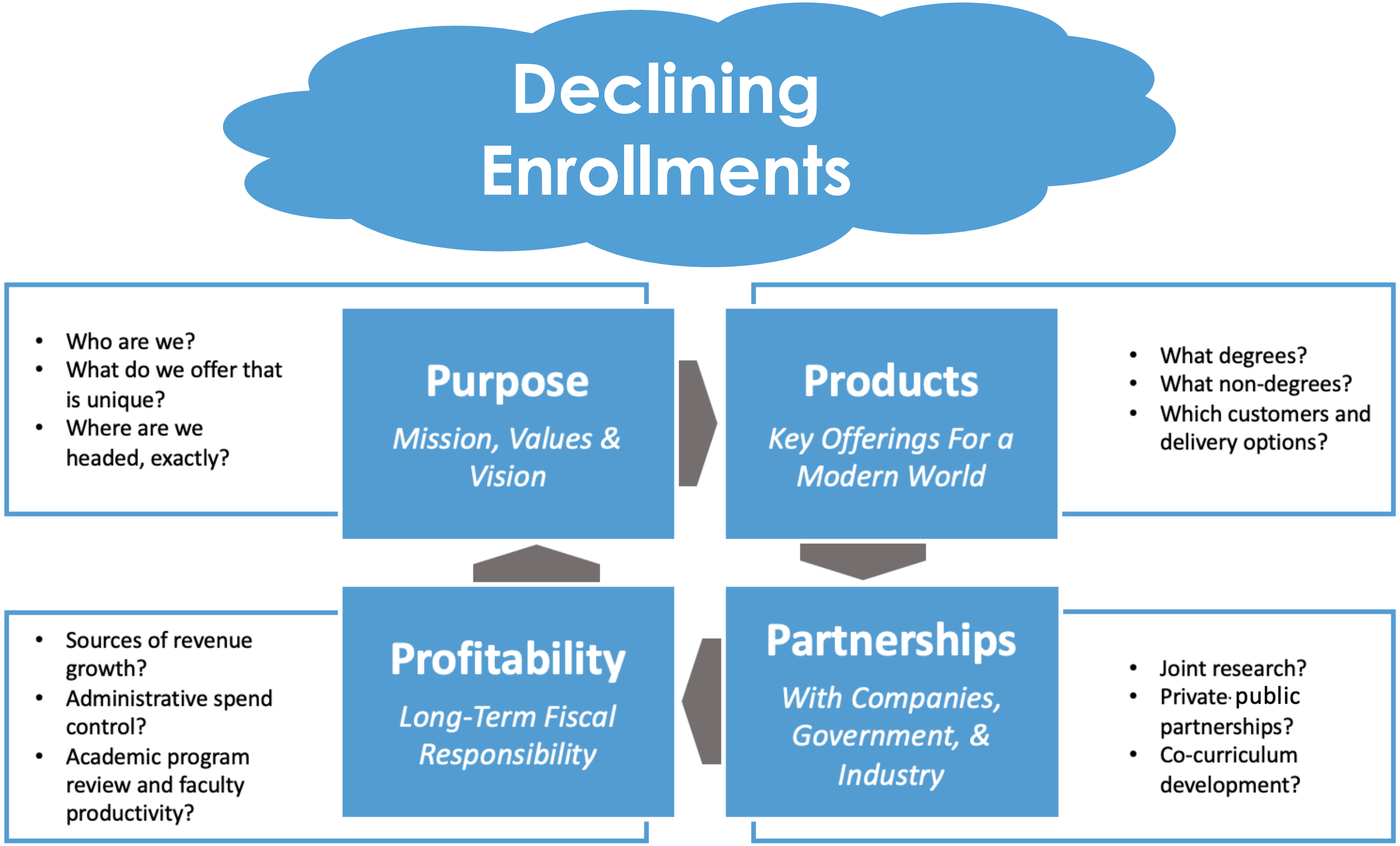
Strategic Priorities Of Higher Education Over The Next Decade (Four P's)



Source(s): Dr. Paul Friga, "Time for a "Strategy Refresh" for Your University" 2021

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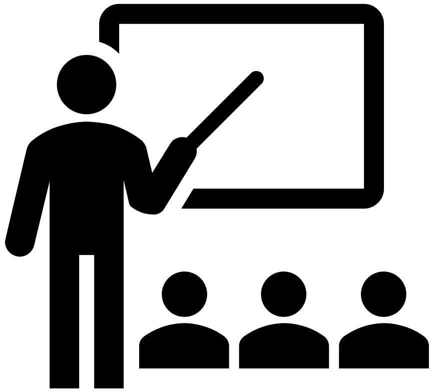
Today’s Agenda



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Poll Question 2

1. Based on our institution's current context, innovation is…

a) A fantasy – we are just trying to survive.

b) Aspirational – a goal reflected in some of our current planning and initiatives.

c) A reality – we have successfully implemented new strategies, partnerships, or programs to build a more prosperous future.

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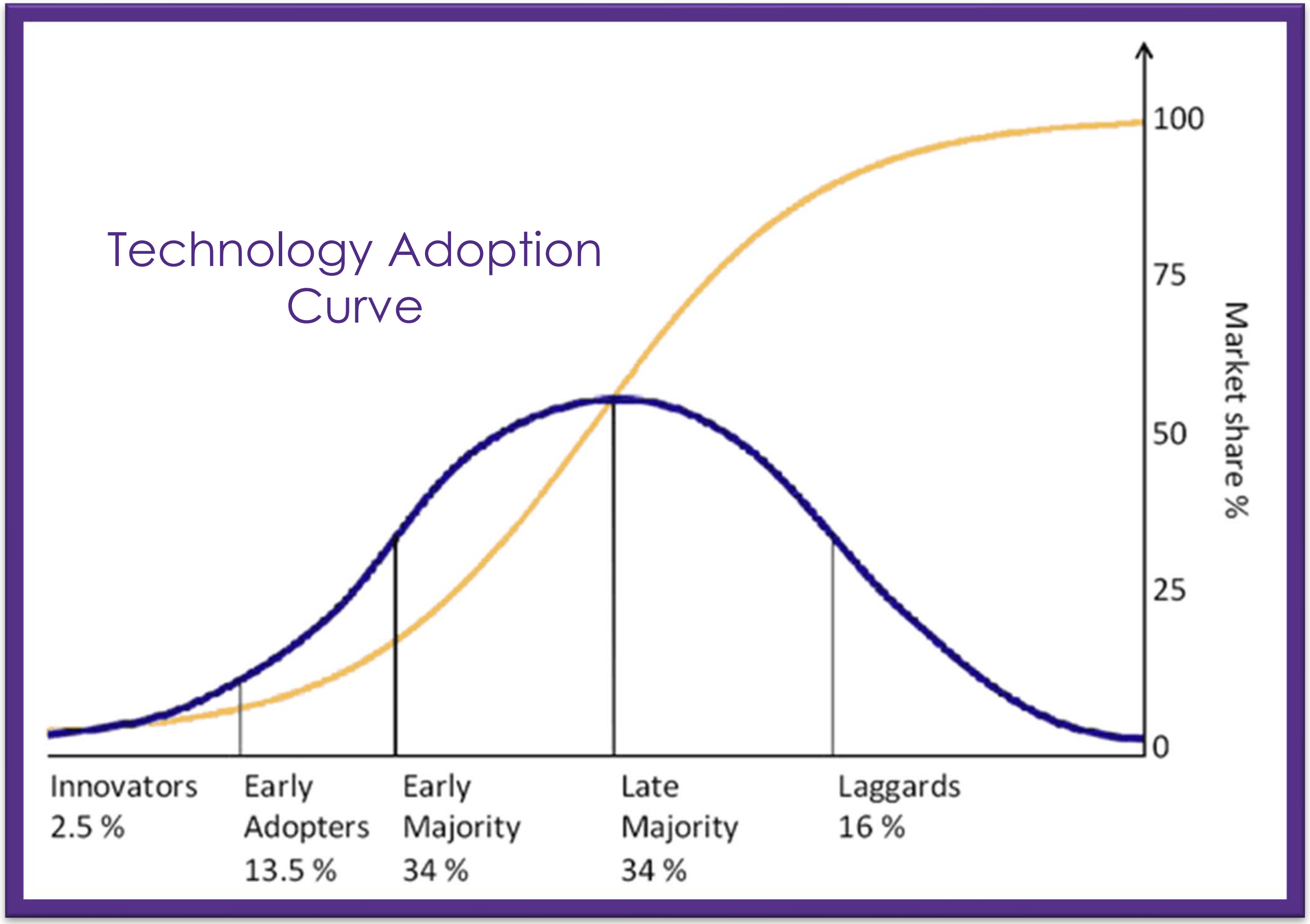
Innovation means doing something NEW!

Elements of a typical HE business model

- Tuition and program fee revenue
- Room /board revenue
- Athletics and event revenue
- Partnership revenue (P3, etc.)
- Endowment Donations / Contributions
- Grants (research, etc.)
- *State funding

What will we do that is **new** and/or different from what we've already been doing?

Innovation is challenging BECAUSE it requires NEW thinking, programs, services, etc.



Challenges to Innovation

- **High chance of failure**
  - E.g., "95% of new products fail"*
- **Complexity**
  - Doing news things or old things differently requires changes to status quo and existing process
- **Resource allocation**
- **Regulatory / accreditation**
- **Uncertain Risk**
  - The majority of individuals and orgs are risk averse.
- **Quality and equity**

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Learner Focused Innovation

Technological integration

- Online and blended learning
- Adaptive Learning
- Adoption of digital tools and resources (AI, VR, AR)

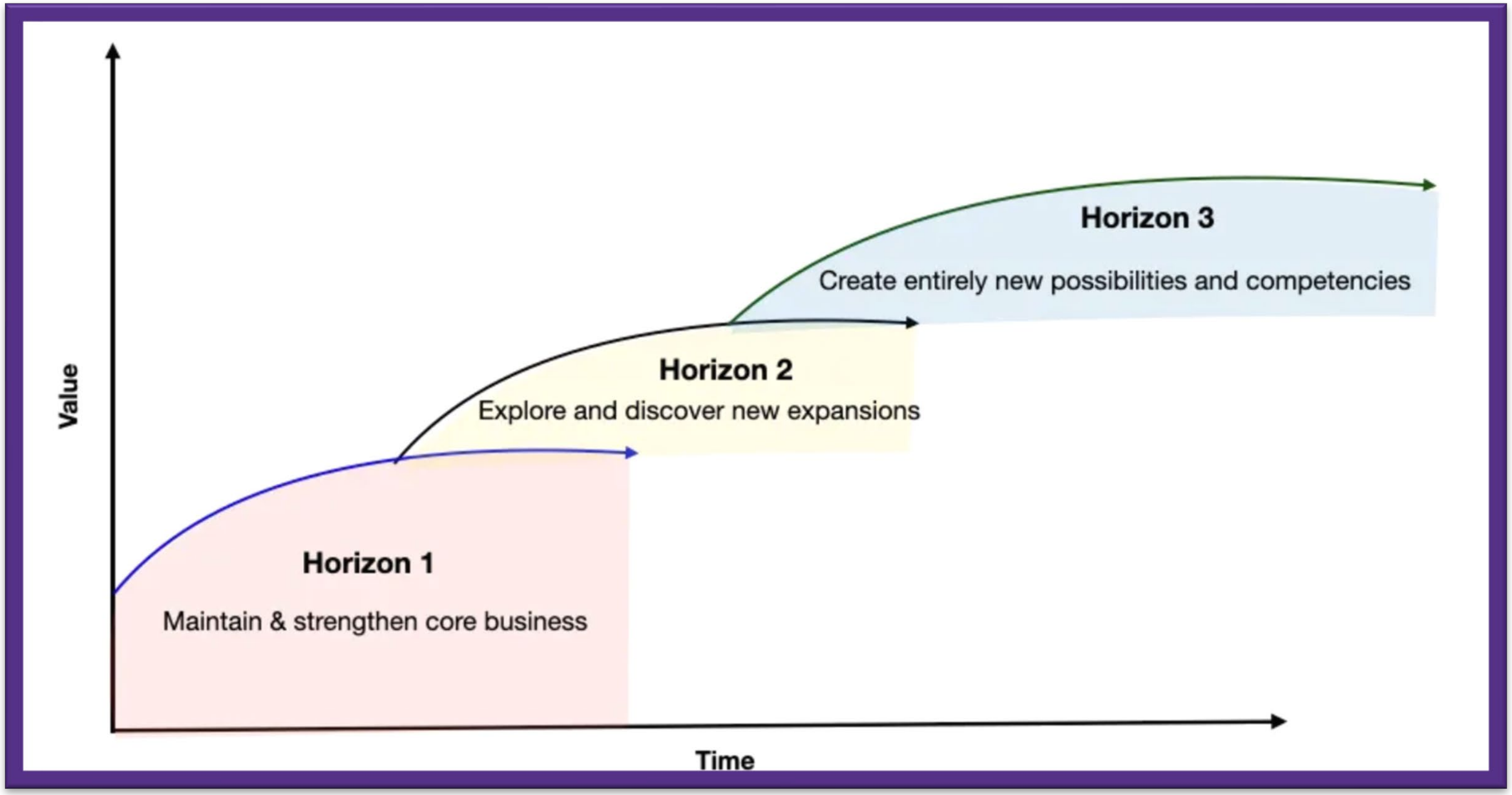
Curriculum (re)design

- CBE – competency based education
- Modular degrees
- Micro credentials
- Interdisciplinary programs

Flexible academic calendars and policies

Data driven decision making

A Widely Utilized Framework for Innovation is the McKinsey 3 Horizons Model



When to use the 3 Horizons of Growth model

•To foster a culture of innovation
•To create a framework necessary for achieving long-term initiatives
•To identify opportunities for new business
•To enhance business analysis and focus on potential challenges
•To prepare a developmental plan

Source(s): McKinsey & Company

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Horizon Details within the Framework

Horizon #1 Optimize Current Business	Horizon #2 Nurture Emerging Opportunities	Horizon #3 Create Future Growth Engines
Focuses on extending and defending current businesses. This includes maintaining market share and optimizing existing operations.	Involves nurturing emerging opportunities. These are businesses or projects that have potential and are in the process of becoming significant contributors.	Concerns creating genuinely new business opportunities. This involves innovation and exploring new markets or technologies.

Source(s): McKinsey & Company

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Applying the Framework to Higher Education

Horizon #1

- **Enhance Current Programs**: Improve the quality and delivery of existing academic programs by updating curricula, integrating technology, and enhancing student services.
- **Operational Efficiency**: Streamline administrative processes using technologies like AI to reduce costs and improve service delivery.
- **Student Experience**: Enhance support services, career guidance, and engagement activities to boost student satisfaction and retention.

Horizon #2

- **Develop New Programs**: Create new programs in emerging fields such as data science and sustainability to meet job market demands.
- **Partnerships and Collaborations**: Form strategic partnerships with industry and educational institutions to offer joint programs and enhance employability.
- **Online and Hybrid Learning**: Expand online and hybrid offerings to reach a broader audience, including working professionals and international students.

Horizon #3

- **Research and Innovation**: Invest in research initiatives addressing future societal and technological challenges, fostering interdisciplinary collaboration.
- **Future Learning Models**: Explore new educational models, like competency-based education and micro-credentials, to cater to diverse learner needs.
- **Global Presence and Influence**: Build a global presence through international partnerships and campuses, enhancing reputation and influence.
- **College Mergers and Acquisitions**: Pursue strategic mergers or acquisitions to expand academic offerings, enhance resources, and improve financial stability, fostering innovation and long-term growth.

Source(s): ChatGPT, AGB

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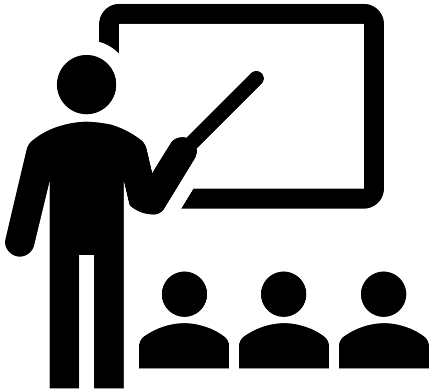

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Case-Study of Motlow State Community College

University Type	2 Year – Public University
Location	Multi-campus: Tullahoma, Fayetteville, McMinnville, Smyrna, and Sparta, TN
Founded	1969
Total Enrollment	6,060 (Fall 2023)
Acceptance Rate	Open Admissions Policy
In-State Tuition and Fees	$3,307 (Fall 2023)
Demographics	67.26% White, 12.72% Hispanic or Latino, 9.98% Black or African American, 4.37% Two or More Races, 0.21% Asian, and 4.66% Other

Source: MSCC Website, US News

Case-Study of Motlow State Community College

Horizon #1 – Upgrade Tech & Facilities

- **Action:** Upgrade technology for traditional on-campus courses
- **Impact:** Enhanced learning experience and better preparation for students

Degree Enhancement

- **Action:** Enhance existing associate degree programs
- **Impact:** Increased enrollment, transfer rates, and employability

Improved Student Services

- **Action:** Improve academic advising and tutoring
- **Impact:** Higher retention and graduation rates, and increased student satisfaction

Horizon #2 – Distance Education and Online Learning

- **Action:** Expand MSCC Online
- **Impact:** Diversified revenue, broader enrollment, and wider geographic reach

Accelerated Degree Program

- **Action:** Develop "guided pathways" for more efficient degree completion
- **Impact:** Improved graduation rates and increased cost savings from students

Industry and Community Partnerships

- **Action:** Form partnerships with local businesses for internship programs
- **Impact:** Better job placement rates and strengthen community ties

Horizon #3 – Invest in AI and Data Analytics

- **Action:** Personalize student learning experiences with AI
- **Impact:** More efficient resource allocation and data-driven decision making

Bachelor's Degree Program

- **Action:** Expand beyond the traditional community college model
- **Impact:** Diversify educational offerings and increase retention of students

Personalized Education Models

- **Action:** Offer targeted, short-term education options
- **Impact:** Attract lifelong learners, new revenue stream, and increased relevance in changing job markets

Source: MSCC Website, ChatGPT

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Discussion With Attendees

Appendix

Resources

Start the conversation by contacting
AGB: consulting@agb.org

- Review the Business Model Page at AGB.org: HERE
- Review the Boardroom Conversations around Business Models info at AGB.org: HERE.
- Join the next webinar on August 13 on Succession Planning, HERE.
- Read Dr. Friga's blog on *Modern Strategy for Higher Education* HERE.

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The AGB Approach to Forming a MAP Strategy

Phase 1

- *Strategic Assessment* -

- Review current overall financial position and forecasted revenues and expenses
- Understand the strategic plan and assist in creation of long-term aspirations and goals
- Calculate financial and other gaps to be filled by Mergers, Affiliations, and Partnerships
- Clarify unique value proposition to offer partner candidates
- Review past acquisition efforts for key takeaways

Phase 2

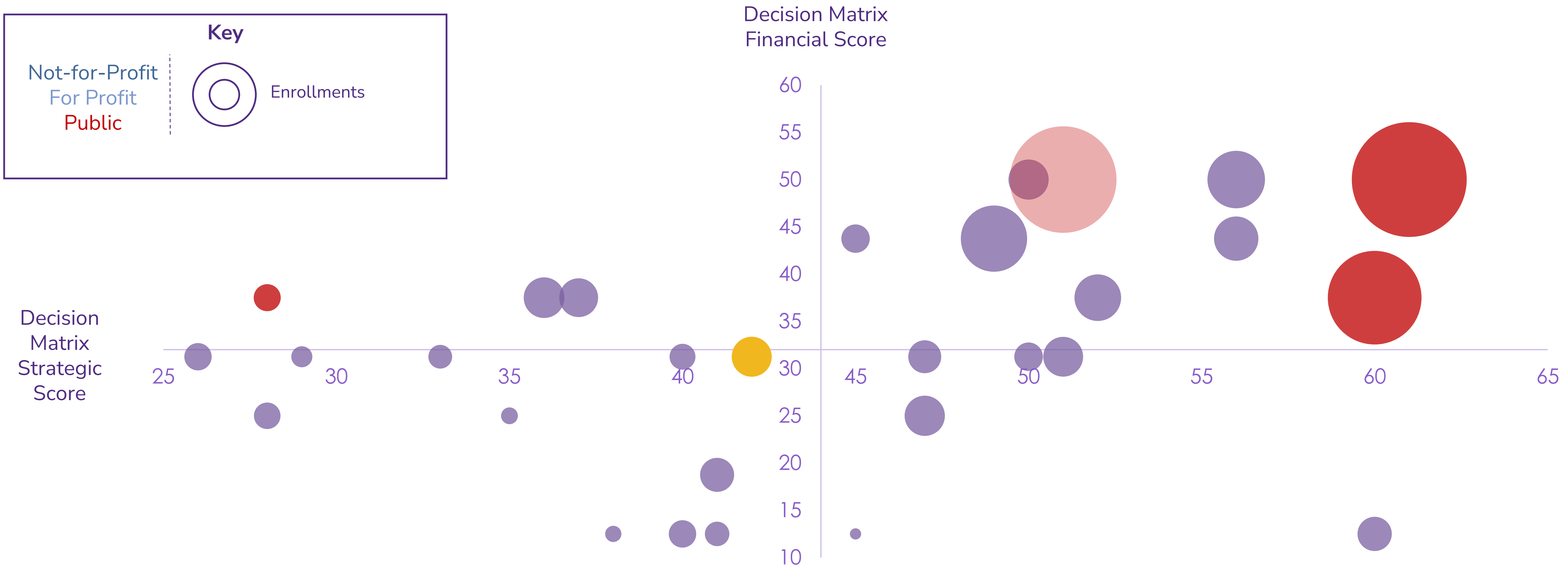
- *Decision Matrix and Scan* -

- Identify the positive attributes of a potential Merger and Affiliations candidate
- Develop a scoring system to allow a disciplined methodology for candidate review
- Scan universities for potential candidates and gather data
- Rank order options based upon the framework with quantitative and qualitative support
- Identify higher level next steps for opportunity seeking and outreach

Key Goal: Identify strategic attributes and prospective partners that, if acquired, would advance the institution toward its future vision

We Employ Analytical Visualization Tools to Summarize Our Data and Recommendations

Illustrative example



Source: AGB

Small and Mid-sized Institutions Are at Most Risk

“One deep” on all functional areas of the organization, limiting the ability to successfully execute

Many outdated and “out-of-market” operating policies and procedures

Lack 7x24 digital student acquisition systems, resources, and organizational depth

Outdated technology and limited tech resources

Quality of earnings – prosperity gap that requires major long-term revenue growth

Concentrated revenue positions in declining markets

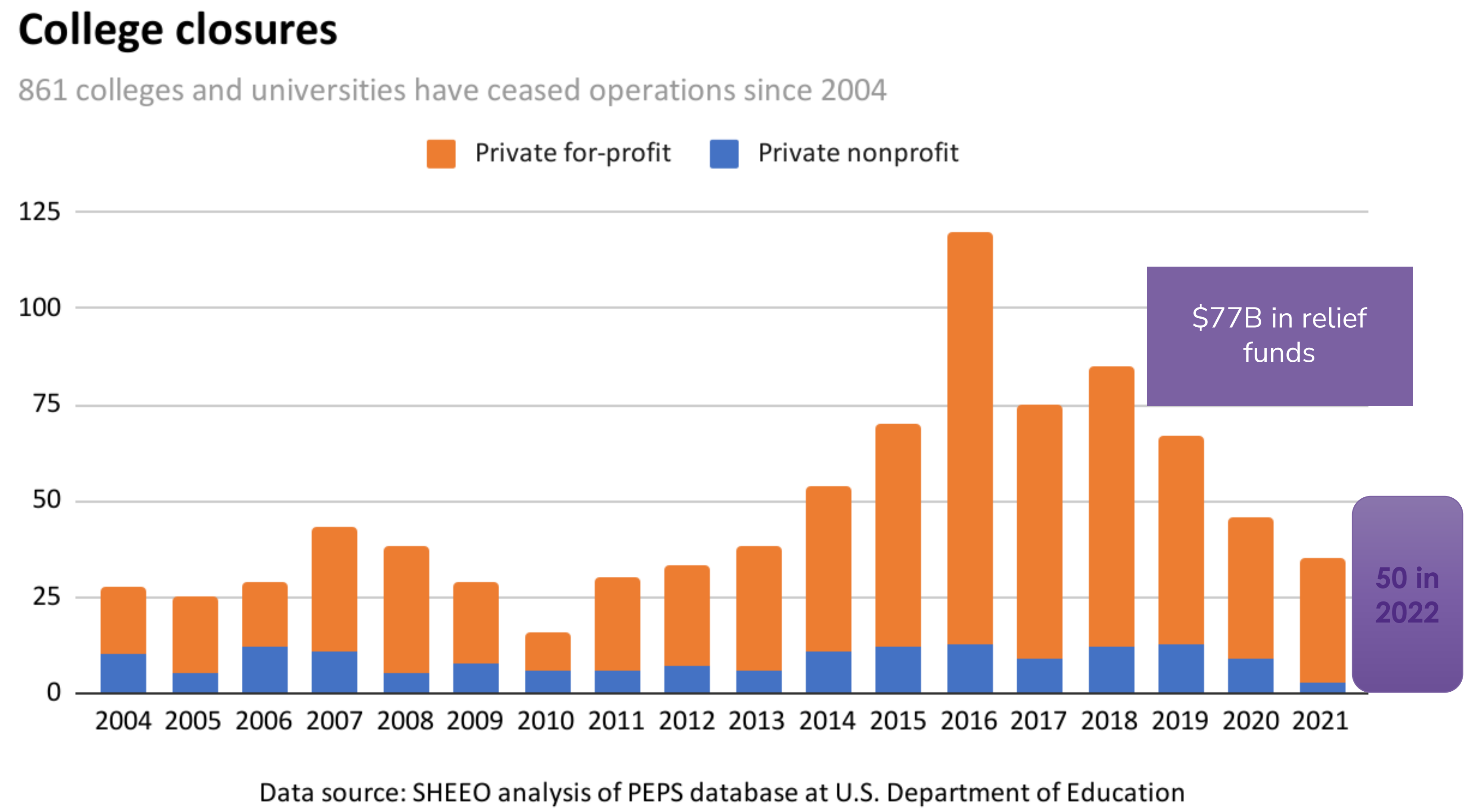
Underpay employees, making it difficult to retain top talent

Attempt to use “tactical funds” for strategic initiatives

Growth initiatives & ambitions are too small and even if successful will not bridge their prosperity gap

Source(s): AGB

We Expect More Closures In The Future



- According to EY-Parthenon, **80% of college closures have fewer than 1000 students.**
- 861 colleges and 9,499 campuses have closed since 2004
- Fitch Ratings issued a deteriorating outlook for U.S. colleges and universities in 2024, citing high labor and wage costs, elevated interest rates and uneven enrollment gains across the sector.

Source: The Chronicle of Higher Education, Lee Gardner, 2023; Hechinger Report 2022; NASFAA.org; Hechinger Report; Inside Higher Ed; Higher Ed Dive

Cooperation and Collaboration Will Be Key For Prosperity

- Innovation may be out of reach for many.
- Institutions will have an opportunity to access a significant depth of resources to grow their revenue and transition their business model through collaborative partnerships, affiliations, and strategic mergers.
- **Clayton Christenson's prediction:** "by 2028, a quarter of universities in the US could go bankrupt, merge, restructure or close" – not likely to happen at that pace but still coming
- ***Over the next five years, private system affiliation models and course sharing will increase.***

COALITION FOR THE COMMON GOOD

ANTIOCH UNIVERSITY

OTTERBEIN UNIVERSITY

National University System

TCS Education System

rize

core education

The Council of Independent Colleges

Source: Clayton M. Christensen and Michael B. Horn, "Innovation Imperative: Change Everything," The New York Times, 1 November 2013.

Questions for Board Discussion – Horizon 1

1. How many students pay full tuition, how many receive financial aid, and what is the institutional discount rate? Is that rate sustainable over the long haul?
2. Do recent fiscal results and future financial and demographic trends point to a need to rethink or reform our institution's current business model? What changes would lead to greater financial stability and long-term sustainability?
3. Does our institution have a well-thought-out financial plan, including cash on hand or reserves, to deal with unexpected losses?
4. How much is our institution working to increase efficiencies through cost cutting, new technology, and other means?
5. Is our board familiar with the institution's major revenue streams— including tuition, the endowment, philanthropy— and whether they are healthy and diversified? Does the institution have alternative plans in place in case one of those revenue sources starts to contract?
6. Does our board include members with the skills, knowledge, and background needed to plan for the financial future of our institution? How can our board best achieve collective "financial literacy" while recognizing that not all board members need to be financial experts?
7. Does our board have a system for tracking key financial metrics that provides data relevant to long-term financial decision-making?

Source: AGB.org – "Trending Topics – Business Models"

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Option Analysis for All Three Horizons

Optimize Administrative Spend

Assess level of investment vs strategy

- Consolidate Purchasing
- Cut Staff
- Re-engineer Processes
- Outsource
- Centralize/Shared Services
- Modernize Technologies
- Merge Multiple Locations
- Increase Spans of Control
- Decrease Energy Use

Increase Academic Program Returns

Rationalize academic offerings based upon demand

- Sunset Programs
- Grow Existing Programs
- Launch New Programs
- Increase Teaching Loads
- Hire More PT Faculty
- Hire More NTT Faculty
- Freeze New Faculty Hires
- Decrease # of Faculty
- Increase Student Retention

Grow Resources

Increase enrollments and revenue

- Launch New Development Campaign
- Determine Unique Positioning
- Invest in Advertising Campaigns
- Collaborate with Other Universities
- Pursue PPPs (facilities, energy, etc.)
- Launch Medical Services
- Develop More Executive Education
- Increase Online Program Offerings
- Secure New Debt Offerings
- Grow Research Portfolio
- Sell Excess University Assets (land, etc.)

Source: Dr. Paul Friga

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Poll Question 3

Provide your own examples of strategic initiatives you are considering.

a) Horizon 1

b) Horizon 2

c) Horizon 3