



# Making the Case for Business Model Transformation

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# Why Transformation?

## Systemic Issues Requiring Transformational Solutions

- Ten consecutive years of enrollment decline on a national basis from 20.5M to 16M – leading to lower net tuition pricing
- 43 million consumers with \$1.8 Trillion of student debt
- Hundreds of institutions running structural deficits
- An industry with poor quality of earnings, creating large prosperity gaps
- More supply of brick-and-mortar colleges than student demand
- Hundreds of institutions at or approaching – “not financially viable” status according to DOE Financial Composite Scores
- Technology requirements, substantially increasing
- Changing consumer behaviors
- Demand migration from degrees to credentials and certificates
- Corporate workforce development influence on higher education
- New entrants impacting student enrollment
- A campus based economic model that does not support continuous investments into functional areas critical to long-term success

*Sets the context for transformational versus incremental change*

# Prosperity Gap – Quality of Earnings

**Too many institutions achieve a balanced budget through continued underinvestment in areas critical to their future, including:**

- Regular replacement of equipment
- Fully funding depreciation
- Paying market wages to attract and retain employees
- New program development
- Student outcomes: mentoring, coaching, tutoring
- Technology and employee training
- Marketing, Student Acquisition
- Mission, diversity and equity initiatives
- Academic and student support services



*Structural deficits are the norm among hundreds of institutions, even though they may show a balanced budget*

*Continuous underinvestment leads to loss of competitive position*

# Situational Assessment at Your Institution

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- If your institution has a structural deficit that is expected to continue over the next few years
- If your institution also has a quality of earnings challenge (prosperity gap) because of historical underinvestment (deferred maintenance, salary gaps, technology, etc.)
- If your institution has a heavy revenue concentration of residential undergraduate programming, in a declining market, with lower net tuition prices

Incremental improvement will not be enough for long-term prosperity

# Maintain the Mission, Transform the Business Model

## Maintain the Mission and Values

Example: your institution provides a liberal arts education dedicated to intellectual inquiry and wholeness of person within a diverse residential community

## Transform the Business Model

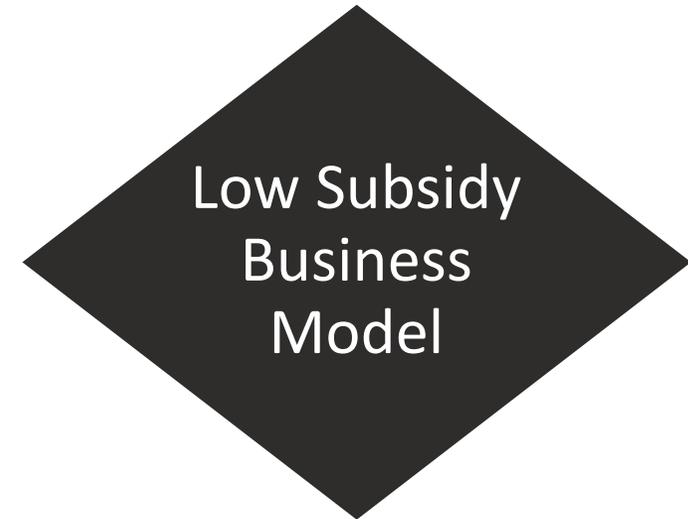
While residential liberal arts programming may be at the center of your institution's DNA, there is a need to create a transformative business model that embraces revenue diversification, market aligned operating efficiency, and financial metrics that will pass the test of time.

# Moving from High to Low Subsidized Business Model



**Highly Subsidized  
Business Model**

Most institutions have a high-cost, low-margin residential business model and as a result require heavy external subsidies by donors and the endowment



**Low Subsidy  
Business  
Model**

It is possible to maintain a moderate-cost residential model with diversification of revenue, increasing revenue cycle (+50 per year), and appropriate operating metrics. This combination will substantially lower external subsidy requirements.

# Alignment of Resources and Related Challenges

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- In today's operating environment it is nearly impossible for the president to deliver effectively as both the Chief Executive Officer (CEO) and Chief Operating Officer (COO)
- Too often Provosts are under severe pressure as their experiences are usually more aligned with academe. They may not have the training or background in financial and operational excellence or business intelligence tools to serve fully as a COO.
- Often the organizational structure will not be optimized for cooperation, speed of service, and timely decision making. We find ourselves stuck maintaining the same operating rhythms and policies that hold us back.

# Summary: Why business model transformation?

Systemic  
market  
challenges

Alignment of  
resource  
challenges

Operating  
challenges and  
high-cost model

Technology  
challenges

Scarcity  
mindset  
challenge

Time is of the  
essence

# Business Model Transformation Toolbox

## PROSPERITY STUDY PROCESS

- 1. Revenue Analysis** – Revenue concentration, revenue cycles, revenue segments requiring scaling
- 2. Direct Margin Analysis** – Academic expense ratio, central nervous system of a financial model; determines direct margins available for operating expenses
- 3. Prosperity Gap** – Quality of earnings, sets context on journey, areas of underinvestment; Quantifiable number in \$M of annual margin requirement; industry with poor quality of earnings
- 4. Strategic Growth Building Blocks** – Three to five big growth areas that in aggregate will exceed the prosperity gap; programming, market segments, scaling existing revenue segments, fulfilling capacity
- 5. Operating Model** – Implementation plan, internal barriers to success, operating rhythms and polices, timelines, milestones, organizational
- 6. Financial Model** – Range of possible outcomes over one, three and five years; capital requirement, ROI, reinvestment modeling, short-medium and long-term range of results
- 7. Capital Strategy** – Money follows great plans; board needs to own with the president; venture philanthropy; including the base case for financial support of the operating plan

# How much does business model transformation cost?

## With a mindset of scarcity – Business model transformation costs too much – proven methodology

- Institutions are often not used to investing in initiatives with a transformational impact on long-term prosperity
  - The lack of confidence in the ability to implement and execute operationally is a valid concern
- A low-risk, scarcity mindset **ultimately becomes high-risk**, with a certainty of continued competitive position erosion, until the institution has reached a point of irrelevance
  - A lack of investment mindset and the desire for immediate pay-back keeps the scarcity mind intact – ensuring a continuous decline
  - **Money does not follow complacency and anxiety**

## With a mindset of abundance – Business model transformation is profitable – proven methodology

- More revenue, expanded margins, better operations
- Money follows ambitious plans
- Money follows credible plans
- Money follows leadership and confidence
- Investment alternatives become available with a credible and ambitious plan
- Use venture philanthropy as a pathway to a turn around and financial model transformation

# What if time is already running out for your institution?

- Some institutions have eroded their competitive position so far that “it is not possible” to wait a couple of years for transformational results to mature.
  - We need money now: the false expectation that “money is invested into operations and an immediate payback is returned”
  - What if you started two years ago? What if you started five years ago? Where would you be today?
  - **Time gets away from many institutions – failure to act is a common thread among struggling institutions**
- Two alternatives to this situation:
  1. Become a sell-side institution and agree to cede control to another institution in a merger or affiliation transaction
  2. Attempt to unlock the balance sheet to fund both deficits and transformation
    - Higher probability of funding both versus just the deficits
    - Little appetite for buy-side institutions to fund deficits without a plan for transformation

## What does “unlocking the balance sheet” mean?

- Business model transformation requires a capital strategy along with the institutional “will and resolve” for success. Core works with our institutional partners on Capital Strategies including:
  - Non-banking financial sources, including family offices to raise growth capital and refinance their debt
  - Running a professional process to monetize all aspects of their campus
  - Developing the business case to leverage “venture philanthropy” to fund business model transformation
- Using a mindset of abundance, capital will follow a credible and ambitious operating plan

# Strategic Rationale for Operating Partnership with Core

We can achieve more together than a “do-it-yourself” operating model. This lowers risk for operational execution

Expertise in both strategic and tactical supporting services across all functions of the organization

Services provided on a cost-recovery basis, meaning better returns for our partners

Active management – accountability for results. We become a catalyst for transformation

Business model transformation can be achieved with one requirement:  
Institutional Leadership



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*For more information or to set up a Zoom session, please contact:*  
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