

What Independent Schools can learn from University Business Model Challenges

FEBRUARY 1 CAIS HEADS AND
TRUSTEES CONFERENCE

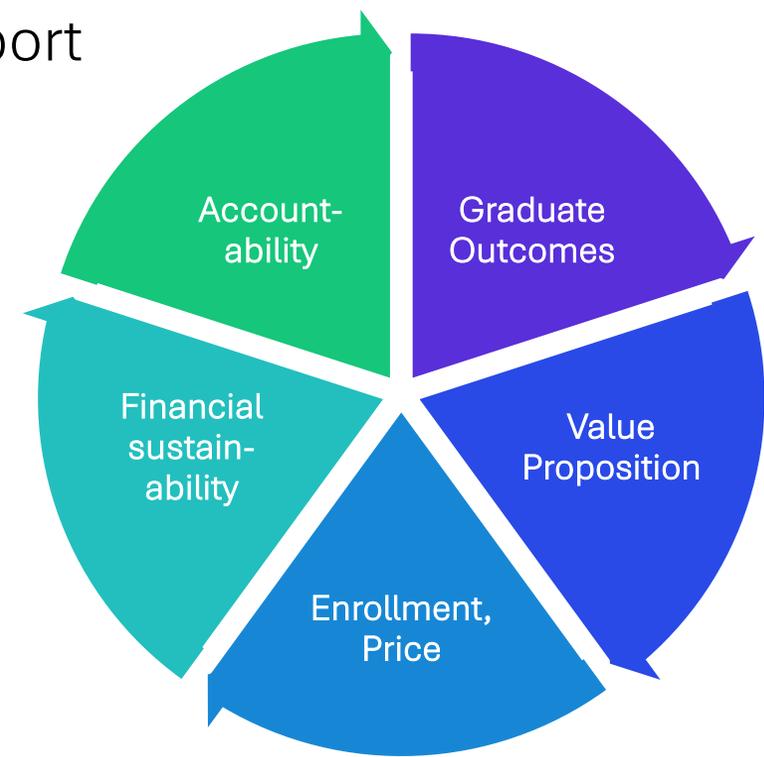


A Re-Introduction | Fierce Outcomes

Background

- **McKinsey and BCG** | decade as Partner in Education Practice and leading Advanced Analytics
- **Measuring Success** | founder and CEO, data driven decision making for independent schools
- Served >1,000 independent schools and universities
- **Education** | Horace Mann School (NYC), Yale (Applied Math), Harvard (MPA), Kellogg (MBA)

Fierce committed to improved results for universities and independent schools blending advanced analytics, strategy, and end-to-end operational / PMO support



Trends in higher education | are decidedly mixed...



Weakened value proposition

Public trust losses from politicization of campus, weak grad rates, under-employed



Career-focused non-degree alternatives

Certificates, badges, certification without degrees



Downward demographic shifts

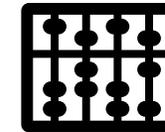
for first-time full-time for next several years



Non-elites Over-discounting

56% avg discount rate; race to bottom, buy students

Dirty secret: after top 50, colleges are not selective



Elites want diverse “spikes”

Matrix of students as broad as humanly possible, also makes them look more selective



Business model mess

Too many programs, tenure, inability to focus on right to win

...yet some have successfully “bent the curve” to return to health. What can independent schools learn from them?

(School) Price is Right Wheel



Our approach today

1. Understanding concept
2. Use case or analytical model from higher education
3. Independent school applications – encourage discussion

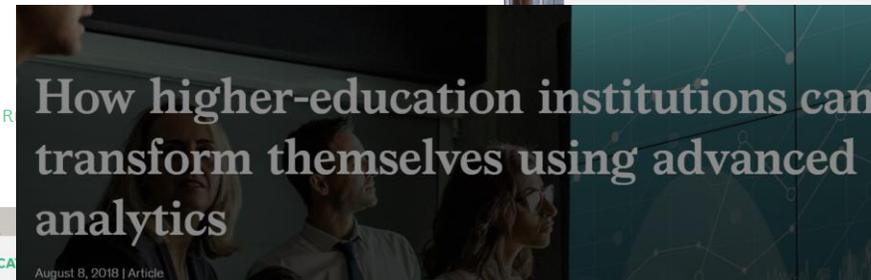
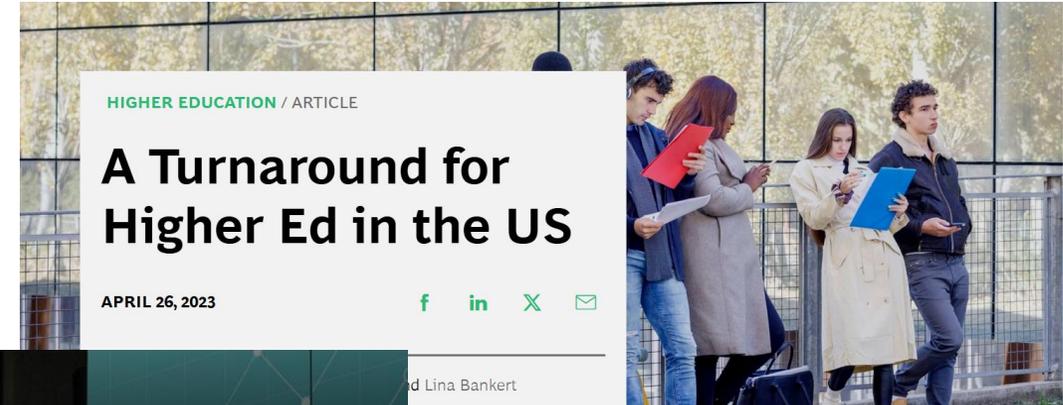
Several articles I will be referring to throughout if you want more details on these ideas

RELATED EXPERTISE: [HIGHER EDUCATION](#), [US PUBLIC SECTOR AND GOVERNMENT](#)

How Higher Ed and Employers Can Partner to Power Talent Pipelines

OCTOBER 19, 2022

By Sacha Litman, Lane McBride, Tejus Kothari, Claudia Newman-Martin, R



Effects of **Tuition Increases** on **Enrollment Demand**:
Measuring Success in NBOA Net Assets



Graduate outcomes | Confidence in career & life outcomes

Concept	Case Study / Analytical Example	Indep. School Implications
<p>Ladder of ROI outcomes</p> <ul style="list-style-type: none"> • Graduate • First job • In demand job • Promoted • Career • Earnings above alternative • Life satisfaction (values, family, character, friends network, etc) 	<p>University Sharing Risk</p> <ul style="list-style-type: none"> • Take courses free after graduate until find job in your field • Free reskilling until 30 • Employer partnerships offering internships, research, curriculum influence, jobs • Employer repays your student loans 	<p>What demonstrates ROI?</p> <ul style="list-style-type: none"> • Preparedness for college (by far #1 factor on NPS) • Privileged college access via recruiters / awareness • Admission to reach colleges • HS internship experience differentiator for college • Job outcomes too far out of your control or not? • Is life satisfaction? char values, network #2 NPS <p>Guarantees? Dual enroll in advanced courses, internship?</p>

Higher Education ROI today | quality first, career rising in importance

Pre- to post-COVID shift in brand strength of higher ed (Encoura)

- Career-minded only brand attribute to grow, across all school types
- Quality #1 still (catch all for value proposition)

Top 2 drivers of perceived value of college degree from alumni (Gallup)

1. Career preparedness
2. Faculty mentor in career area

ROI (IPEDS DOE)

- **60%** of students in bachelor's complete their degree
- **52%** of those with bachelors “underemployed”
- **4.6m** college students want internship, cannot get one
- **22%** colleges have effective employer partnerships, **87%** say it is priority

...mimics what we see in independent schools

preparedness theme

Top drivers of perceived value (likelihood to recommend, NPS) from Measuring Success

1. Preparedness for next academic environment (HS, college)
2x magnitude of 2nd factor
2. Customer service (proactive and reactive communications)
3. Character development



Value proposition | what is your brand's distinction that leads to the outcomes / ROI?

Concept

What's Your North Star?

- Achieve distinctiveness in market...**Right to Win**
- Build **reputational strengths into pillars**, invest in those programs of study
- **Achieve “table stakes” in other areas**...other programs can buttress the pillars
- Ensure **big enough target market** to whom your value prop will appeal

Case Study / Analytical Example

- **Vanderbilt** anti-ivy collaboration, interdisc, dialogue
- **Pitt Health Sciences**
- **Catholic universities**: is Catholic formation sufficient?
- **U Tulsa scholars** to avoid false dichotomies – “T” shape

Indep. School Implications

Legacy brand If you are one of 2-3 local “ivies”

Immersion schools (language, STEM, IB schools)

Social propinquity as brand: Dwight School rebrands from rich, rough kids into global leaders' curriculum and network

Faith schools' challenge: faith formation expected competence, but can throw doubt on strength of general academics

Brand value in education | luxury corporate brand repositioning insights



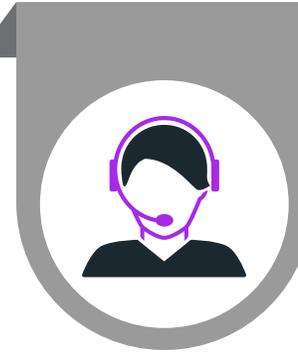
Legacy Brand Name

Repositioning must appeal to rising target segment, while not alienating alumni who are tied to the brand



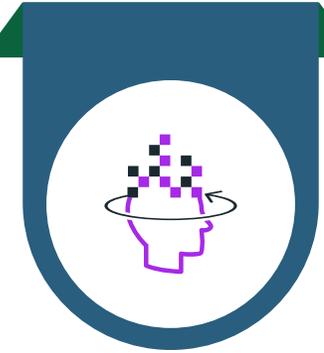
High Price Point

Cars, Wealth manager, Education are among largest expenses after one's house



Experiential Service

Design service elements for bespoke experience (e.g., car purchase, service, support), yet also a product (vehicle itself)



Informs Personal Identity, Community

Brand becomes extension of personal identity and community for current users and alumni



Higher Willingness to Pay and Enrollment | Selectivity, ROI reduces discount rate and boosts enrollment

Concepts

Scarcity principle – people willing to pay for what they cannot have.

- Drive up applications
- Cap frosh enrollment
- Use early action / early decision to spike yield

Marketing swagger by promoting strong outcomes and clear value proposition

Leverage top admin, faculty in admissions

Case Study / Analytical Example

Psychology of over-discounting / “buying students”

- **Prospective families** play let’s make a deal
- **Administration:** commodity mindset
- **Alumni:** reduce confidence donations going to those in need

Top ranked university model of diversity drove acceptance rate and now WTP

Indep. School Implications

Selectivity builds long term price realization and growth:

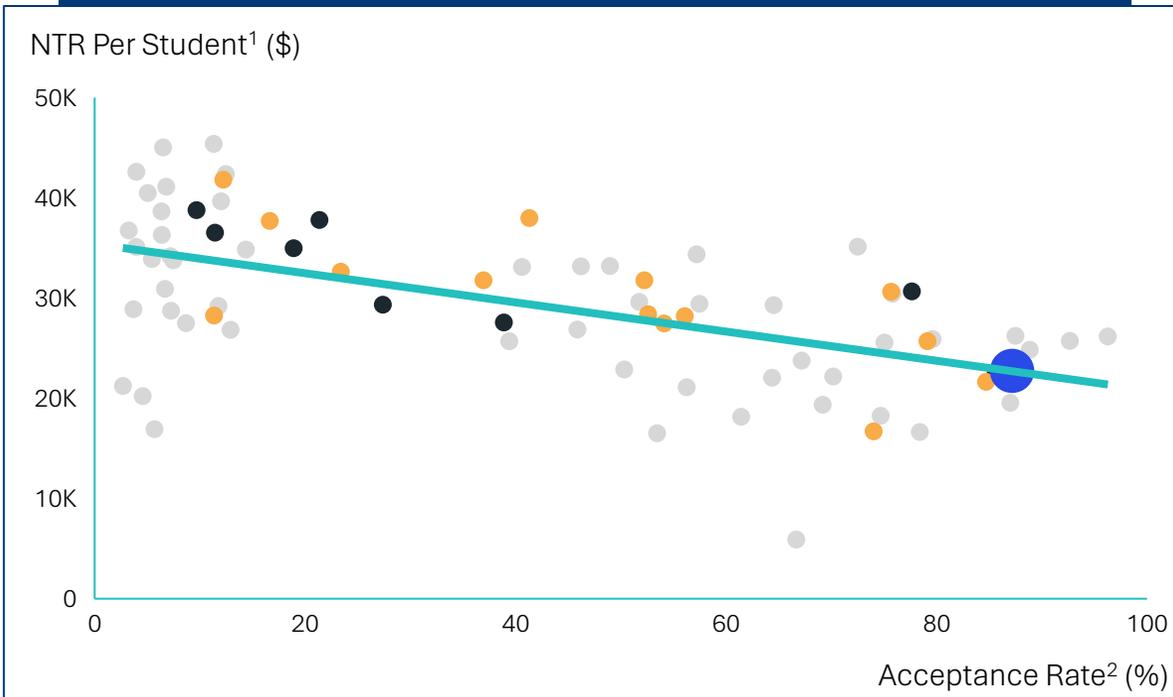
- Cap number of classrooms at conservative figure for entry grades K, 9th and build waitlist; only open new classrooms once can fill them

If at capacity, determine your desired student body composition

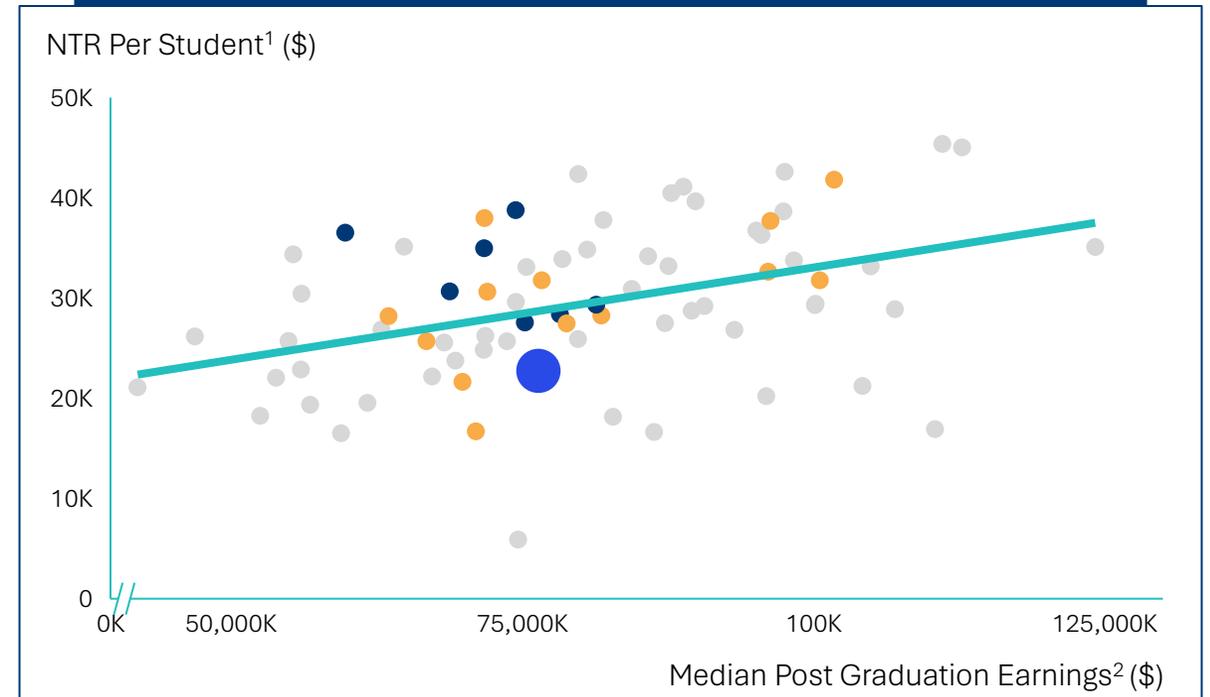
Be need aware in admissions, as are all universities even elites

Net tuition revenue (NTR) highly correlated with both acceptance rate and post-graduation earnings

NTR x acceptance rate...



NTR x
post-graduation earnings

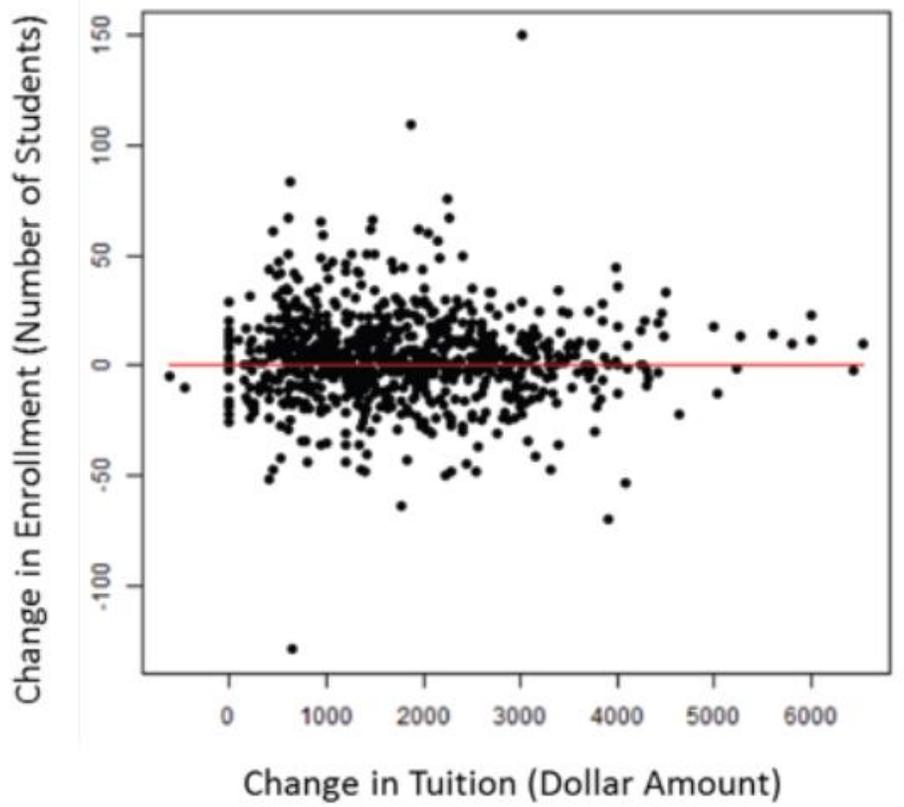


● R1/R2 institutions ● Peer institutions ● Faith based peer institutions

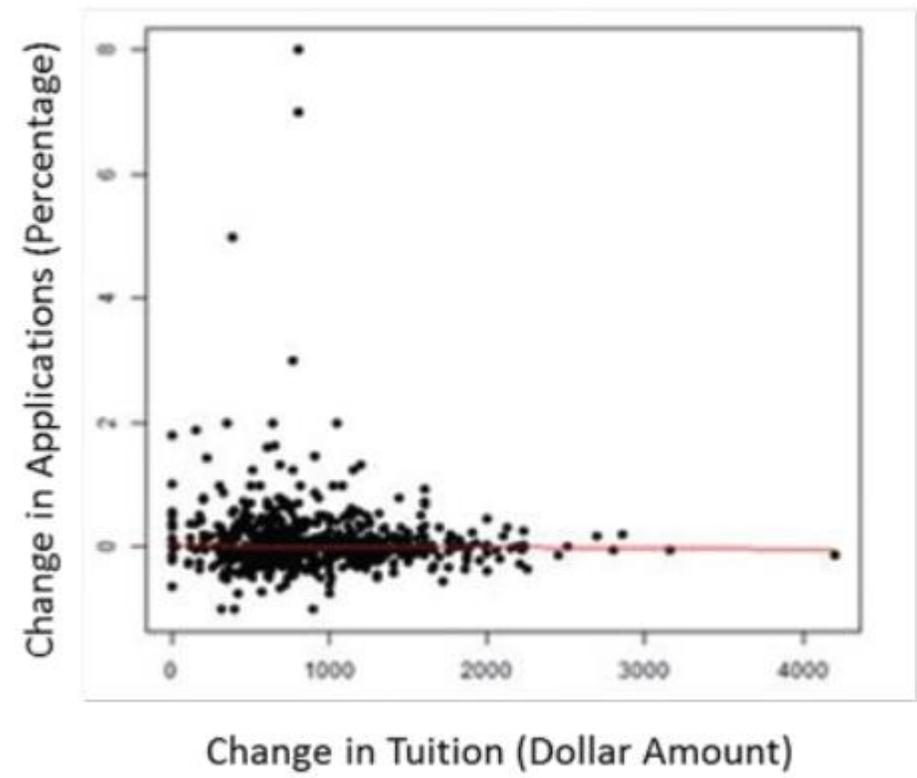
Source: 1. Integrated Postsecondary Education Data System (IPEDS) revenues from tuition and fees per FTE (FASB); 2. IPEDS admissions data; 3. College Scorecard median earnings data

Tuition increase impact on enrollment funnel | analysis of 259 independent schools reinforces it's about value!

Relationship between Change in Enrollment and Change in Tuition (for Whole School)



Relationship between Change in Applications and Change in Tuition for Middle or Upper School Entry Point



Source: Measuring Success, 2011-2017, data above from 2017 paper written with NBOA

Effects of **Tuition Increases** Measuring Success on **Enrollment Demand:** in NBOA Net Assets

Lack of financial aid “spread” | many non-selectives discount strategy awards all students aid across tiers and income groups

Financial Aid (merit and need based) should be going to left hand column				
	High Academic		Low Academic	
Lowest Income ¹	Aid awarded	\$43.1K	Aid awarded	\$41.6K
	Yield	13%	Yield	26%
Highest Income	Aid awarded	\$30.8K	Aid awarded	\$27.3K
	Yield	6%	Yield	15%

1. Low income defined by lowest expected family contribution group (\$1-\$6,656). High income defined by No Need or Non-Filer group.



Financial Sustainability | watch the coverage ratio!

Concepts

Cannot cut your way to success

Need **invest in value creation to bridge funding** to pivot out of a vicious cycle

Avoid “peanut butter spread” | Invest in targeted manner to strengthen value prop and outcomes

Case Study / Analytical Example

Non-performing programs

Indep. School Implications

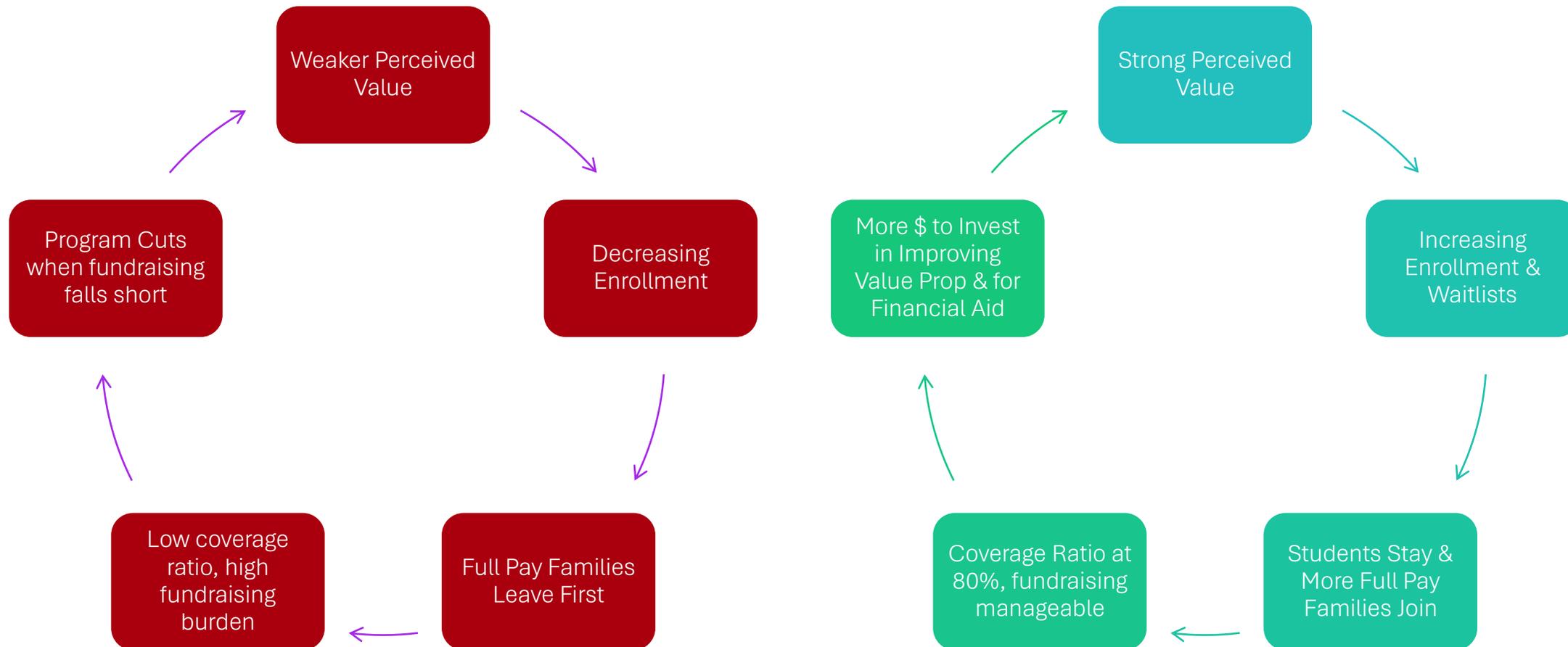
A few viable models:

- Selective, “top families”
- Large, tracks
- Mission alignment (often faith based)

Beware unintentional internal subsidies:

- price to cost per student and manage financial aid so coverage ratio ~80%
- ECC

Pivoting from Vicious to Virtuous Cycle™



Turnarounds | University of Tulsa evidence suggests it can be done

Enrollment up...

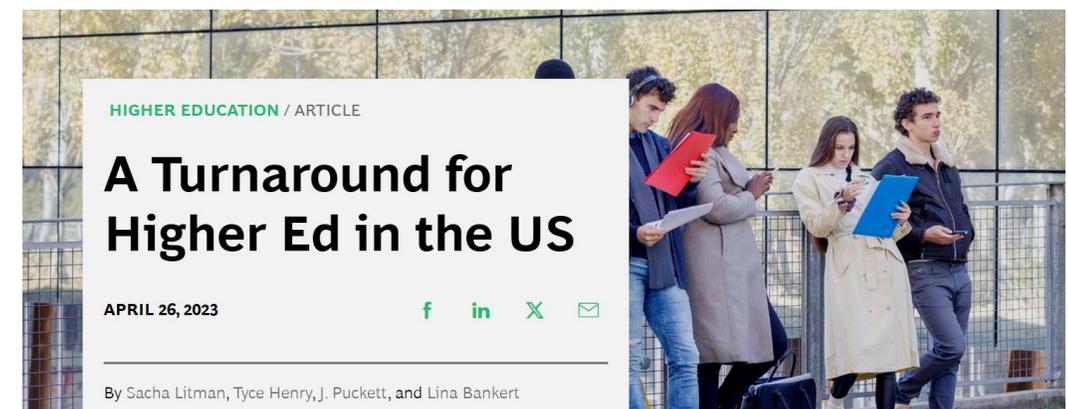
- 33% increase in FTFT (fresh) enrollment
- Bold vision to get to 1,000 frosh
- Aim for R1, top 75

...Financial Aid down

- 16% increase in net tuition revenue (\$2,000 per student)

... Greater mission alignment

- 12 percentage point increase in Pell eligible
- 6 percentage point increase in racial diversity of students



Viabile Typologies | don't get caught in the middle!

Top Private School Model

- Only accept “best families” (by wealth, academic ability)
- Scarcity principle, though in practice less selective than project publicly if “right family”
- Fin. Aid: top price, 80-90% net tuition revenue

Top Public School Model

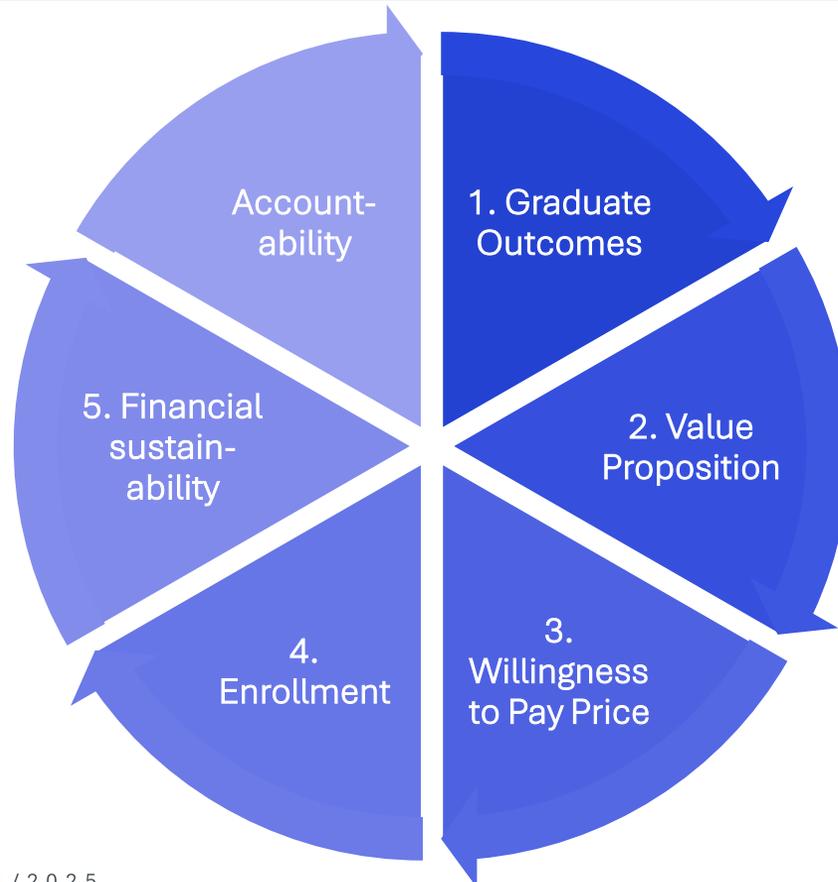
- Everyone admitted
- Large size benefits
- Tracking by subject – advanced and lower levels for all subjects, from ES through HS
- Meets individual child strengths/weaknesses
- Fin. Aid: free, though selective by cost of real estate

Two track mission model

- Trend in state schools and faith-based
- Admit those who meet mission criteria
- Honors program for those families with highest academic expectations
- Limited financial aid for honors, high for regular

To “bend the curve,” service providers need to engage differently as well

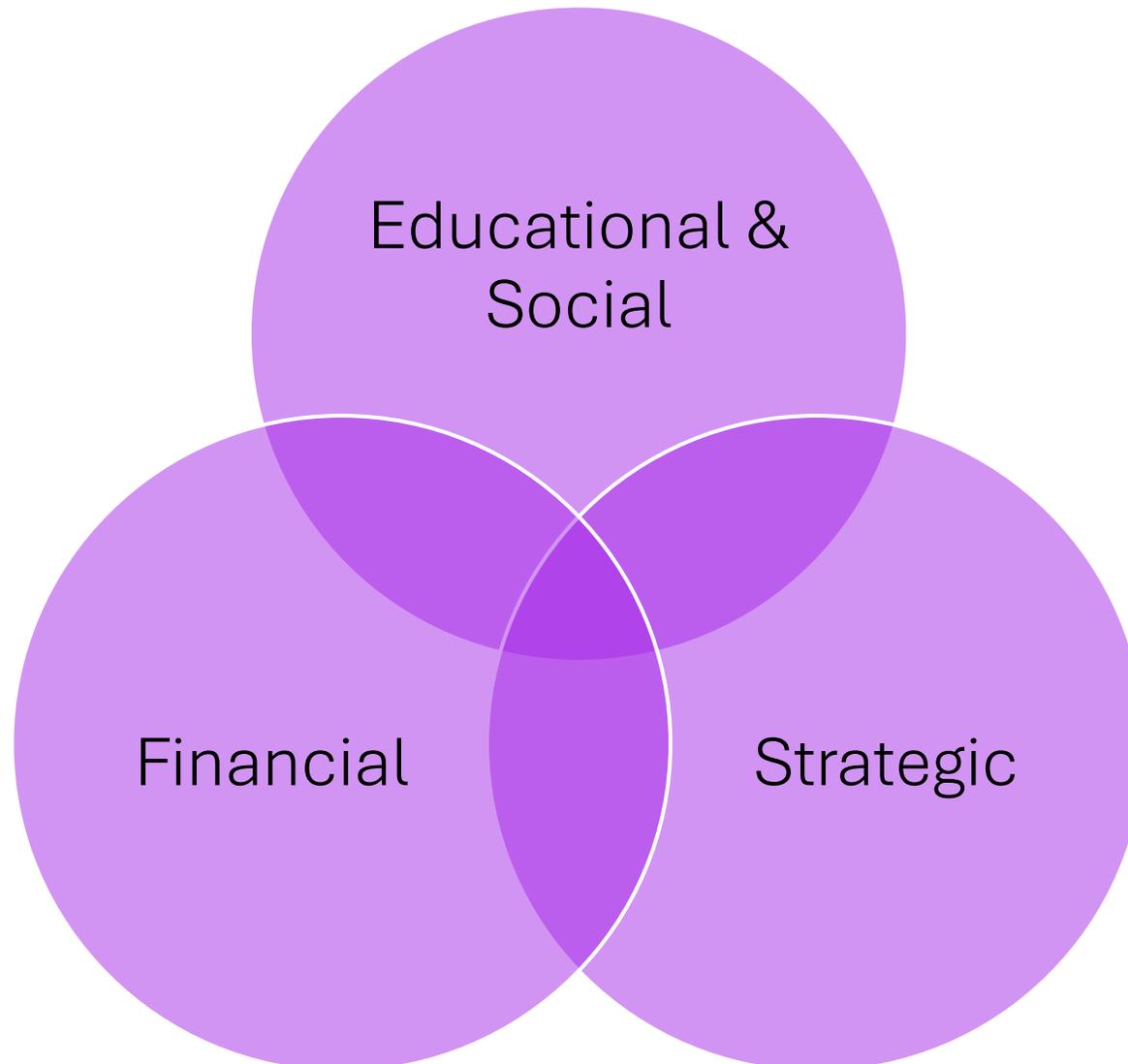
Wheel of (School) Fortune



New approach

1. Take responsibility for school outcomes
2. Create a model using longer term engagements to achieve outcomes
3. In God we trust, all others bring good data! Data is the voice of customer.
4. Joint accountability via Board of Trustees and HOS engagement, from judgment to continuous quality improvement

Lenses for decision making in a school



- To what extent is decision making happening along these lines currently?