How Our Value Proposition Directs Our Business Model

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A fundamental question for any organization, profit or not, is, “What do we do for whom at what value?” The answers to this query ultimately define the business model for the enterprise. This, then, informs the cost structure, market, pricing, and revenue practices for the organization. The current trend of students paying more in absolute and proportionate share of the cost to operate the college has limits and may postpone answering this fundamental question (College Board Advocacy & Policy Center, 2012). In community colleges, tuition alone does not generate enough revenue to create a positive net margin. Our traditional business models do not provide resources for “new product or new enterprise development.” Perhaps this is because it has not been embedded in our value proposition. There is a saying, “No margin, no mission.”

The underpinnings of our fundamental purposes and the methods by which we have historically accomplished them are shifting and transforming. There are five or six major directional shifts that most likely will cause a change in the answer to “what do we do for whom at what value.” Think of this as a continuum of changes that will affect our value as perceived by various users and the methods by which we deliver our value.

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Add to these trends the understanding that in the United States we have five (some now say six) distinct generations with specific value perspectives. Combine this with a growing immigrant population with distinct value orientations, combined with the declining numbers of traditional-aged students, and answering our question becomes even more difficult.

A classic strategy case in graduate business programs is that of railroads in the United States. When asked, “What is your business?” they responded, “We are in the railroad business.” They missed the mark that in fact, they were in the transportation business. We as colleges must give careful thought to our answer. Framing it within the context of, “what do you do for whom at what value,” will help.

Take the middle part, “for whom,” and think about the myriad list of “whoms.” To whom must we demonstrate value? Students, parents, government regulators, philanthropic funders, taxpayers, employees, and the public in general all have perspectives on our value. Add the portion of, “at what value,” and the perspectives multiply because each group may operate from different value positions. Finally, answering the question of, “what do you do,” seems to lead us to an endless list that could suggest we need to do everything for everyone. But, we can’t.

To prepare for this future, leaders must clearly articulate what we do for whom at what value.

When the world was more static and we operated from the historical perspective side of the continuum chart, we were able to focus our business model on longstanding practices. We could focus on finding efficiencies and knew with relative certainty the specific sources of our revenues.

The traditional revenue model for community colleges differs among the 50 states (Education Commission of the States, 2000). In Michigan, the original bargain was said to be 1/3 each for local, state, and student. Today, state funding is a combination of legacy and a funding distribution formula adopted in 2007 (Jonasson, 2013). Local and state funds do not vary with enrollment, leaving tuition alone to rise and fall with the number of students served.

Building a financial model where significant portions of revenue come from sources not tied to volume is treacherous at best and encourages planners to shift revenue to sources they can impact—namely tuition. The higher the percentage in this category, potentially the more stable the organization can become. Michigan institutions are relatively free to implement this shift. Other states preclude this from occurring because the revenue variables are controlled at a state system level.

One of the largest risks our current revenue streams face is that a significant portion is “subsidized revenue.” The sources of the subsidies are property taxes, state allocations, access to federal grants, access to almost unlimited loans, and private scholarships. Consider for a moment the direct or indirect impact of a reduction in any of these subsidies. Such a reduction would force us to examine the fundamental question posed at the
EMERGING LEADERS’ PERSPECTIVES

Community colleges are experiencing the financial impacts of major changes in funding as the pace of economic change and the premium on high and up-to-date skills increase. Trends in total institutional revenues for community colleges indicate significant shifts toward external revenue sources and away from core state and local funding for basic operations, which may limit the college’s ability to promote social equity and educational opportunity. We posed the following question to emerging and national leaders; their answers appear below:

**Brent Mishler**
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The core mission of a community college – access and affordability – have been both a blessing and a curse. In an era of depreciating state appropriations, increasing accountability, and enrollment fluctuations, finding stable revenue has been challenging. However, establishing a strong development office that plays on the strengths of those core values can position the institution favorably with donors and create a dedicated revenue stream.

Now more than ever, fundraising is being looked at to help alleviate pressure from the general fund. Over the past five years, institutions have had to rely more on tuition and less on state appropriations for revenue. Fundraising efforts have been expanded to help defray those tuition increases. An economic downturn negatively impacts community colleges in two ways related to revenue. As the economy stagnates, state appropriations remain flat or even drop. When the local economy is poor, property taxes lessen. Fundraising should be looked at to make up some of the gap and relieve a bit of pressure from the general fund. Even when this does occur, gifts still represent a relatively small portion of an institution’s overall budget. This means that there is the potential to increase fundraising revenues to a greater percentage of the overall college budget (Fernandez, 2011).

Community colleges need to prioritize making an appeal to their communities by telling their story and showing how the public can support the institution’s efforts. An appropriately funded and staffed development office can sow the seeds for continued revenue well into the future. Because of the varied nature of community colleges and the many types of clientele served, potential donors can come in all forms. Consider just a few services that community colleges provide and the potential for donations: dual enrollment for pre-college students, workforce development that benefits both employers’ and prospective students’ needs should provide input for proposals, retention and performance-based funding measures have attempted to temper costs for students, while improving institutional effectiveness. The multiple impacts of these efforts are triggering difficult discussions and decisions about how to simultaneously help close the skills gap, while retaining accessibility for all students.

In today’s community college environment, leaders must have fiscal and fund development acumen in order to solve the complex problems these financial constraints present. To ensure fiscal viability, leaders must look inward and outward for solutions to improve fiscal health. Both require exercising muscles that often go unused, resulting in considerable discomfort.

Looking inward includes examining institutions for efficiencies and relevance, re-engineering processes, employing technology that allows students to do what they can for themselves, and providing support services only for those that need them. Overhead costs must be examined on an ongoing basis. An unpopular and contentious aspect of operational evaluations is the review of academic offerings, paring down where warranted. Programs are often added, yet reductions are rare.

A critical student success and revenue strategy is improving student retention. Keeping students we already have enhances revenue, creates positive outcomes for students, and improves institutions’ reputations. Ensuring optimal onboarding and orientation, academic advising, and clear guided pathways will support student completion, achieving access and success.

Outward views should bring fundraising, grant development and partnerships into greater focus, even though these strategies are not traditional staples of most institutions’ revenue generation practices. External fund development through state, federal, and foundation grants may need to assume a more prominent role. Soft money may become the currency that helps maintain affordability and accessibility to higher education.

Bringing in additional revenue also requires the aggressive pursuit of previously untapped markets. Promoting affordable, flexible, and relevant credentials designed for working adults is key. Market analysis of regional employers’ and prospective students’ needs should provide input for program development, design, and delivery.

As predictions about the impending skills gap in the labor market come to fruition and shortages become acute, taxpayers’ willingness to invest more in community colleges may shift. In the meantime, community college leaders must produce and articulate the value proposition of our institutions, using data rather than anecdotes to demonstrate high levels of performance.

Reference
NATIONAL LEADER PERSPECTIVE

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According to the Center on Budget and Policy Priorities, as of May 2014, the higher education spending of forty eight states was less per student than before the start of the recession in 2008. Further, the average state currently is spending 23% less per student than before the recession began. For many community colleges, state funding is one leg of what is often referred to as the three legged stool of community college revenue. These three legs consist of state funding, local property taxes, and tuition revenue. Many community colleges that depend upon local tax funding have also experienced declines in this revenue source. Colleges are finding that the only revenue source over which they have any control is tuition revenue, but for community colleges, affordable tuition is a critical component to our mission of access for all students. Consequently, community colleges are scrambling to fund today’s high cost programs and student support services without imposing the burden on students in the form of excessive tuition increases.

Alternative revenue streams are one method of helping to offset the loss of state revenue. These alternative revenue sources take many forms and may include increased revenue from auxiliary services, partnerships with business and industry, grants, and other donations. Some colleges are adding high demand programs to increase enrollments and raise tuition revenues as most community colleges are finding themselves more dependent on the tuition revenue generated by strong enrollment numbers. Competition among colleges is increasing and colleges are doing what they can to attract new students. Developing alternative revenue streams and raising tuition revenue by increasing enrollments and student retention are all helpful means to balancing budgets. However, I would suggest that generating new revenue in these ways may not be sufficient to offset both increasing costs and the loss of state and local funding.

For most colleges there is no “silver bullet” that will alleviate the fiscal pressures they are currently experiencing. Rather it will take a multifaceted approach that falls into three broad categories of revenue generation, grants and donations, and savings and reallocation. This final category includes those activities that increase operational efficiency, eliminate nonessential costs, and reallocate resources. In some cases, colleges must focus their mission more tightly and eliminate activities that do not directly support that mission. Following are select examples of strategies that have contributed to the solution at other colleges.
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outset. It is not only a question of who will pay how much, but for what are they paying?

If our sector is migrating to the emerging position, it becomes clear that our organizations will need to look different. From a business and financing perspective, the resources required to transform an organization are significantly different that those required to increase efficiency.

How do we find the resources to continue to transform as our constituent groups shift their perspectives of our value? We must have a current business model that provides these resources. This can come from additional external subsidies and frequently has. Federal grants, foundation programs, and individual gifts have all played a role. But again, these are revenue sources that are not in our control. We can’t control the amount, the timing, nor sometimes the purpose/use. We must build into our business model a sufficient positive net margin, many call it “surplus,” that is used for re-investment in the organization in a disciplined and intentional way. But it is not a surplus, it is a required investment stream. Without it, we cannot hope to answer and respond to the question of, “what we do for whom at what value.” This is what is meant by “no margin, no mission.”

Building a financial model where significant portions of revenue come from sources not tied to volume is treacherous at best and encourages planners to shift revenue to sources they can impact – namely tuition.

In an attempt to create a positive net margin, colleges have followed business practices aimed at reducing costs and increasing productivity. We disaggregate the role of the faculty member and assign jobs to lesser-paid individuals (adjuncts), substitute technology for physical facilities, shift operating costs to employees, implement differential tuition for high cost programs, limit accessibility to programs or the college, increase our fundraising capacity, and seek outside unrelated revenue. While these tactics help to mitigate short term fiscal issues, they tend not to create a sustainable positive margin model. More importantly, if these new freed-up resources are not applied to building a future institution, we are delaying the inevitable. Darwin had it right when he posited that organisms that change more slowly than the environments in which they live will most assuredly perish. This most certainly applies to us.

To prepare for this future, leaders must clearly articulate what we do for whom at what value. If we do not, others will – and will do it poorly. We must look beyond the budget and beyond the numbers to identify the value proposition that will attract appropriate investment. We must create a culture that can absorb shocks, both internal and external, and that can adapt more quickly to changes in the operating environment. We must find and allocate resources to build and design the new. Whether we enjoy it or not, we may be caught in a conundrum. The public and the government wish to view us as a public good – non-rival, non-excludable, and unlimited. They execute policies in this framework. In reality, our tactical moves may be driving us to operate more as a private good. It is time for us to restate our compact with our publics and to align our expectations about value with theirs.

One of the largest risks our current revenue streams face is that a significant portion is “subsidized revenue.” The sources of the subsidies are property taxes, state allocations, access to federal grants, access to almost unlimited loans, and private scholarships.

Perhaps we should return to the original concepts behind the comprehensive community college. I view our colleges as social, economic, and talent development agencies. If we look through these lenses, it may be easier to begin to define a set of connected value propositions from which we operate rather than one specific business model. A risk toward reaching this end is the current push toward “job preparation” at the potential exclusion of the other two important purposes. Finally, consider that the outcomes we desire might be revealed in this statement: “The ultimate purpose of education is to provide our communities and learners with skills, experiences, and values that will help them to create social and economic wealth during their lifetimes.” With this as an end-goal, we can begin to assess whether we are, in fact, delivering on meaningful and relevant value to our constituents.

Timothy J. Nelson has served as President of Northwestern Michigan College in Traverse City, Michigan, since 2001. During his presidency, enrollment increased by more than 30 percent; NMC created global partnerships with institutions in China, Great Britain, India, Russia, Sweden, and others; and the college was instrumental in the passage of state authorization to permit community colleges to offer baccalaureate degrees, allowing NMC to be the first in the state by offering an applied bachelor’s degree in Maritime Technology. Additionally, the college has completed over $80 million in construction and renovation projects, while the NMC Foundation has increased its endowment from $11 million to over $27 million in the past decade. Nelson is Past Chair of the Michigan Community College Association, currently serves as Chair of the organization’s Legislative Committee, and regularly presents on policy and governance issues related to higher education and economic development. Prior to assuming his presidency, he taught at Michigan Technological University, Western Michigan University, and Olivet College. He earned his MS in Business Administration from Michigan Technological University and has completed studies at the institute for Educational Management at Harvard University.