

## Creating the Financially Sustainable School

There only four levers that actually count:

1. **Waiting lists of full-pay customers** who desire your school's services: very, very rare, and I doubt if many Cleveland area schools have them. Manhattan schools and to a much lesser extent, the elite LA schools have them because demand far exceeds supply for those schools and because the elite public/charter schools fill up quickly, the rest of the schools not being acceptable to high income families. The strategic question here, as my partner Rich Odell puts it, is whether or not to "Downsize to Grow." Classics examples of downsizing (rightsizing) are Choate and Northfield-Mount Hermon. Downsizing increases the competitiveness of admissions for slots in one's school, and also increases efficiencies if "rightsizing" staff is part of the calculations.

2. **Tuition discounting** via net revenue discounting (i.e., need-based and merit-based aid): For most schools with open desks/excess capacity, all financial aid is a revenue-generator, not a "cost" as is typically misconceived by independent schools, since the marginal costs of adding the 17th- 22nd students to a classroom are non-existent. How to use both kinds of financial aid to achieve the grow is one of the strategic questions, as is how to grow enrollment without growing staff (the major driver of our increased tuitions over time).

3. **Increasing productivity:** On the expense side the only real factor in play is the ratio of students:faculty and students:all FTE employees. The large Hawaii schools demonstrate equal outcomes to the rest of the best of our schools in the country, with much more efficient ratios. Whatever your ratio is (9:1 and 5:1, lets say) by taking measures to increase the ratio (say to 10:1 and 6.5:1) a school would transform the financial sustainability of the school. The strategic question is not how to do it (just add students via net tuition discounting without adding staff) - the question is how to market it and make it palatable to a public that assumes erroneously that small classes (12 - 16) are better than larger classes (17 - 22), when, according to research on student outcomes, they are not. In fact larger and more diverse classes tend to produce better results.

4. **Increasing net tuition revenues:** Since the relentless increase in tuitions well-past the rate of inflation, probably for 50 years or more has caused this situation, we'll only exacerbate it until we increase non-tuition revenues. The strategic question is how and where do we do so? The answer is in beating industry norms in annual giving; adopting an endowment-building priority; fully exploiting the social, intellectual, and physical capital of the school.

So, in the "Action Steps" stage, we'd facilitate conversations around these options and demonstrate on a financial sustainability calculator what happens are you pull various levers alone and in combination.