LET’S MAKE IT WORK

EXPLORING DIFFERENT FINANCIAL MODELS FOR INDEPENDENT SCHOOLS

JOHN FARBER
ISACS Conference
NOVEMBER 8, 2013
WHAT WE KNOW:

1. Schools are becoming inaccessible to middle class
2. High tuitions are creating expectations from consumers
3. Middle class is shrinking
4. We have unsustainable tuition increases

Are you at your “Price-Break Point?”

Applications
Inquiries
Tuition
Financial Aid Requests

Savvy parents are becoming wary of tuitions 10 years from now.
WHAT WE KNOW:

5. Competition is increasing
   - Charter Schools
   - Public Schools are creating “niche” programs
     i.e. International Baccalaureate

Value = \( \frac{\text{Perceived Outcomes}}{\text{Perceived Price}} \) (must go up for value to remain same)

\[ \text{Lower Cost with Similar Outcomes} = \text{Higher Value} \]
WHAT WE KNOW:

According to NAIS - In the last 10 years –

- Tuition is UP 30%
- School Staffing is UP 32%
- Financial Aid is UP 38%
## AFFORDABILITY

<table>
<thead>
<tr>
<th>DAY TUITION</th>
<th>INCOME NEEDED FOR ONE CHILD</th>
<th>INCOME NEEDED FOR TWO CHILDREN</th>
</tr>
</thead>
<tbody>
<tr>
<td>$25,000</td>
<td>$148,088</td>
<td>$234,460</td>
</tr>
<tr>
<td>$35,000</td>
<td>$182,000</td>
<td>$312,000</td>
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</tbody>
</table>

*Source – NAIS 2012-13 Trendbook, as calculated by SS*

NOT Adjusted for Cost of Living
DIFFERENT IDEAS EMERGING

The New Normal – NAIS

- Charge what people can pay
- Design your program to that revenue number
- Moderate tuition increases, cut expenses
- Increase enrollment without increasing staff
- “Sunset” an old program for every new one
- Right size: re-think class size, workload, # of teacher specialists, assistants, school size
- Devote 1/3 of each fundraising dollar to endowment

Full Steam Ahead – ISM

- Identify Value Proposition
- Charge what it costs
- (CPI + 2% or more when needed)
- Decide whether you are a price, product or process school
- Design school to individualize learning technology
- Dedicate 2% of your budget to faculty professional development
1% Tuition Increase = $_________ at Your School
CREATE COST REDUCTION STRATEGIES:

CONSIDER:

- Purchasing Consortiums
- Health Insurance Groups
- Outsourcing / Partnerships
- Larger Class Sizes
- Personnel Reductions
- “Green” Facility Initiatives
Group Exercise

List 3 strategies for cutting costs at YOUR school

(without negatively impacting your mission)
THE NEW NORMAL:

INCREASE New Revenues (SSI) AND DECREASE Costs Without Sacrificing Quality or Core Programming
SSI IDEAS:

1. Summer Programs
2. Auctions
3. Extended Day Programs
4. Facility Rentals
5. Parent Association Events
6. “Other” Programs
7. Tutoring Services
8. Adult Learning Programs
9. Intellectual Property
10. Franchising

* NAIS Non-Tuition Survey 2006
OTHER SSI IDEAS:

1. Affinity Cards
2. Bookstores
3. Raffles
4. Cell Tower Leasing
5. SAT Prep Classes
6. Oil/Gas Wells
7. Golf Outings
8. Enrichment Classes
9. Music Lessons
10. Vending Machines
A DIFFERENT APPROACH TO INDEPENDENT SCHOOL REVENUE

Asset Optimizing

Leads to new initiatives which result in:

- Faculty Engagement
- Student Retention
- Enrollment Growth
- Facility Expansion
- Endowment Growth
- Program Enhancement
- SSI Efforts

Preserves the base AND expands revenue sources

Source – Nick Stoneman, Shattuck-St. Mary’s School
WHAT ARE THESE ASSETS?

The Building Blocks

- Facilities
- Faculty and Staff
- External Relationships
- Geography and Region
- Brand Recognition
- Programs Offered

Source – Nick Stoneman, Shattuck-St. Mary’s School
ESSENTIALS FOR ASSET OPTIMIZATION

- No silos within the organization allowed
- Leadership team must:
  - Model integrative thinking
  - See change as normal
  - Have confidence in the power of imagination
  - Must see the dots to connect the dots
- Head of School must be comfortable not being the expert
- Board must support innovative thinking

Source – Nick Stoneman, Shattuck-St. Mary’s School
Supplemental Sources of Income (SSIs)

- Centers of Excellence
  - Soccer
  - Golf
  - Pre-Conservatory Strings
  - Bio-Science

- Campus Expansion
  - Beijing – Fall 2013

- Program Development
  - weCreate
  - Blended Learning

Source – Nick Stoneman, Shattuck-St. Mary’s School
Source – Nick Stoneman, Shattuck-St. Mary’s School
List 3 assets that YOUR school could explore.
A program aspiring to be nationally recognized in the arts, athletic, or academic realm

Serves as an “admissions magnet”

Exists in addition to the School’s core program

Nine CoE’s at SSM:

- **Athletic** – Soccer, Golf, Figure Skating, Hockey
- **Academic** – Honors, Global Ed, Center for Academic Achievement, Bio-Science
- **Arts** – Pre-Conservatory Strings, Vocal Performance

Source – Nick Stoneman, Shattuck-St. Mary’s School
CREATING A CENTER OF EXCELLENCE

• Six essential elements:
  1. Leadership
  2. Program design
  3. Marketing
  4. Merit Aid as seed
  5. Facilities
  6. Outcomes

Source – Nick Stoneman, Shattuck-St. Mary’s School
### ASSET OPTIMIZATION: THE IMPACT AT SSM

<table>
<thead>
<tr>
<th></th>
<th>2003-04</th>
<th>2012-13</th>
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</thead>
<tbody>
<tr>
<td>Net Revenue</td>
<td>($ 1,800,000)</td>
<td>$375,000</td>
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<tr>
<td>Annual Fund</td>
<td>$ 650,000</td>
<td>$890,000</td>
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<tr>
<td>Enrollment</td>
<td>290</td>
<td>440</td>
</tr>
<tr>
<td>Endowment</td>
<td>$ 8,000,000</td>
<td>$24,000,000</td>
</tr>
<tr>
<td>Net Asset Value</td>
<td>$13,000,000</td>
<td>$35,000,000</td>
</tr>
</tbody>
</table>

*Source – Nick Stoneman, Shattuck-St. Mary’s School*
LIST OF PROGRAMS

- Boarding School and Summer Camp Fairs
- TLS College Planning Services
- Camp Curiosity—Summer School
- Intramurals—TLS as your child’s backyard
- Applied Lessons Program—Music lessons at school
- Athletic Rentals
- The Learning Center at The Lexington School (Dyslexic School within TLS)
- Tutoring Connection—Who better to trust when finding a tutor than The Lexington School
- Voyage Out—Adventure and Travel trips led by TLS teachers and coaches.
- Acorns—Two year old program
SERVICES OFFERED:

COMPREHENSIVE SERVICES ........................................ $2350
FRESHMAN AND SOPHOMORE ADD ON ....................... $500
RESUME CONSULTATION ........................................... $350
ESSAY CONSULTATION ............................................. $500
APPLICATION ASSISTANCE ....................................... $1,000
SAT ESSAY CLASS .................................................... $125/ 6 HRS
SAT/ACT PREP ......................................................... $55/HR
<table>
<thead>
<tr>
<th>YEAR SIGNED</th>
<th>% PER LEVEL</th>
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<tbody>
<tr>
<td>SIGNED FRESHMAN YEAR</td>
<td>41%</td>
</tr>
<tr>
<td>SIGNED SOPHOMORE YEAR</td>
<td>39%</td>
</tr>
<tr>
<td>SIGNED JUNIOR YEAR</td>
<td>8%</td>
</tr>
<tr>
<td>SIGNED SENIOR YEAR</td>
<td>12%</td>
</tr>
</tbody>
</table>

**NOTE:**
TLS ALUMS RECEIVE DISCOUNT ON COMPREHENSIVE PACKAGE

NON-ALUM COMP $2350
TLS ALUM COMP $2000
Intramural Overview

- Running 3:30-5:00 weekly
- 7 yearly preschool options
- 25 yearly lower school options
- Cost range: $60-$80 per week.
- Topics range from sports, to cooking.
INTRAMURALS
TLS AS YOUR CHILD’S BACKYARD

- Soccer
- Basketball
- Drama
- Tumbling
- Cooking
- Tee Ball
- Art
- Gardening
- Taekwondo
- Science
- Volleyball
- Lacrosse
- Hockey
- Cross Country
- Computer
- Tennis
- Football
- Dance
# Applied Lessons Program—Music lessons at school

- **Piano**
- **Guitar**
- **Percussion**
- **Voice**

<table>
<thead>
<tr>
<th>Type of Lesson</th>
<th>Price Per Lesson</th>
<th>Instructor’s Commission</th>
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</thead>
<tbody>
<tr>
<td>30 min. private</td>
<td>$28.00</td>
<td>$20.00</td>
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<tr>
<td>30 min. group</td>
<td>$15.00</td>
<td>$11.25</td>
</tr>
<tr>
<td>45 min. private</td>
<td>$40.00</td>
<td>$30.00</td>
</tr>
<tr>
<td>45 min. group</td>
<td>$20.00</td>
<td>$15.00</td>
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</tbody>
</table>

- 99 Students
- 7 Instructors

**Recess** [** electives **] [** After School **]
The Learning Center (Dyslexic School within TLS) provides a unique and essential service to children with language-based learning differences such as dyslexia, dysgraphia, or dyscalculia by providing an alternative to traditional classrooms.
The Learning Center at The Lexington School (Dyslexic School within TLS)

Full year program:
- Annual tuition: $27,000.00
- Financial aid awarded ‘12 –’13 $90,000
- Current enrollment 41 students
  - 10 from TLS
  - 31 from greater Lexington community and out of state

Summer Program:
- Tuition: $1,800.00
- Previous summer enrollment 15 students
  - 5 from TLS & The Learning Center
  - 10 from greater Lexington community
TUTORING CONNECTION
Who better to trust when finding a tutor than The Lexington School

<table>
<thead>
<tr>
<th>Type of Session</th>
<th>Price per Session</th>
<th>Instructor Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic</td>
<td>$55.00</td>
<td>$40.00</td>
</tr>
<tr>
<td>Multisensory (Orton-Gillingham)</td>
<td>$60.00</td>
<td>$45.00</td>
</tr>
<tr>
<td>Group of Two</td>
<td>$40.00</td>
<td>$30.00</td>
</tr>
<tr>
<td>Group of Three</td>
<td>$35.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>Group of Four</td>
<td>$30.00</td>
<td>$20.00</td>
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</table>

Subjects:
- ENGLISH
- CHINESE
- FRENCH
- SPANISH
- ART
- CLUB
- READING
- MATH
- SAT/ACT PREP
- WRITING
- SUMMER BOOK
VOYAGE OUT
Adventure and Travel trips led by TLS teachers and coaches

- Planned Hiking trip on the Appalachian Trail (October 2011)
- Trips offered to current students and parents/relatives
- Chaperone ratios are 1:5
- Informational meeting held 2 months prior to departure
- Monthly installment plan offered as a form of payment
- Advertised via monthly Head’s letters, as well as weekly divisional emails and assemblies
- Trip is all-inclusive for students
  - Included: Individual travel insurance, transportation, camping gear, 3 meals per day, and group liability insurance
VETTING

- How does it serve our Mission and Philosophy?
- I don’t need perfection, but we need to be “best in town,” serve our families, or generate revenue.
- Business Plan
- Trustee Approval
- Trial Run if possible
- Full Scale

The Lexington School Mission

The mission of The Lexington School is to provide an education of the highest quality to students in preschool through middle school. In a structured, nurturing environment, The Lexington School seeks to instill integrity, a life-long enthusiasm for learning, and a strong work ethic.

The Lexington School Philosophy

Because we are a nurturing environment, children feel confident. When children are confident, they will take risks. Because risk taking is inherent in learning, the possibility of failure exists.

When a nurturing community exists, challenges lead to growth. Our success is defined when our students have the life skills to make wise choices and overcome obstacles.
I. Director of Admission and Director of Communications Role

II. Logo

III. PR

IV. Advertising
   1. Internal
   2. External
SUMMARY OF ENTREPRENEURIAL ACTIVITIES

The Lexington School
Summary of Entrepreneurial Activities and The Learning Center
Historical Statements of Income and Expense

<table>
<thead>
<tr>
<th></th>
<th>FYE</th>
<th>FYE</th>
<th>FYE</th>
<th>FYE</th>
<th>FYE</th>
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<td>6/30/09</td>
<td>6/30/08</td>
<td>6/30/07</td>
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<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Acorns</td>
<td>99,378</td>
<td>39,000</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Applied Music</td>
<td>76,438</td>
<td>66,190</td>
<td>67,858</td>
<td>73,168</td>
<td>33,456</td>
<td></td>
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<tr>
<td>Camp Curiosity</td>
<td>113,200</td>
<td>14,745</td>
<td>129,743</td>
<td>71,890</td>
<td>94,340</td>
<td>84,616</td>
<td>53,055</td>
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<tr>
<td>College Planning Service</td>
<td>46,750</td>
<td>58,775</td>
<td>34,325</td>
<td>54,900</td>
<td>39,550</td>
<td>31,760</td>
<td>56,100</td>
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<tr>
<td>Chinese Language Class</td>
<td>6,000</td>
<td>3,200</td>
<td>3,000</td>
<td>2,516</td>
<td>3,836</td>
<td>5,400</td>
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<tr>
<td>Facility Rentals</td>
<td>15,079</td>
<td>11,551</td>
<td>3,959</td>
<td>575</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>High School and Summer Fairs</td>
<td>10,158</td>
<td>13,650</td>
<td>13,050</td>
<td>12,200</td>
<td>17,400</td>
<td>23,850</td>
<td>38,620</td>
</tr>
<tr>
<td>Intramural Programs</td>
<td>28,419</td>
<td>32,949</td>
<td>34,145</td>
<td>31,780</td>
<td>25,815</td>
<td>11,000</td>
<td></td>
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<tr>
<td>The Learning Center School*</td>
<td>1,042,610</td>
<td>894,048</td>
<td>467,599</td>
<td>564,296</td>
<td></td>
<td></td>
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<tr>
<td>Tutoring Connection</td>
<td>59,678</td>
<td>63,767</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Voyages</td>
<td>50,700</td>
<td>66,815</td>
<td>37,375</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$1,548,410</td>
<td>$1,264,690</td>
<td>$792,959</td>
<td>$811,325</td>
<td>$214,397</td>
<td>$156,626</td>
<td>$147,775</td>
</tr>
</tbody>
</table>

|                      |       |       |       |       |       |       |       |
| **Expense**          |       |       |       |       |       |       |       |
| Acorns               | 42,200 | 21,042 |       |       |       |       |       |
| Applied Music        | 70,747 | 59,185 | 50,977 | 52,799 | 26,369 |       |       |
| Camp Curiosity       | 85,470 | 28,881 | 93,966 | 74,770 | 68,480 | 53,842 | 71,309 |
| College Planning Service | 37,677 | 32,229 | 27,025 | 43,639 | 25,588 | 19,748 | 43,503 |
| Chinese Language Class | 5,174 | 1,292 | 1,202 | 1,259 | 2,940 | 2,231 |       |
| Facility Rentals     | 18 | 44 | 450 | 20 |       |       |       |
| High School and Summer Fairs | 1,733 | 4,279 | 5,961 | 5,587 | 20,126 | 13,181 | 13,344 |
| Intramural Programs  | 19,915 | 18,624 | 13,747 | 17,124 | 20,779 | 5,854 |       |
| The Learning Center School* | 773,011 | 545,529 | 215,991 | 66,065 |       |       |       |
| Tutoring Connection  | 53,886 | 50,459 | 8,427 |       |       |       |       |
| Voyages              | 41,374 | 70,893 | 24,628 |       |       |       |       |
| **Total Expenses**   | $1,131,205 | $832,457 | $442,375 | $261,263 | $164,282 | $94,856 | $128,156 |
| **Net Increase ( Decrease )** | $417,205 | $432,233 | $350,584 | $550,062 | $50,115 | $61,770 | $19,619 |

* Includes Net Development Activity
ALLEN PROCTOR THOUGHTS:

1. Successful non-profits must provide at least one service at a loss. “They are supposed to lose money.”

2. Philanthropy will not continue to cover the entire loss. It has been approximately 18-24% of non-profit revenue in the past. (Donor Fatigue)

3. Non-Profits have grown three-fold in the USA over the past 25 years.
   - Run Business at a loss, make up difference by fundraising . . .
   - Corporate Philanthropy is beginning to decline.

Source – Linking Mission to Money by Allen Proctor
4. We Need A New Model!
Non-Profits . . .
  2 Businesses Under 1 Roof
  1. **Non-Profit** (Mission-Based)

  2. **For-Profit** (Makes $ - puts Profit back into both businesses.)
Low-Mission

**Purpose:**
  1. Cover Operating Losses in Non-Profit
  2. Accumulate Sufficient Reserves – to avoid cuts when the next recession hits.

*Source – Linking Mission to Money by Allen Proctor*
RESERVE IDEAS

- Seasonality of budgets
- Maintenance
- Specific facility
- Professional development
- Success planning/salary
- Capital renovations (i.e. pool)

- Get Board to help with reserve ideas
- Put surpluses into reserves
- In recessions – don’t be afraid to allow your school to operate with a deficit budget

Source – Linking Mission to Money by Allen Proctor
NON-PROFIT EXAMPLES:

1. **Columbus Zoo & Aquarium**
   
   **Non-Profit Mission:**
   - Preservation of Endangered Species
   
   **For-Profit Operations:**
   - Golf Courses
   - Water Park
   - 3 Hotels

2. **Lifecare Alliance**
   
   **Non-Profit Mission:**
   - Meals on Wheels – Loses $$ but they know about making, packaging and delivering meals – created a high-end new business
   
   **For-Profit Operation:**
   - L.A. Catering (Corporate Events)

3. **Think about a typical hospital – what is their key mission? Charity care and emergency room treatment . . . (non-profit mission)**
   
   How do they make their $$$ - Oncology, orthopedics and cardiology
4. **Salvation Army**
   Non-Profit Mission:
   ➢ Multiple Services for Needy
   For-Profit Operations:
   ➢ Retail Stores

5. **Habitat for Humanity**
   Non-Profit Mission:
   ➢ Providing Homes for Homeless
   For-Profit Operation:
   ➢ “Re-Stores”
NON-PROFIT EXAMPLES: 
CONTINUED

- Can our services go to a new area?
- Be used by new people?
- Be charged at a different price?
- Can we take any of our existing initiatives and turn them from profit losers to profit winners?
THE GRID – WHY?

- Which activities should we allow to have deficits? (mission-related decisions)
- Which activities must earn a net profit or risk being dropped?
- How profitable must each activity be and in what time frame?

The Grid:
1. Provides a highly visible tool
2. Identified lines of business
3. Helps allocate all costs & revenues
4. Sorts out uniqueness and criticality of each line of business
5. Helps recognize sustainability of your school’s mix of businesses
6. Recognizes any mission inconsistencies
7. Identifies strategic option and needs
### LINKING MISSION TO MONEY GRID:
#### ALLEN PROCTOR

<table>
<thead>
<tr>
<th>HIGH MISSION</th>
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</thead>
<tbody>
<tr>
<td>UNPROFITABLE</td>
</tr>
<tr>
<td>LOW MISSION</td>
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</tbody>
</table>

*Source – Linking Mission to Money by Allen Proctor*
WRAP-UP AND QUESTIONS

Contact Information

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