

# Financing Agility and Innovation

Part 2: Designing for Agility



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## Investing for Growth

1

### Support Infrastructure and Staffing



Build internal infrastructure and staff ahead of need to ensure capacity is not an inhibitor of growth.

2

### Strategic Investment Funds



Create an internal fund to invest in high-potential programs likely to grow future revenues.

## Designing for Agility

3

### Differentiated Offerings



Prioritize programs likely to stand out in an increasingly competitive market.

4

### Balancing Launch and Revision



Design flexibility in programs to ensure launched programs can be re-positioned for success.

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### A Diverse Portfolio



Maintain a broad portfolio with multiple credential types and modalities.

# Pressing Member Questions

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How can I make the case to fund strategic reserves within my unit?

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How do I grow a strategic reserve when there are no institutional funds available?

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How do I use financial incentives to introduce more rigor to program launch and revision?

---

How do we plan ahead to cover the cost of unfunded mandates?

# Squaring a Circle

## COE Units Struggle to Balance Need for Incentives with Competitive Pricing

### Internal

### Program Economics Misaligned

### External



#### Faculty and Department Incentives

- Many institutions now forced to engage with reluctant faculty to develop new COE programs
- COE leaders forced to create new, riskier compensation models to nudge faculty participation:
  - Higher course development stipends
  - Shares of future program revenue



#### Market Viability

- Strengthened faculty incentives drive up cost of developing new programs
- To balance expenses and revenue, COE units forced to raise tuition
- COE unit struggles to develop program at competitive price point, limiting enrollment potential



*From a financial standpoint, there's no way I can make the numbers work. If I give faculty the money they want, I'll have to raise our program pricing and lose students to our competition. And if I don't address faculty incentives, I won't have any programs at all.*

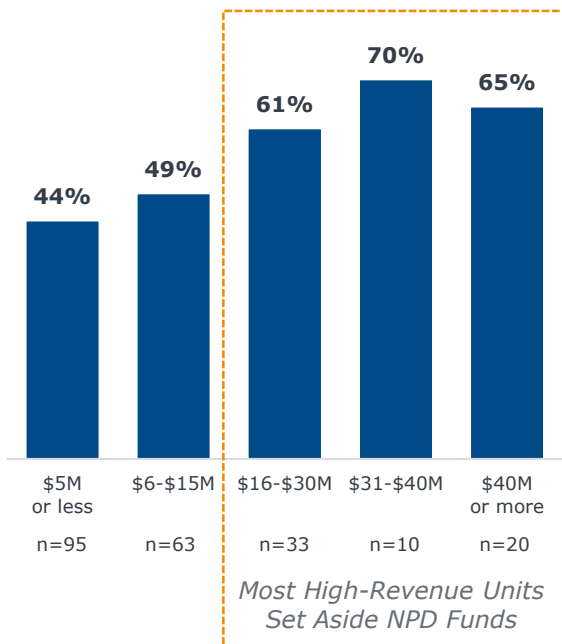
*COE Unit Executive  
Private, Urban University*

# Strategic Investment Critical for Revenue Growth



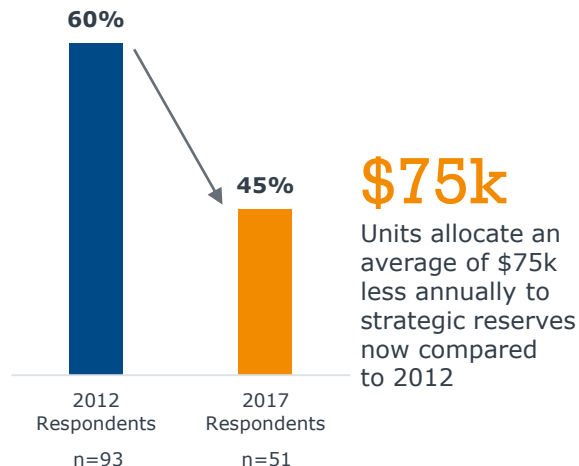
## Strategic Investment Funds Critical to Climbing Revenue Ladder

*Proportion of COE Units Investing in New Program Development by Revenue Category*



## But Fewer Maintain Reserves in 2017 than 2012, and Allocate Less

*Proportion of COE Units Maintaining Strategic Reserves by Year*



# Seeding Innovation

## Strategic Investment Funds in Use Across Higher Ed



### Duke University's New Venture Capital Fund

*Aiming to generate \$10 million in available funds to seed new programs and incentivize faculty to move programs and courses online*

*First seeking to raise \$2 million to jump start seed funding*

Seed funding availability is particularly important because:

- COE programs often incur greater up-front costs than traditional face-to-face programs
- Faculty need financial incentives to encourage experimentation with new audiences and modalities
- Structured as “venture equity”, where programs are funded in return for a portion of future revenue

### Alternate Uses for Strategic Funds

#### Faculty Equity Fund

\$1M of central dollars earmarked for a **Faculty Equity Fund**, used to help an institution become nationally competitive in the marketplace and improve faculty retention

#### Classroom Technology Fund

A portion of central dollars earmarked for a **Classroom Technology Fund**, used to purchase education technology and equipment for university classrooms

#### Research Fund

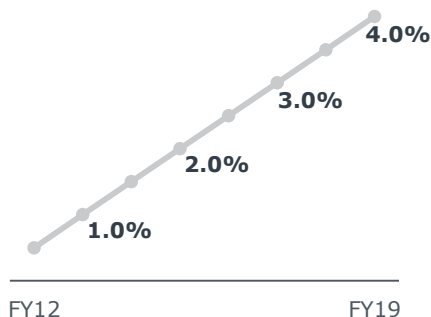
\$5M of central dollars earmarked for a **Research Fund**, used to attract top researchers, renovate research labs, and provide start-up costs for research faculty



# Building Up to Desired Savings Reduces Pushback

## At Institutional Level

### Incremental Additions Create Large Funds Over Time



- Provost Fund financed through tax on traditional undergraduate net tuition
- In FY14, tax generated \$3M
- In FY19, tax will generate \$9M

## At COE Unit Level

### Even Small Units Can Save Significantly Over Time

*Revenue Allocated by Example Unit with \$5M in Annual Revenue*

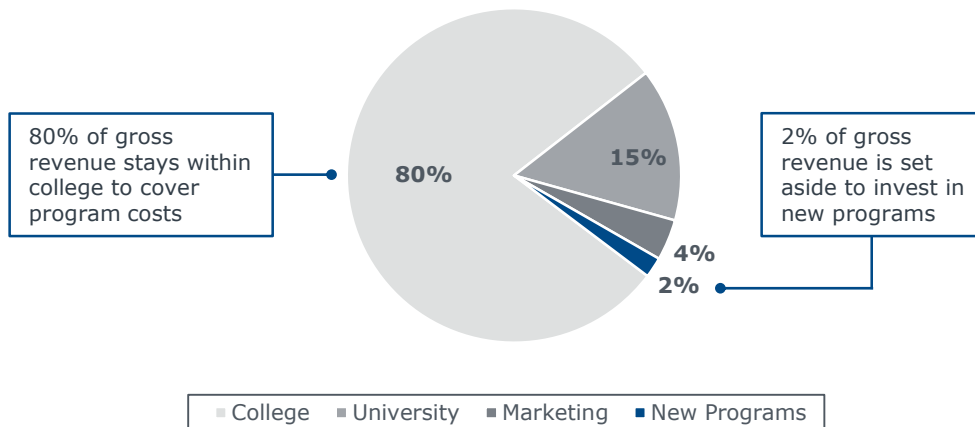
COE strategic reserve fund financed with allocation of proportion of annual revenue (increasing at increment of 0.5% per year)

- After 1 year, \$25k available to fund development of new degree program
- After 3 years, \$150k available for investment
- After 9 years, reserve fund surpasses \$1M

# Creating a Self-Replenishing Fund

## Bemidji State Reloads Seed Fund with Portion of Revenue

### Bemidji State University's Revenue Sharing Agreement for New Professional Master's Programs



# Thinking Like a Venture Capitalist

## Deploying Seed Funds to Maximize ROI

### Key Characteristics of Successful Seed Funding Programs

- ✓ **Rigorous Vetting Process**  
Institutions establish clear seed fund criteria and require faculty and staff to build strong business case for initiatives
- ✓ **Compelling Revenue-Sharing Agreements**  
Institutions establish revenue-sharing agreements that ensure approved initiatives keep reloading the fund
- ✓ **Build in Key Strategies for Successful Program Launch**  
Institutions ensure that faculty and departments implement best-practices for launching successful programs and enrolling students

### Mizzou's Program Seed Funding Initiative



#### Mandatory RFP Process

Academic units applying for access to seed funding must meet with online program coordinators, build a plan for instructional design, and complete a proposal

#### Rigorous Requirements Lead to Consistent Returns on Investment

Revenue-sharing agreement assures that successful programs return revenue to seed fund for further investment

#### Mandate Spend on Marketing and Recruiting

Seed funding recipients are required to spend 10 percent of funding on marketing and recruiting, a critical piece of launch success often overlooked by faculty

**196%** *Average two-year return on Mizzou Online's seed funding initiative*

# Beyond Program Development

## Reserve Funds Allow for Investment in Wide Array of Strategic Focus Areas

1

### Program Revision

- Reserve funds can finance re-development of critical courses to refresh existing programs
- Invest in market research to direct curricular revisions towards in-demand skills

2

### Marketing Campaigns

- Existing programs may require capital-intensive marketing efforts to attract enrollments
- Recruiting particularly expensive in urban areas and other competitive markets

3

### Micro-Grants and Financial Aid

- Small grants can remove financial barriers to adult student enrollment
- Reserves provide financial flexibility to prioritize continuing enrollment over on-time payment

4

### Technology Upgrades

- Profusion of emerging technologies and online support tools require significant investment
- Engaging at-risk student populations in online programs requires technological supports

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In an era of ever-tightening budgets, COE unit strategic investment funds have become more difficult to create and grow, but are still achievable and impactful for business development even in small amounts.

#6

COE units at every stage of development can self-fund strategic reserves through incremental additions that gradually build to a substantive self-replenishing account.

#7

Beyond funding new program launch, strategic investment funds should be tied to market-driven launch practices that promote growth and trigger review and revision when programs underperform.

#8

Strategic investment funds need not be limited to supporting individual new program launches, and can also fund larger COE unit objectives including portfolio review, expanded staff technology, and financial aid for students.

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### A Diverse Portfolio



Maintain a broad portfolio with multiple credential types and modalities.

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How do I identify the best program opportunities for my institution in a saturated and competitive market?

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What other indicators of demand should I consider when launching new programs now that everyone is mining labor market data?

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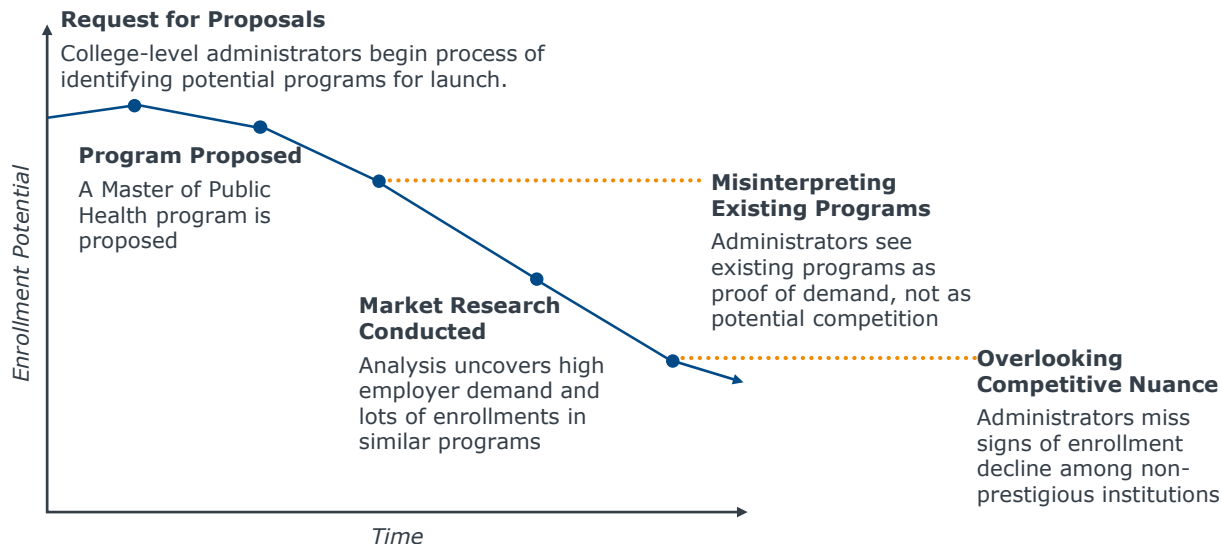
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# Peer Success Not Always Replicable

## Simply Copying Successful Programs Misses Critical Market Nuance



# A Holistic Approach to Market Research

## Labor Market Demand Alone Can Miss Best Program Opportunities

### Only Moderate Employer Demand



#### Employer Demand Analysis

Market research reveals roughly 400 jobs for respiratory health professionals over previous year.

- Employer demand lags behind numerous other clinical health opportunities
- Large proportion of available jobs only require an associate's degree

### ...But Deeper Analysis Reveals a Largely Untapped Market Ripe for a New Program Offering



#### Review of Regulations and Accreditations

Literature reveals a shift in regulations. Certification will soon require a bachelor's degree.



#### Competitor Analysis

Scan of other state institutions reveals numerous associate's-level programs soon to be obsolete.



*High employer demand for respiratory therapists relative to the number of program seats currently available, in addition to coming regulatory changes to certification, indicates an opportunity to develop a bachelor's program in respiratory therapy."*

*EAB Market Analysis*

# Repositioning for a Changing Economy

## Portfolio Analysis Anticipates Occupational Trends



### *Which Locations Have the Best Growth Potential?*

- Main campus in Western Massachusetts, with 8 branches
- All locations offer Bachelor's and Master's in Human Services
- Locations originally determined by YMCA partnerships that supply 10% of enrollments



### **Houston Promising on Paper, But Underperforms**

**6.7M** Residents, with strong projected growth

**2.4K** Human services jobs posted in the past year

**80** Enrollments

### **Despite Low Projected Demand, St. Johnsbury, VT Outperforms**

**302K** Residents in surrounding area<sup>1</sup>, with flat projection

**<300** Human services jobs posted in the past year

**120** Enrollments

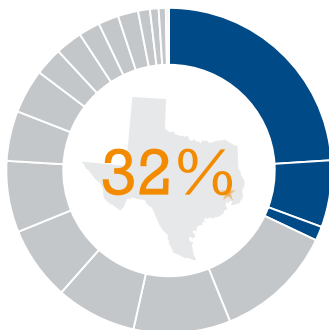
1) Defined as the following counties: Coos Co, NH; Grafton Co, NH; Caledonia Co, VT; Essex Co, VT; Lamoille Co, VT; Orange Co, VT; Orleans Co, VT; Washington Co, VT  
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Sources: EAB Interviews and Analysis; Springfield College School of Professional and Continuing Studies. <http://springfield.edu/school-of-professional-and-continuing-studies> (2017); Applied Geographic Solutions; Burning Glass Labor/Insight™.

# Positioning New Market Opportunities

JTBD Understanding Relative Demand, Not Number of Open Positions

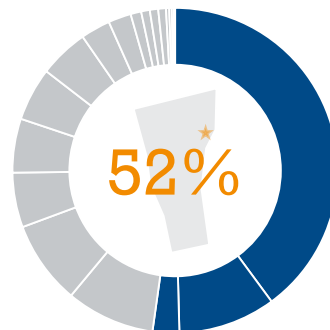
## Broader Range of Opportunities, Better Salaries in High-Cost Houston



■ Human Services-Related Industries  
■ Other Industries

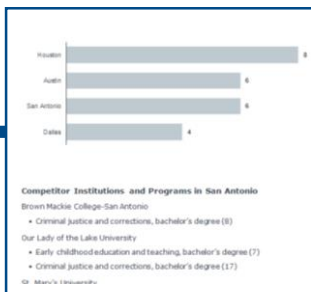
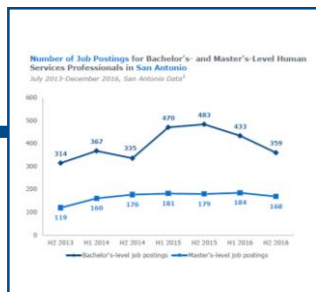
- Lower concentration of human services jobs, despite thousands of job ads
- Higher-paying opportunities in professional services, manufacturing, and oil and gas
- High cost of living weakens appeal of low-paying human services jobs

## Human Services a Top Career Opportunity in Low-Cost St. Johnsbury



- High concentration of human services jobs, despite lower number of job ads
- Human services twice the proportion of job opportunities compared to Houston
- Nearly 15% lower cost of living than in Houston

# Anticipating Future Economic Shifts



**Summary of Employer Demand Analysis**  
*Employer Demand for Human Services Graduates in 7*

	Change from 2014 to 2016 <sup>1</sup>	Concentration of job openings (July 2016-June 2017)
Austin	-6.1%	2.16%
	-14.5%	
Dallas	-6.1%	2.10%
	-20.9%	
Houston	-8.1%	2.06%
	-2.3%	
San Antonio	+12.8%	2.50%
	+4.8%	

## 1 Evaluate Relative Demand in Texas

### Key Analyses

- Concentration of employer demand across industries
- Labor demand change over time

### Key Data Sources

- BLS, State occupational data, Job Postings

## 2 Assess Competitor Market Saturation

### Key Analyses

- Number of institutions offering similar programs
- Ratio of relevant degree completions to open jobs

### Key Data Sources

- IPEDS, Job Postings

## 3 Winning Combination in San Antonio

- Strong employer demand for human services professionals
- Fewest career alternatives compared to other cities

# Key Insights and Survey Findings

#9

In a saturated market for new COE programs, the success of existing programs is no longer a reliable indicator of demand on its own. High-revenue COE units instead identify growth opportunities by complementing labor market data with competitor analysis and review of regulations and accreditation requirements.

#10

Looking beyond absolute numbers of job postings is key to assessing true demand for individual programs in context of students' full range of labor market options

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Prioritize programs likely to stand out in an increasingly competitive market.

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How can I best leverage my existing program portfolio to achieve near-term revenue growth?

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How do I build flexibility into program launch plans to allow us to pivot or close programs that underperform?

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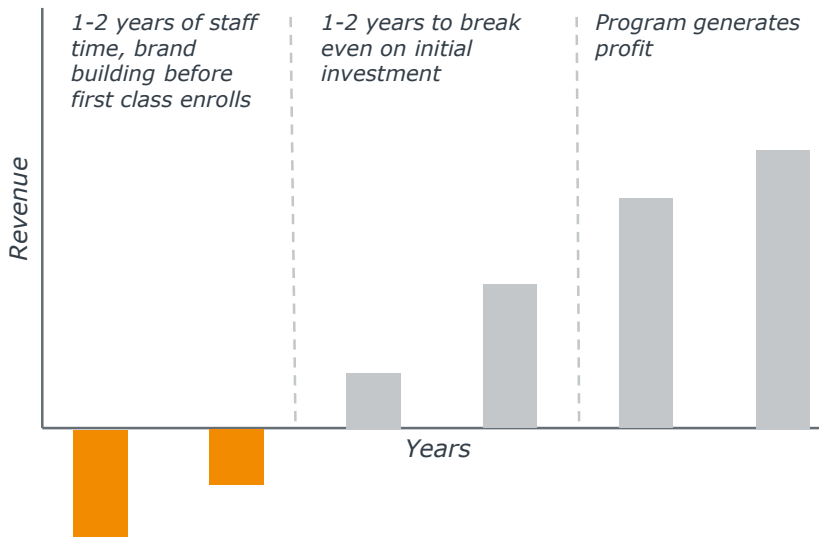
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# When You Can't Launch Your Way to Growth

## Lifecycle of New COE Launches



“Even successful programs take two to four years to turn a profit. I’m getting pressure to generate additional revenue, but I need that money as soon as possible—not two years from now. New launches are off the table.”

*COE Dean, Large Public Research Institution*

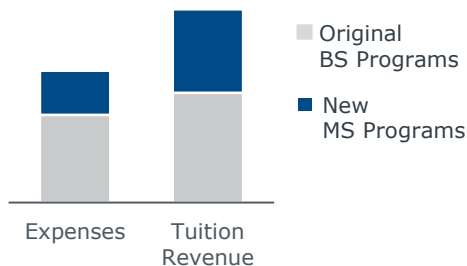
**~20%** *Proportion of EAB Market Research requests in 2017 focused on revising an existing program*

# Supplementing the Existing Portfolio

Capitalize on Current Offerings to Grow While Minimizing New Costs

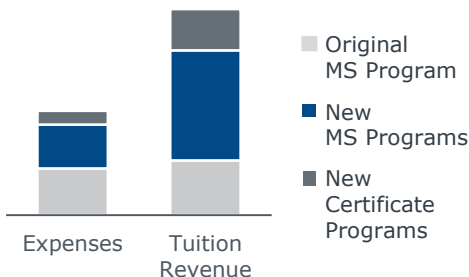
## Bellarmino University's 4+1 Programs

*MS in Accountancy, MS in Athletic Training  
Build on Undergraduate Programs*



## University of Maryland-College's Cybersecurity Portfolio

*New Master's and Certificate Offerings  
Complement Core Master's Program*



### Benefits of Expanding Offerings in Existing Disciplines

- Leverages discipline-specific academic resources to achieve economies of scale
- Potential to bolster reputation and marketability of existing portfolio



# The Peril of Fixed Cost Programs

## Upfront Investment in Low-Enrollment Program Yields Ongoing Budget Drains

1 Institution launches culinary program to meet perceived local workforce demand

3 Leadership invests \$26M in building renovations, specialized equipment, and a dozen new faculty

5 Faculty and student backlash stalls attempts to sunset program to minimize losses

2 Pro forma financials project program breakeven in year 3 at 1,000 students

4 Program enrolls 375 students in year 3—more than 60% below target

6 Institution stuck with expensive, inflexible fixed resources



### On the Politics of Program Closures

“Political resistance makes it very hard to sunset programs. Academic programs are like scepters that can’t be taken away from the king.”

*Director of Strategic Analysis  
Public Research University*

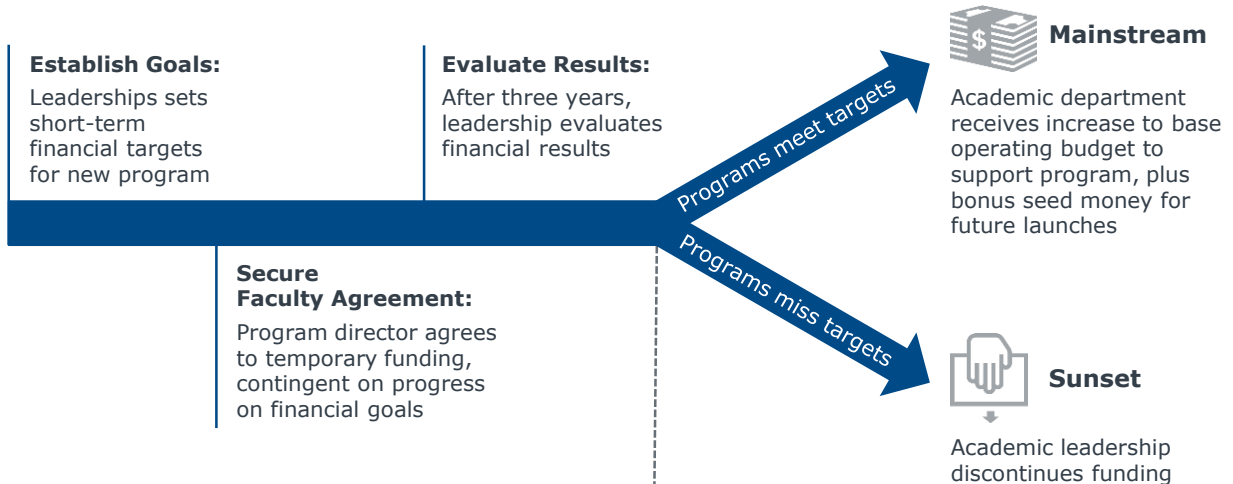


# Creating Upfront Sunset Provisions

## Policies Facilitate Program Closures or Handoffs



### Upfront Sunset Provision Process for New Programs



#### Arizona's Shared Service Alternative to Sunsetting

- Rather than sunset programs with lagging revenue, UA Online offers them back to academic departments
- From there, departments can decide whether to assume expenses for programs

# The Secret to Sunsetting Success

## Clear Financial Targets Facilitate Buy-In and Enable Program Closures



### Sample New Academic Program Budget Projections

Total Costs (Direct and Indirect)	\$377,208
Net Income/(Loss)	\$250,692
Income to Direct Expense Ratio	2.09
Anticipated Residual Return to School	\$125,346

### Income/Expense Ratio

- Most new programs agree to 2:1 I/E<sup>1</sup> ratio targets
- Targets vary based on program type, location, and proportion of direct expenses
- Recurring failure to achieve expected I/E<sup>1</sup> ratio serves as grounds for potential program termination

## Benefits of AU's Upfront Sunset Policy



Avoids underperforming programs becoming permanent budget drains



Achieves academic buy-in for program closure decisions



Motivates faculty to continually assess and improve programs

# 10%

of new market-driven programs sunset for weak financial performance

1) Income to direct expense.

# Sunset or Course Correct?

## High-Revenue Unit “Sunsetting” a Forcing Function for Program Revision



### Very Few Aggressive Sunsetters Close Programs<sup>1</sup>

- Aggressive sunsetters **close courses** to intervene with struggling programs
- Closing programs seen as a last-resort strategy, most don't close more than one annually



### A Response to Market Shifts and Volatility

- Aggressive sunsetters almost universally conduct program demand validation
- Sunsetting not a result of poor labor market analysis, but instead from shifting demand and increasing competition



### Most Aggressive Sunsetters are Independent Units at Large Universities

- Two-thirds of aggressive sunsetters are COE units at public institutions
- Nearly two-thirds are independent units, indicating program ownership critical to sunset

1) Aggressive sunsetters were defined as the top 20% of COE units on a scaled ranking for sunsetting courses, certificates, and programs.

# Key Insights and Survey Findings

## #11

Increasingly urgent pressures on revenue mean COE units cannot always afford to wait for new programs to break even, much less generate a return, resulting in a focus on revising and scaling existing programs.

## #12

In addition to revising individual programs, finding new combinations of existing programs and spin-offs at different credential levels maximizes capacity and achieve economies of scale.

## #13

To avoid costly investments in underperforming programs, upfront sunset provisions not only facilitate closing weak programs, but provide an important forcing function for program revision

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How can my COE unit succeed when we are not located in a high-potential urban market?

What is the ideal portfolio mix that will allow us to reach new students and maximize our enrollment potential?

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# A Profile of Success

## High-Revenue Units Capitalize on More Than Brand, Location to Succeed

### Highest-Revenue Units<sup>1</sup> are Typically Located At:



Public Institutions



Very High Research  
Institutions



Institutions in  
Urban Areas

### But Common Misconceptions About Root of Success



#### ***Geography is Not Destiny, Even for Rural Institutions***

- Northern Arizona and West Virginia maintain majority of COE enrollments online, allowing students to enroll, even if distant from campus
- Central Michigan and Florida earn roughly half of COE unit revenue from corporate education and tuition reimbursement

#### ***Online Programs Not the Be-All for Revenue Growth***

- Some brand-name institutions with high-revenue COE units do not enroll more than 20 percent of students in online programs
- These institutions are predominately urban and can capitalize on F2F markets

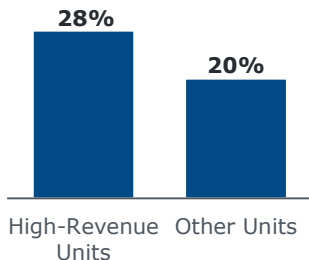
1) High-revenue units refers to COE units earning more than \$30 million in gross annual revenue n=30. All other institutions, n=191.

# Portfolio Diversity Key to Growth

## A Shared Feature of High-Revenue Unit Portfolios

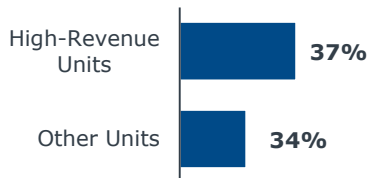
### Non-Credit Programs

*Average share of offerings that are non-credit*



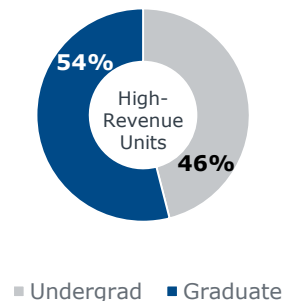
### Mix of Modalities

*Share of offerings that are fully-online, by revenue*



### Variety of Credential Levels

*Share of students enrolled in grad/undergrad programs*



## Benefits of a Diversified Portfolio

### 1 Broadened Prospective Student Pool

- A more varied portfolio of offerings will appeal to a wider variety of students

### 2 Create Pathways for Re-Enrollment

- Stackable credentials enable students to continue their education with you

### 3 Protect Against Market Volatility

- Overinvesting in a single discipline or program type can be risky

1) High-revenue units refers to COE units earning more than \$30 million in gross annual revenue n=30. All other institutions, n=191.

# Key Insights and Survey Findings

## #14

While the highest-revenue COE units are often located in densely populated urban areas, successful COE units in rural locations can generate outsized revenue by prioritizing online accessibility or employer partnerships.

## #15

Despite common perceptions, most high-revenue COE units are not mainly focused on revenue-generating master's programs or online enrollments. Instead, the highest-revenue portfolios are the most diverse, including both credit and non-credit offerings and multiple modalities that appeal to students across long-range career ladders and lattices.

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## Metrics and Data Available:

- Organizational models
- Reporting lines
- Staffing levels
- Support functions
- Academic governance
- Conferral authority
- Program approval
- Demand validation
- Faculty composition
- Pricing strategy
- Revenue trends

## Peer Benchmarking Reports



Detailed breakdown of organizational data compared to a custom selection of institutional peers

## Custom Gap Analysis



Summary document of benchmarking findings written by EAB experts for sharing with senior institutional leaders

## Org Design Consult



Facilitated strategy session with institutional leaders including custom benchmarking data and best practices for agile org design