



# ACHIEVING FINANCIAL SUSTAINABILITY IN TIMES OF UNCERTAINTY

Revenue diversification for improved  
education and research outcomes

September 2022

Financial sustainability has been a hot topic in Australian Higher Education for almost as long as any of us can remember. Revenue diversification through new courseware, disciplines, markets and commercialisation opportunities began to accelerate in the late 1970s and have continued apace this century. While cost-out activities dominated the headlines over the last two turbulent years, 2022 is seeing renewed focus on the revenue side of the ledger.

Back in the late 1980s education policy and funding were revolutionised. In the Dawkins era, changes in the domestic provision settings were matched with a move 'from aid to trade' in international education markets, driving universities to take more market-oriented approaches. Alongside changes in demand, this triggered substantial growth in postgraduate (PG) coursework degrees in the domestic market, and of course huge growth in international undergraduate (UG) and PG students.

Research commercialisation and industry engagement started to take on a new life from the late 1970s. In 1979 ANU established ANU Enterprise, followed shortly thereafter by UniQuest at the University of Queensland in 1984 and many others. These new commercial arms were established to foster industry and government engagement through what we now call business to business (B2B) and business to government (B2G) relationships. Universities' interests in investment and venture capital, protecting IP, incubating technology and entrepreneurs, providing short forms of learning, and leveraging their facilities for commercial outcomes are not new. These ideas, so fashionable and common today, were prevalent in the foundation documents of many universities' commercial entities decades ago. The graphic design may look dated, but the core ideas remain evergreen<sup>(1)</sup>.

At the turn of the century, the new Enterprise University was the subject of significant academic and public consideration and critique<sup>(2)(3)</sup>.

This century, we have also seen the rise of scaled fundraising efforts, with various institutions running highly successful campaigns in support of research and more equitable access for students. The University of Sydney's and University of Melbourne's \$1 billion+ philanthropic campaigns have been most widely publicised, but by 2021, various universities earned in the \$100 million mark in philanthropic income<sup>(3)</sup>. Over time, the investment portfolios of universities grow and some remarkable outcomes underpin recent university financial results, also at least in part supported by philanthropic endowments.

None of this shows however, that the levels of diversification we have seen so far have been easy or quick to achieve, straightforward to manage or spread evenly across the sector. In the year that the University of Sydney posted a \$1 billion surplus, of which \$454 million is considered a genuine underlying result, it is easy to be shocked by the volatility and unpredictability of outcomes<sup>(4)</sup>. Especially when only the year before \$760 million was wiped off sector-wide institutional international student fee income<sup>(5)</sup>. The 2021 financial results demonstrate mixed outcomes, record surpluses for some while many universities are still reporting COVID-19 related losses or losses

arising from deeper business and operating model issues. We know too that the enterprising activities of universities are not without controversy and often do not sit easily beside core university operations that are experiencing more and more fiscal restraint. The controversy will always peak when large surpluses (even those that were unpredictable and largely beyond the control of the institution) coincide with enterprise bargaining rounds.

So why seek further diversification, with its inherent risks, challenges and controversies?

In 2020, KPMG published a globally researched paper titled *The Future of Higher Education* in a Disruptive World<sup>®</sup>. In that paper, we highlighted the 'golden age' of growth of higher education in the West since the middle of last century through to ~2013. We showed that the sector had grown at a greater rate than population and real GDP. However, we also pointed out that the factors that led to this are beginning to unravel as we see students, parents, taxpayers and employers question the cost and outcomes of higher education, rising inequality, increased risk in the international student market, and reduced or redirected public funding take their toll on universities. These factors taken together with global megatrends such as changes in technology, demographics, geopolitics, the environment and the onset of the age of the customer, are sufficiently disruptive as to be causing a genuinely new era in which our universities operate. In this new era, student-centricity, digital transformation and financial sustainability are critical.

In that paper we particularly emphasised the need to address the consistently rising costs of running a university given the increasing mismatch between that cost base and students' parents' and taxpayers' willingness to continuously pay more.

The ability to plan and execute revenue diversification effectively is also a critical tool for universities today, as much to defray the challenges of cost-out, and to facilitate investment in greater student-centricity and digital transformation. Revenue diversification is not an end in itself, but a means to manage the complexity and volatility in today's environment and to achieve greater impact in research and education.

In this paper we map the drivers that create the requirement for a systematic approach to revenue diversification. These range from universities' rising operational costs, the unlikelihood of increased government funding (especially untied or uncontested) the learnings of over-reliance on narrow revenue streams such as single international student source countries. We also examine the ways in which diversification has already helped our universities to commence COVID-19 recovery.

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**MOST IMPORTANTLY WE THEN LOOK AT THE FOUNDATION PRINCIPLES AND TECHNIQUES FOR MANAGING DIVERSIFICATION WELL; HOW TO ESTABLISH AND MAINTAIN A PORTFOLIO APPROACH THAT AMORTISES RISK, ALIGNS TO INSTITUTIONAL STRATEGY AND THE ACADEMIC HEARTLAND. THE APPROACH WE OFFER IS EQUALLY USEFUL FOR LARGE INSTITUTIONS WITH SIGNIFICANT STAFF IN ENTERPRISE FUNCTIONS THROUGH TO SMALLER INSTITUTIONS THAT WISH TO MOVE TO THEIR NEXT STAGE OF MATURITY.**

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# Executive Summary

## SCENE SETTING

### GAINING MORE CONTROL OF INSTITUTIONAL FINANCES IN UNCERTAIN TIMES

Pages 7-13

It is becoming increasingly harder for Australian universities to achieve financial stability and manage risks given sustained market uncertainty and rising cost-base. Revenue diversification is a means to manage the complexity and volatility in today's operating environment, defray the risks of relying on cost-out activities, and secure investment that will help universities achieve greater impact in research and education.

The funding needs of Australian universities are growing due to ever-increasing cost bases, the need to invest to remain competitive and manage the long term impact of COVID-19. Cost-out measures undertaken are insufficient to cover the required investment.

**~14bn**  
increase in universities operating cost 2010-2019 <sup>(7)</sup>

Public policy changes continue to redirect or reduce funding for Australian universities, with financial support becoming more tied and contested.

**GOVERNMENT GRANT FUNDING**  
**~50%**  
of FY19 revenues – a 27% drop over 7yrs <sup>(7)</sup>

COVID-19 exposed the long-known risks of dependence on international student revenues. A return to 2019 international student revenues seems unlikely in the short term.

On average, international on-shore student fees account for **~20.7%** of FY19 revenues <sup>(8)</sup>

### REVENUE DIVERSIFICATION – THE CHALLENGE AND THE OPPORTUNITY

Pages 14-19

Australian universities have seen success by diversifying their revenues over decades and in COVID-19 recovery. However, diversification has not been easy or quick to achieve or manage, or spread evenly across the sector. Continued focus on systemic revenue diversification is important and will require sufficient investment and capability building as well as partnerships or platforms to deliver optimum returns in the short-to-medium term.

In the face of significant revenue loss in 2020 and over the proceeding years as the pipeline of students recover, many Australian universities have properly understood the financial imperative to act quickly to diversify their funding sources outside of international fee-paying students. This contributed to an impressive recovery for many in 2021.

**16.7%**  
of 2021 revenues generated outside of government funding and student fees <sup>(9)(a)</sup>

Australian universities have been investing in revenue diversification for many decades. Yet, there remains significant and relatively untapped opportunity for Australian universities to proactively continue to diversify their funding and create revenues from non-traditional sources that provide them greater control.

Commercial/other revenues represent only **~13%** of revenues for a typical AU university <sup>(7)</sup>

Revenue diversification has assisted many universities to improve their financial performance in 2021. However, many executives report challenges to achieve a more holistic revenue diversification in the short term, due to lack of evidence-based decision making, capability or resourcing issues.

Revenue diversification has assisted many universities in **2021**

## HOW CAN UNIVERSITIES CHANGE THEIR GROWTH STRATEGY TO MITIGATE FINANCIAL RISKS IN TIMES OF UNCERTAINTY, WITHOUT COMPROMISING THEIR ACADEMIC PURPOSE?

Universities offer service to society, advancing and contributing to social, economic, equity and justice outcomes.

Securing revenues has become vital for the future of universities – as long as this does not dilute their values and autonomy so they continue to deliver on their unique role in society.



Sources: KPMG analysis of DESE financial reports of higher education for various years; KPMG analysis of 2021 annual reports of various Australian universities  
 Note: (a) Based on the 2021 financial results of the 27 Australian universities that were published as of May 2022

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# THE WAY FORWARD

## A HOLISTIC PORTFOLIO FOR FINANCIAL SUSTAINABILITY

Pages 21-27

Universities can gain more control over their budgets by diversifying services to create revenues from various non-traditional sources. A methodical **portfolio approach** using scenario planning will help to build financial sustainability and fuel strategic investment in research and education.

By undertaking this strategic process that remains true to a university's core higher purpose, supported by an aligned operating model, a university can **maximise the commercial value of existing assets** while enhancing value and experience for students, staff and the community.

### 01 WHAT ARE THE POTENTIAL SOURCES OF REVENUE?

We believe there are opportunities to maximise the value of a university's existing assets – physical or other – to generate revenue to support excellence and student experience. Examples of assets that can generate further revenue include:

- Research capability (commercialisation)
- Teaching/education experience
- Administration/campus operations
- Students
- Brand & reputation
- Infrastructure/real estate

We see technology as an enabler or sub-asset for each of the abovementioned assets and capabilities. The graphic to the right shows example ideas for each asset/capability group, demonstrating varying levels of maturity, risk and investment profile.

Universities that identify a portfolio of opportunities that align with their unique vision, comprised of the prioritised and most impactful 'big bets' and potentially other revenue-generating opportunities from existing assets will be best placed to achieve financial sustainability.



Full graphic details: page 25.





## 02 HOW CAN A UNIVERSITY IDENTIFY ITS OPTIMAL REVENUE PORTFOLIO?

University executives have told us they wish to approach revenue diversification in a **holistic and structured** manner. This will allow the identification and delivery of highest-value, lowest risk investment opportunities with the greatest alignment to institutional strategy. For this purpose, we suggest a **5-phased approach** that involves stakeholder engagement and clear governance on ‘go or go-no’ touch points that can be tailored to a university’s unique strengths, ambitions and risk/investment appetite.

### 1. DEFINE STRATEGIC RATIONALE AND SELECTION CRITERIA USING SCENARIO PLANNING

### 2. PROBE OPPORTUNITIES

### 3. ASSESS & PRIORITISE

### 4. ALIGN ON STRATEGY & IMPLEMENTATION

### 5. PREPARE FOR EXECUTION



This approach aims to help achieve the right balance between universities need for financial sustainability without compromising their commitment to their higher purpose. This hinges on following three key principles, including **purpose-first, promoting academic endeavours** and innovating where **purpose unlocks value** (for students, staff and society).

## 03 WHAT ARE THE IMPLEMENTATION CONSIDERATIONS?

Successful diversification strategies require agility, innovation and evidence-based commercial decision making. This may mean a **refresh of the business and operating models**, considering focus/brand, service model, organisational structure, use of technology and data, governance and culture change.

Critical for success is ensuring a university has the capacity and capability to orchestrate a portfolio of commercial opportunities. Key considerations include governance (eg delegations of authority, risk management), service delivery, people, process, technology and performance insights and data. Sufficient resource allocation and investment in the full suite of necessary skills are particularly important.

**Partnerships** with other universities/TAFEs, industry, third party service providers and government will be critical to deliver revenue growth quickly and efficiently, especially as many contemporary funders require such collaboration.

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# GAINING MORE CONTROL OF INSTITUTIONAL FINANCES IN UNCERTAIN TIMES

**Revenue diversification is a means to manage the complexity and volatility in today's operating environment. It can also defray the risks of relying only on cost-out activities, help to secure the investment to create greater impact in research and education.**

## GAINING MORE CONTROL OF INSTITUTIONAL FINANCES IN UNCERTAIN TIMES

**Revenue diversification is a means to manage the complexity and volatility in today's operating environment, defray the risks of relying on cost-out activities, and secure investment that will help universities achieve greater impact in research and education.**

### Universities' funding needs are increasing due to rising costs, intensified competition and COVID-19 long-term impact

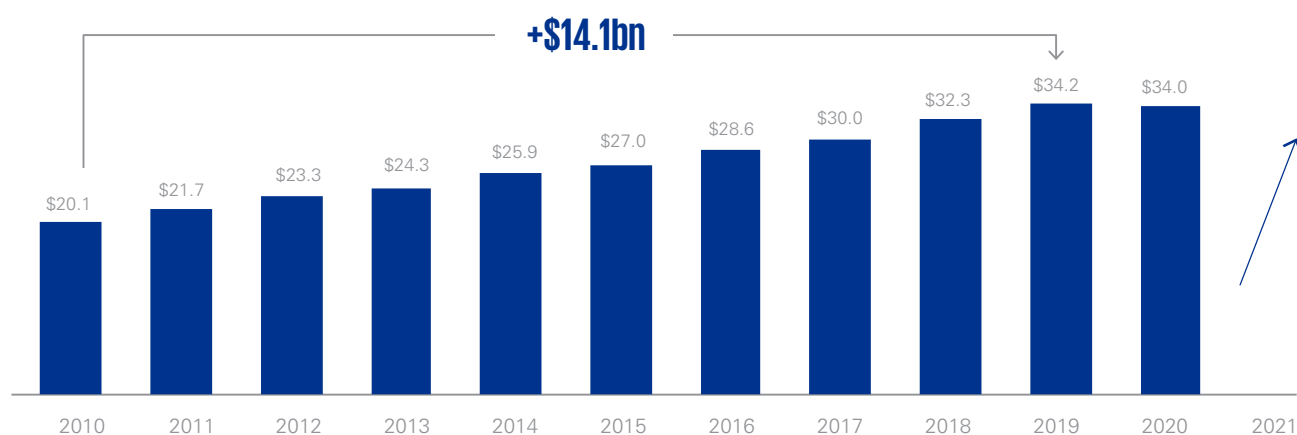
The operating costs of universities continue to rise. Between 2010 to 2019, Australian universities' operational costs rose by more than \$14 billion<sup>(7)</sup>. In 2020 this upward trend was temporarily reversed as cost reduction has been a strategy deployed by Australian universities in response to COVID-19. Given the rapid responses required to manage during the pandemic and market conditions, there was little opportunity to build new markets or products. In addition to freezing of discretionary spend, this included an estimated cut of 16,115 jobs (headcount) over a year to March 31 2021 mainly due to COVID-19 (vs 115 the prior year)<sup>(10)</sup>. However, while overall operational cost shrunk by \$255 million in 2020 compared with 2019<sup>(7)</sup>, universities' cost-base is expected to continue to grow.

- Most of the recent cost-out measures were either temporary and not transformative (e.g. halting infrastructure projects) or were offset by additional spend (such as partial refunds on fees and board, investment to quickly scale online engagement models, and expensive redundancy costs).

- The pay negotiations that are currently taking place in many universities will likely lead to wage rises – especially given the current stagflationary environment of heightened inflation and slower growth with rising cost of living and interest rates.
- Due to cost cutting, universities now have less resources to do the same amount of work – if not more. Investment in process and IT improvements to make a smaller workforce more agile and efficient are still needed<sup>(a)</sup>.
- Due to increasing national and global competition, additional investment and escalating costs-to-market will be required to attract students and staff.

The current research funding model for Australian universities includes substantial cross-subsidisation from international students' teaching revenue. In September 2020, Larkins and Marshman predicted that as a result of a decline in international-student fee revenue, Australian universities will collectively have a shortfall in discretionary income available to support research over the next 5 years of \$6.4 to \$7.6 billion<sup>(11)</sup>. Current government grants are insufficient to cover the gap, forcing universities to find new sources of funding for research or become more specialised/focussed in their research activities.

Chart 1: Total operating costs of Australian universities (2010-2020, \$bn)<sup>(7)</sup>



Sources: KPMG analysis of DESE Financial reports of Higher Education providers for various years

Note: (a) Clarifications to accounting treatment for Cloud Computing/SaaS arrangements (issued by the IFRS Interpretations Committee) will likely create funding issues for large, multi-year IT projects. While each arrangement needs to be considered in detail, the generally expected impact is that entities will likely be unable to capitalise the majority of implementation costs for such projects, and the associated licence fee (other than potentially as a prepayment). This will likely create a funding issue for many given that capital expenditure (capex) funding is often easier to secure compared to operational funding (capex is typically recognised over time through depreciation/amortisation).

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Importantly, as identified in KPMG’s *The future of higher education in a disruptive world* <sup>(6)</sup>, rising costs are no longer matched by a willingness of governments, students and parents to pay for them. Like many professions, universities are caught in Baumol’s Cost Disease<sup>(12)</sup>, the phenomenon of rising labour costs without increased productivity, leaving them with ever increasing costs. In this environment, universities’ operating costs remain under scrutiny and need to be realigned to projected revenues.

The implications of COVID-19 for Australian universities are still emerging and will continue to change in an unpredictable and unprecedented way, as demonstrated by the spread of the Delta and Omicron variants. While it is difficult to predict the total long-term financial impact, it will be significant. The culminative impact on revenues of fewer returning students in 2020-2022 (as illustrated to the right) will be felt for years.

In August 2020, peak body Universities Australia estimated that the university sector will experience a revenue shortfall of up to \$16 billion between 2020 and 2023 as a result of the COVID-19 crisis<sup>(13)</sup>, and in February 2021, they have estimated \$2 billion revenue loss in 2021 alone<sup>(16)</sup>. Early 2021 revenue figures<sup>(a)(9)</sup> reveal sustained revenue loss for many, yet not quite as big as predicted in 2020. This is partially due to universities’ success in shoring up revenues through the rapid pivot to scaled online learning as well as windfall and one-off revenues from the winding up of Education Australia Ltd.

Specifically, for the 27 universities that had published 2021 annual reports as of May 2022, the following trends were apparent:

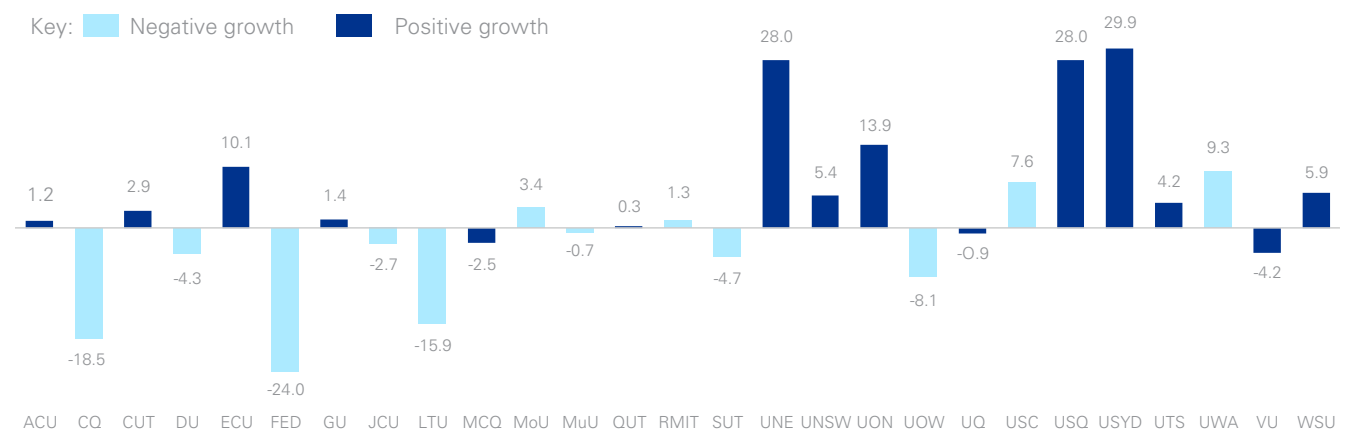
- In 2021, about 40% of institutions continued to endure revenue loss, or an average of 8.2% revenue loss between 2019 to 2021, as illustrated in Chart 2 below<sup>(8)(9)</sup>.
- Close to 67% showed a sustained decrease in international student numbers (median of -7% fall in numbers between 2020 to 2021)<sup>(9)(17)</sup>.

Australian universities enrolled **210,000** fewer international students in 2021 than would normally be expected<sup>(14)</sup>.

In January 2021, only **360** international students arrived in Australia – compared with 91,250 in January 2020<sup>(14)</sup>.

Nearly **127,000**<sup>(15)</sup> of Australia’s visa-holding international students remained stranded overseas as of February 2022 due to closed international borders.

Chart 2: Revenue YoY % change by universities between 2019 to 2021<sup>(8),(9),(a),(b)</sup>



Sources: KPMG analysis based on 2021 and 2019 Annual Reports for each institution (those available as of May 2022) and DESE Financial report for Higher Education provider, 2019.

Note: (a) Based on the 2021 financial results of the 27 Australian universities that were published as of May 2022.

(b) We note differences in accounting practices adopted for income reporting in various states that would impact the ability to compare results. For example, unlike universities in NSW, universities in Victoria, could not have declared as income benefits from the one-off winding up of Education Australia Limited (EAL) with the distribution of IDP shares and dividends.

## GOVERNMENT FUNDING REMAINS UNPREDICTABLE

The funding and regulatory environment in which Australian universities operate is highly complex and changing – in addition to increasingly uncertain market conditions. However, this issue is not new – the then Commonwealth Government’s Department of Education and Training Higher Education – *A Review of Review from Dawkins to Today*<sup>(18)</sup> articulates the challenge of funding a high-quality higher education system that has the capacity to meet the increasing demand for high-level and/or new skill and the aspirations of students. The review points out that this has been an ongoing concern for successive Australian governments.

Downward pressure on government funding has been ongoing for decades, with financial support becoming less predictable. Key changes include:

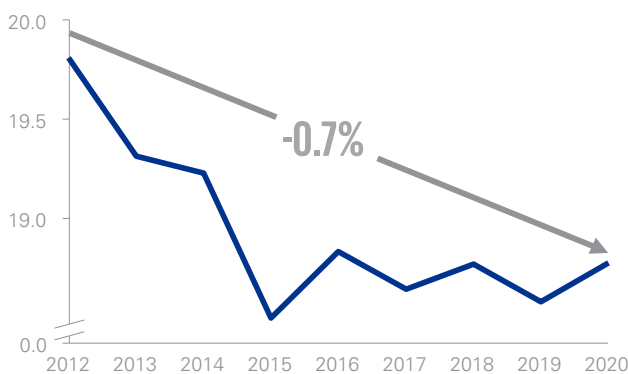
- Price regulation in certain degrees and programs (namely relating to Commonwealth supported undergraduates), with most universities reporting domestic UG fees do not cover the cost to the university.
- An estimated \$1.03 billion cuts for Australian public universities between FY12-20 in real terms<sup>(7)</sup>. As the total number of student enrolments increased by 29%

during this period, this means government funding per student (domestic and international) in real terms decreased by 27%. Real government funding per domestic student decreased by 14% in the same period while domestic student enrolments increase by 22%<sup>(7)</sup>.

- A funding freeze in the Commonwealth Grant Scheme (CGS) since early 2018 (and the re-introduction of caps on domestic student funding), and the Job-Ready Graduates Package introduced in 2020 mean universities will receive even less funding per student<sup>(19)</sup>. The change in 2018 also introduced performance based funding provisions, making funding outcomes less predictable.

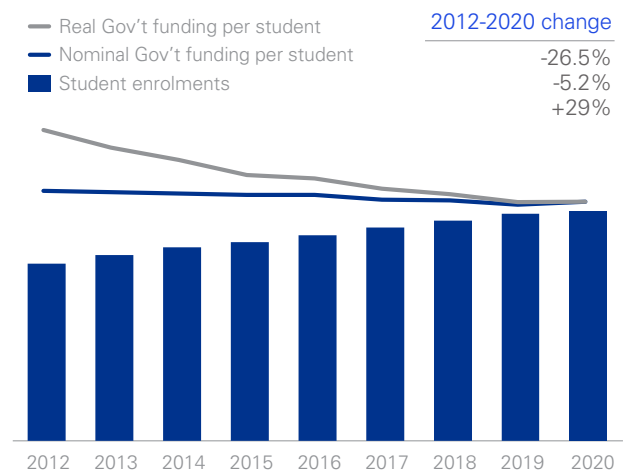
While the government awarded universities an emergency \$1 billion grant for research during the peak of the pandemic, the 2021-2022 federal budget did not renew this grant, and further included cuts of nearly 10% to universities over the next 3 years in real terms when considering inflation<sup>(20)</sup>. The 2022-2023 budget included more than \$1.2 billion to be invested in research commercialisation over the next 5 years, however expenditure for key programs, such as the CGS, remains essentially flat<sup>(21)</sup>.

Chart 3: Change in Government funding for Australian universities in real (2020) dollars (\$bn)<sup>(7)</sup>



Sources: KPMG analysis of DESE Financial reports of Higher Education providers for various years

Chart 4: Change in Government funding per student vs student enrolments (2012-2020)<sup>(7),(17)</sup>



Sources: KPMG analysis of DESE Financial reports of Higher Education providers for various years and DESE Higher Education Statistics Cube (uCube) for Enrolment count

Note: Government funding is comprised of Australian Government grants, HECS-HELP, FEE-HELP, SA-HELP Government payments and State and Local Government Financial Assistance. It covers both Australian and international students.

In response to the pandemic, Federal and State Governments were forced to reset their funding priorities, resulting in decreased and less predictable revenues for universities. Whilst some States acted relatively quickly following COVID-19 border closures to provide financial support to universities, the measures were temporary and require universities to re-establish plans to achieve financial sustainability as well as contribute to the State’s economic recovery and reforms. Moreover, the previous government has made it clear that it will not be bailing the sector out, and during the pandemic, changed JobKeeper’s rules three times to exclude public universities from support.

The new Labor Government has committed to deliver up to 20,000 extra university places over 2022 and 2023, prioritise new funding for universities that can offer new courses in national priority areas, and establish an Australian Universities Accord to drive lasting reform<sup>(22)</sup>. It is not clear when or how these suggested changes will impact each university.

In this environment, Australian universities are challenged in their ability to wait or rely on further financial support (especially untied or uncontested) in the short term from the State or Commonwealth Governments.

### THE RISK OF OVER-RELIANCE ON NARROW REVENUE STREAMS SUCH AS SINGLE INTERNATIONAL STUDENT SOURCE COUNTRIES

With government funding becoming more unpredictable, Australian universities found great success in growing the on-shore international student base as a major source of funding. For 95% of universities, international students were the first or second largest revenue source in 2019<sup>(6)</sup>. For individual universities, international students accounted for up to 61% of Equivalent Full-Time Student Load (EFTSL) and up to 45% of total revenue at the same year<sup>(23),(6)</sup>.

Chart 5: Sector trends relating to international students – 2010 vs 2019 <sup>(23,24)</sup>

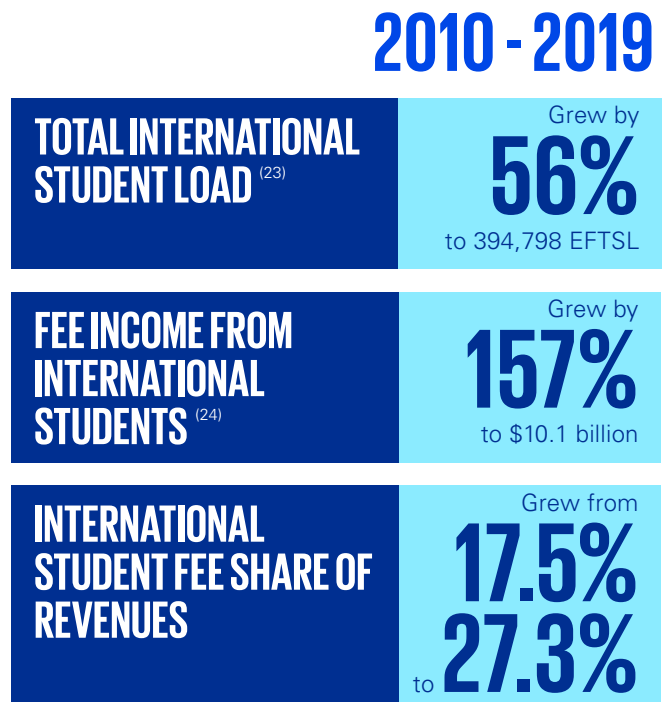
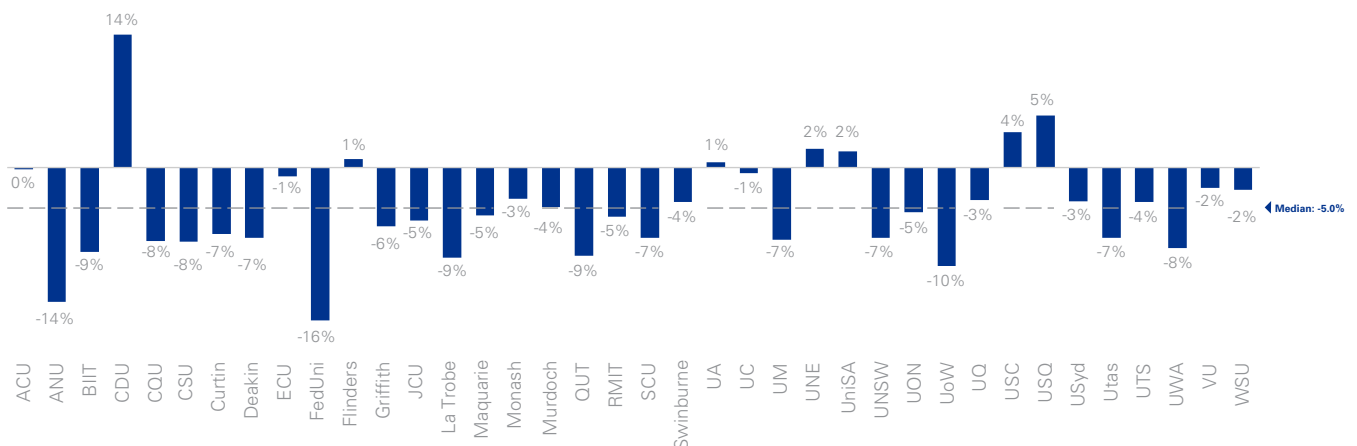


Chart 6: Changes in revenues for Australian universities – 2019 VS 2020 (%)<sup>(5)</sup>



Sources: KPMG analysis based on 2020 Annual Reports for each institution (parent) and DESE Financial report for Higher Education provider, 2019, 2020

Indeed, the significant growth of international education over the last 10-12 years has created a funding platform to support other core business activities, domestic education and wide-ranging research initiatives, as well as capital investment and campus expansions. Therefore, when Australian borders were shut in March 2020, the impact on universities was severe. Although the scale of revenue losses varied between universities, few institutions were spared financial pain, as illustrated in Chart 6 on the previous page. Australian universities lost \$2.4 billion in revenue in real terms compared to 2019 (a 6% decrease)<sup>(6)</sup>. According to the Mitchell Institute, when compared with universities' pre-pandemic budgeted revenue for 2020, this loss is more than \$3.5 billion<sup>(24)</sup>. Loss of revenue from international students was \$868 million in real terms – approximately 36% of the sector's \$2.4 billion revenue loss in 2020<sup>(24)</sup>.

Based on current predictions, both the domestic and international student markets will not be able to compensate for the loss of revenues:

- Domestic student numbers are down in most universities due to the attractive job market.

- With Government caps in place, over enrolling domestic students does not cover the full cost of delivery, let alone create substantial revenue growth.
- As identified in KPMG's 'Student experience in the age of the customer'<sup>(25)</sup>, students are becoming more evidence-based and discerning in their choice of university and course. The pandemic is accelerating this trend, resulting in a disruption of international student revenue as illustrated in Chart 7.

A new international student strategy is not simple to get right. There are no obvious markets to replace over-reliance on top three countries of origin for international students (accounting for 65.6% of all international students in 2019, 2020, per Chart 8<sup>(30)</sup>), with entry barriers and significant investment required. In contrast, each of the other major countries of origin (which are all in Asia), accounts merely for 2.5%-4.2% of total international-student numbers<sup>(17)</sup>. Although student populations from Africa and South America are growing in demand, there are multiple challenges relating to quality, regulation and cost. Non-traditional markets often also bring additional support costs for students with different levels of academic, cultural and linguistic formation to study in Australia.

Chart 7: Example disruption of international fee revenues

International/geopolitical trends <sup>(26)</sup>
– Rapidly rising stature of Asian universities with their governments insisting on local tertiary study and student retention.
– Complex geopolitical dynamics, particularly with China, which could result in prolonged international tensions, impacting international relations and trade and the long-term attractiveness of Australia to international students.
Student expectations
– ICEF Monitor research shows students considering online courses are demanding discounted fees <sup>(27)</sup> . QILT 2020 <sup>(28)</sup> showed a sharp reduction in student rating of their educational experience.
– For many, Australia is expensive and remote. The value proposition to study in Australia may be diminished as financial pressures and the need to stay closer to home impact decisions.
Intensifying competition
– Significant investment from leading global US and UK universities that are now rapidly increasing enrolments. Indeed, a survey of 7,000 foreign students conducted by international student recruitment firm AECC Global found a 15% decline in Australia as a preferred study destination, while interest in Canada and the UK significantly increased <sup>(29)</sup> .
– Emergence of powerful global online learning platform providers such as Microsoft, Google, LinkedIn and Amazon.

Chart 8: Higher education enrolments in Australia of international students - top countries of origin, 2019<sup>(30)</sup>

	Number of enrolments	Share of all overseas students
CHINA	164,306	37.3%
INDIA	90,240	20.5%
NEPAL	34,372	7.8%



It is therefore not surprising that some predict that international fee revenues and profitability will likely not return to pre-2020 levels – at least not in the near future.

Furthermore, while countries such as Canada have introduced policies to attract international students and assist them with job prospects, the situation in Australia is different. Former Minister for Education and Youth, The Honorable Alan Tudge MP told a press conference in April 2021 that:



**It is necessary to rethink the ... international education strategy for the nation as a whole...by using international student fees to fund research, universities have undermined the learning experience of domestic students and failed to address skills shortages.<sup>(14)</sup>**

The expected decrease in student fees – the major revenue source used by universities to-date to manage the variability in government funding – points to a need to continue to diversify and grow funding sources as a means to hedge risks.



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# REVENUE DIVERSIFICATION – THE CHALLENGE AND THE OPPORTUNITY

Australian universities have seen success by diversifying their revenues over decades and in COVID-19 recovery. However, diversification has not been easy or quick to achieve or manage, or spread evenly across the sector. Continued focus on systemic revenue diversification is important and will require sufficient investment and capability building as well as partnerships or platforms to deliver optimum returns in the short-to-medium term.

## REVENUE DIVERSIFICATION – THE CHALLENGE AND THE OPPORTUNITY

### REVENUE DIVERSIFICATION HAS BEEN ON THE RISE, AND A CONTRIBUTOR TO EARLY COVID-19 RECOVERY

In 2020, the total surplus of Australian universities had shrunk by over 70% from \$2.3 billion in 2019 to \$669 million<sup>(6)</sup>. Alarming, 83% of the surplus was located in three universities, with 15 universities reporting a deficit in 2020. Further, the surplus margin (of revenues) was 1.9%, with researchers indicating a margin of 6% is considered financially prudent for universities<sup>(6)</sup>. Based on partial results of the sector in 2021<sup>(a),(b)</sup>, it appears that the trend has been reversed. Specifically, 27 universities that had published their 2021 financial reports as of May 2022 had a combined surplus of \$3.6 billion<sup>(9)</sup>. Of these 27 universities, 26 reported a surplus, generating an uplift of \$5-\$942 million compared with their 2020 results. This reflects a median surplus margin of 10%. But 10 universities are still below the desired 6%<sup>(9)</sup>.

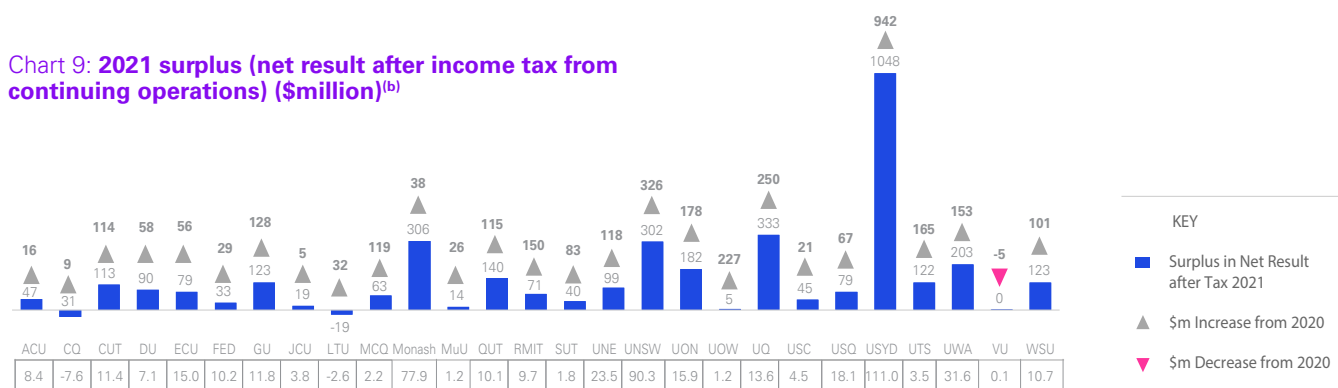
Analysis of these early 2021 results reveals that in the face of significant revenue loss in 2020, many Australian universities have properly understood the financial imperative to act quickly. While cost-out activities dominated the headlines since the early days of the pandemic, we are seeing renewed focus on revenues outside of international fee-paying students. For 85% of these 27 universities, revenue growth outside of government and student fees has contributed significantly to this recovery, accounting for 10%-31% of the revenue growth experienced in 2021 (with a median revenue contribution of \$165 million)<sup>(9)</sup>. It is important to note however that 2021 saw 38 universities receiving one-off funds from the distribution of dividends and shares from the winding up of Education Australia Ltd., with much reduced circumstances expected for most in 2022.

Australian universities becoming increasingly reliant on their own ability to secure new sources of revenues is not a new trend however. Revenue diversification through new courseware, disciplines, markets and commercialisation opportunities began to accelerate in the late 1970s and has continued apace this century.

From 2008 to 2020 alone, the sector’s other and commercial revenues grew by \$1.7 billion (or 62.6%) reaching over \$4.5 billion in 2020<sup>(7)</sup>. Since 2008 we are seeing an overall growth in most revenue diversification categories, as illustrated in Chart 10<sup>(7)</sup>. Specifically:

- Consultancy and contract research: The fastest growing category, increasing from \$883 million in 2008 to \$1.6 billion in 2020, with a compound average growth rate (CAGR) of 5.2%. It has been the second largest revenue contributor consistently throughout the period. While its share of total other and commercial revenue fell between 2008 to 2019, in 2020 this category returned to 2008 levels, representing 4.7% of total revenues. Many in the sector believe that there are further opportunities to expand contract research by improving engagement with industry and government.

Chart 9: 2021 surplus (net result after income tax from continuing operations) (\$million)<sup>(b)</sup>



Sources: KPMG analysis based on 2021 and 2020 Annual Reports for each institution (those available as of May 2022) and DESE Financial report for Higher Education provider, 2020

Notes: (a) Based on the 2021 financial results of the 27 Australian universities that were published as of May 2022.

(b) For some universities, the surplus amount cannot be spent freely due to restrictions in place for terms of use of a proposition of the funds held





**There's opportunity to unlock more revenues, including for example from infrastructure or research commercialisation potential that is currently not fully released, and mainly focuses on the early seed phases.**

Go8 COO

- Investment income: Overall grew from \$521 million in 2008 to \$927 million in 2020 (4.9% CAGR). This revenue source tends to be volatile – especially in the current uncertain economical and geo-political environment – and it is dependent on exogenous market conditions that are outside of the control of a university. In 2019 for example, Australian universities generated a record of nearly \$2.2 billion (6% of the sector's revenues), but \$1.3 billion were wiped out the following year mainly due to weaker performance across global equity markets. By 2020 this category represented 2.7% of the total revenues for the sector – lower than 2008 levels. In 2021 some universities seen a significant windfall in this category, including for example \$233 million for the University of Sydney and \$163 million for University of NSW<sup>(9)</sup>.
- Royalties, trademarks and contracts (RTCs): RTCs are a proxy to the sector's research commercialisation income. While universities have managed to collectively grow RTCs by a 4.2% CAGR between 2008-2020, there is still further growth opportunity given RTCs only produced approximately \$140 million in 2020 (0.4% of the sector's total revenues).

- Other revenues: Include donations and bequests, scholarships and prizes, non-government grants and other miscellaneous revenues. A large proportion of these revenues are based on the quality and nature of the engagement with alumni and other donors, but it can expand to other more 'creative' categories, as we will discuss in the next chapter. While the 'other' category has been on upward trajectory between 2008 to 2018, when it peaked at close to \$2 billion, in recent years it is closer to \$1.8 billion (slightly over 5% of the sector's total revenues).
- Net gains on disposal of Property, Plant and Equipment (PPE): By its nature, sale of assets tends to be a one-off event, with only a limited number of assets at a university's disposal. It is not surprising however that in the face of financial pressures in 2020, many universities leveraged and diversified their underutilised assets to generate additional revenues. This resulted in 61% increase in net gain on disposal of PPE from 2019 to 2020.

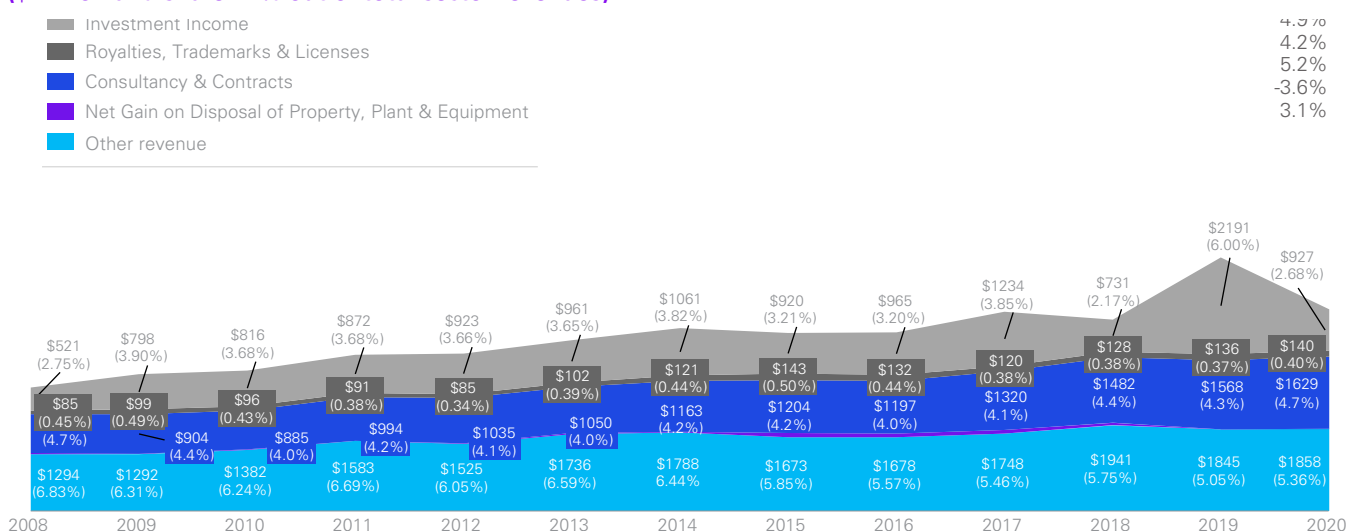
Notwithstanding their contribution, from the analysis above and change in value over time in the various revenue categories, it is clear that there is no single source for revenue diversification and universities should pursue various avenues to protect their revenues.



**While commercial capability exists in pockets around the university, the enterprise as a whole is not set up to progress endeavours outside of the traditional/ adjacent revenue streams.**

Go8 COO

**Chart 10: Changes in revenues for all Australian universities excluding government and fees – 2008 to 2020 (\$million and share in % out of total sector revenues)<sup>(7),(a)</sup>**



Sources: KPMG analysis of DESE financial statements for higher education, 2008-2020

Note: (a) Other revenues include: donations and bequests, scholarships and prizes, non-government grants, net foreign exchange gains and other miscellaneous revenue



## UNTAPPED REVENUE OPPORTUNITIES

Although the scale and overall contributions of the commercial and other revenues have grown, other untapped revenue opportunities remain.

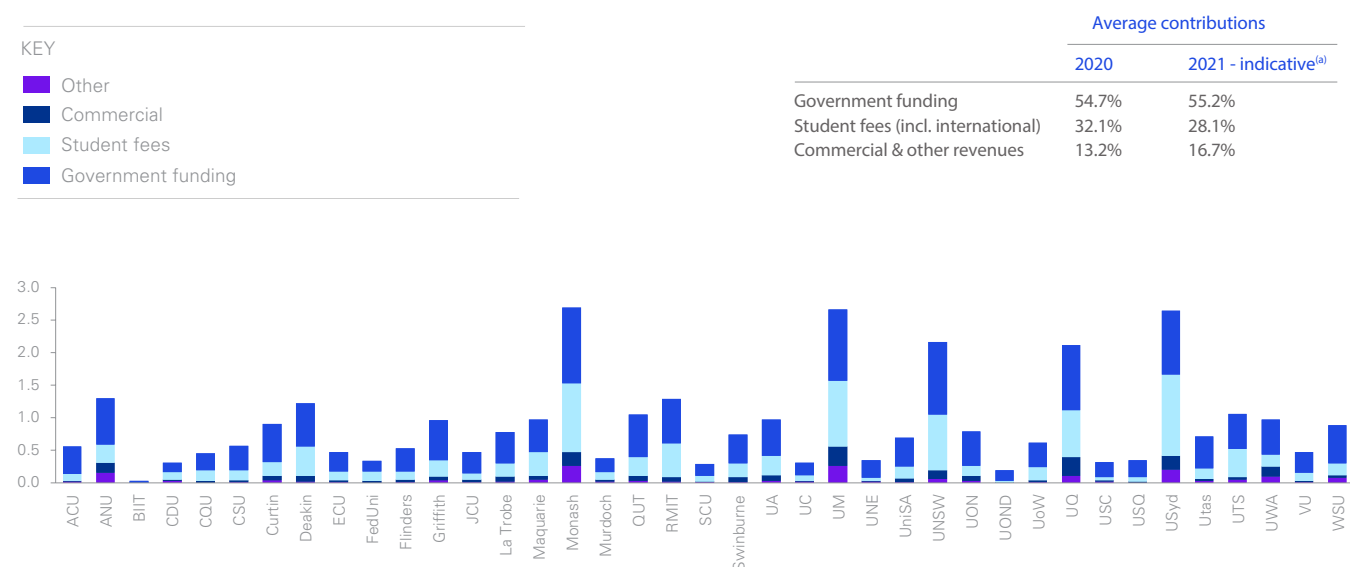
As illustrated below in Chart 11, sources other than government or student fees accounted for around 13.2% of university funding as of 2020<sup>(5)</sup>.

At the individual university level, there were varying levels of success and/or activity, ranging from -72% to +125% in the contribution of the commercial and other revenues between 2015 to 2020 (11% median)<sup>(7)</sup>. As noted prior, it is no surprise that 2021 saw a more significant growth in commercial and other revenues, with a median of 46% revenue increase from these sources compared with 2020, ranging up to more than quadruple in annual growth<sup>(9)</sup>.

In 2020, the revenue contribution from commercial and other revenues ranges from 3% to 26% out of total revenue among Australian universities. In absolute terms, the contribution ranges from less than \$5 million to close to \$560 million, pointing to significant potential for many universities. In 2021<sup>(a)</sup>, the contribution has further grown, reaching to \$873 million for a single university, being the University of Sydney<sup>(9)</sup>, which has successfully grown commercial and other revenues by over \$457m in 2021 alone (accounting for 25% of its total revenues for the year).

See further examples on pages 21-22 on how universities in Australia and overseas have diversified their revenues.

Chart 11: 2020 revenue contribution by type (\$bn)<sup>(5)(9)</sup>



Sources: KPMG analysis based on DESE Financial report for Higher Education provider, 2020. Based on re-stated financial reports as of 6 June 2022

Note: (a) Based on the 2021 financial results of the 27 Australian universities that were published as of May 2022

## VARYING LEVELS OF MATURITY IN AUSTRALIAN UNIVERSITIES' APPROACH TO EXECUTING REVENUE DIVERSIFICATION

When analysing the current operating models of universities, it is evident that many institutions have elected to diversify their revenue channels in recent years through greater resource allocation to commercialisation partnerships and opportunities. In fact, most universities now have dedicated resources, teams or portfolios to these activities. Some universities have established standalone entities that seek to develop these commercial partnerships, such as Monash Enterprise or Griffith Enterprise.

- The majority of the dedicated teams focus on establishing external linkages and identifying partnership opportunities for commercial research, professional consultancy, and commercialisation opportunities. They are very much outward facing and may overlook opportunities that do not involve partners.
- When it comes to research, in some universities, the relationship with the external partners are sometimes led by specific researcher and not centrally, with no

proper tracking in CRM of industry engagement. Lack of a more holistic/portfolio approach to industry engagement may lead to missed opportunities for further commercialisation projects outside the focus of a specific researcher/research group.

Comparing current teams/entities highlights significant differences in both scale and scope, across the sector, suggesting varying levels of maturity and potential for further model alignment, as required. For example:

- Australian National University (ANU) Enterprise is comprised of 240 FTEs (as of 2020), whereas Griffith Enterprise appears to have 11 dedicated FTE and UniQuest, the commercialisation company of the University of Queensland (UQ), has 58 FTEs<sup>(31)</sup>.
- Whereas ANU Enterprise primarily focuses on experimental research, the University of the Sunshine Coast Innovation Centre are set up to brainstorm commercial ideas to help existing businesses achieve commercial investment.

Chart 12 illustrates differences in scope, size and indicative return of commercial activity for various Enterprise functions, based on publicly available information.

Chart 12: Indicative maturity analysis of universities' enterprise functions (size, scope and return)<sup>(5), (31)</sup>



Source: KPMG analysis of various universities websites, DESE Financial Statements of Higher education, 2020

Note: (a) Estimated FTE data was collated from university website as of May 2022 and it available for 18 universities only that are shown above. For these 18 universities, FTE data is indicative only and actual numbers may vary.

(b) Australian Bureau of Statistics (ABS) business size categories are used to define the size of the enterprise /portfolio. Small (0-19) persons employed, Medium (20-199), and Large (200 or more persons employed)(c) ECU Business and Innovation Centre provides flexible cost accommodation, services and management support.

## UNLOCKING THE FULL POTENTIAL OF REVENUE DIVERSIFICATION WILL REQUIRE A SYSTEMIC APPROACH

While the benefits are clear, successful diversification outcomes have not been easy or quick to achieve or to manage.

In our discussion with various university executives, several challenges and obstacles to success of revenue diversification that universities are currently facing have been identified. We have clustered these to two major categories – the choice where and how to diversify, and execution of the diversification strategy, as detailed below.

### 1) CHALLENGES WITH THE CHOICE WHERE AND HOW TO DIVERSIFY

- The choice of diversification initiative is not evidence-based or methodologically compared with other alternatives (often stemming from challenges relating to data integrity, availability and/or interoperability).
- An idea is commonly generated and pursued ad-hoc, with no review/tracking or continued assessment of new ideas.
- It is often challenging to approve the initiative due to slow and cumbersome decision-making processes, governance issues or risk appetite.

- Lack of a consistent consideration of commercialisation as part of the decision making framework for strategic choices.

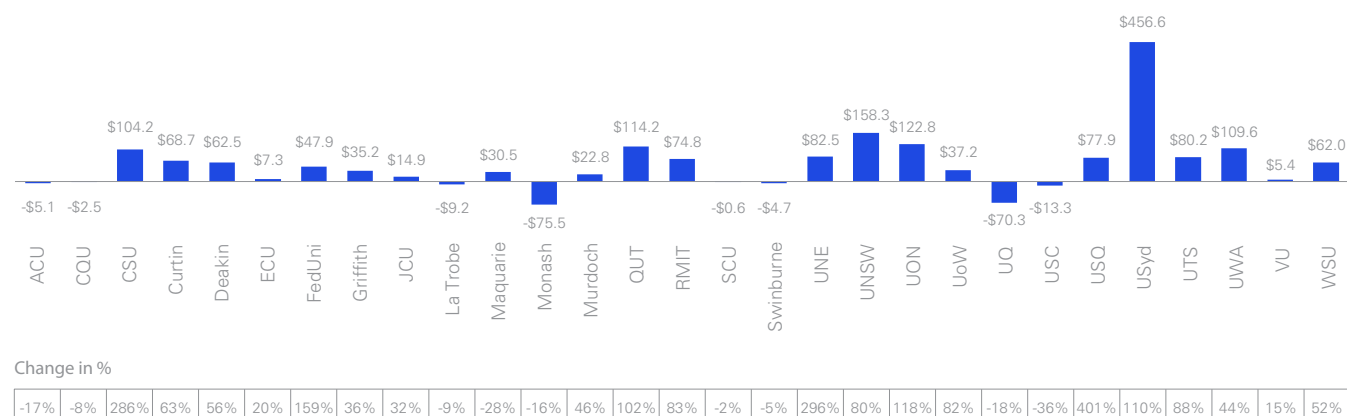
### 2) CHALLENGES WITH THE EXECUTION OF THE DIVERSIFICATION STRATEGY

- It is difficult to successfully progress commercial initiatives at pace as university may lack staff with the required capabilities.
- Often there is no capacity to successfully deliver the initiative due to competing priorities and overload.
- Some universities will seek to execute commercial initiatives on their own, and there may be missed opportunities to support the execution through better use of partnerships – with other higher education institutions, global partners, or other industry or commercial bodies.

The key question to ask therefore is, what can universities do to fully exploit the significant potential of revenue diversification to gain more control over institutional budgets?

The next chapter will address these challenges, providing foundation principles and techniques for managing diversification well.

Chart 13: Change in Other & Commercial Revenue between 2020 to 20212 (\$millions) <sup>(a)</sup>



Sources: KPMG analysis based on 2021 and 2020 Annual Reports for each institution (those available as of May 2022) and DESE Financial report for Higher Education provider, 2020.

Note: (a) Based on the 2021 financial results of the 27 Australian universities that were published as of May 2022.

(b) We note differences in accounting practices adopted for income reporting in various states that would impact the ability to compare results. For example, unlike universities in NSW, universities in Victoria, could not have declared as income benefits from the one-off winding up of Education Australia Limited (EAL) with the distribution of IDP shares and dividends.

**The sector recognises that recovering to pre-COVID levels and any growth ambitions beyond that will be slow and less familiar given the change in both the market conditions and in funding mechanisms and sources.**

**To achieve financial stability, universities are looking into a more methodical, systemic and structured approach to revenue generation from non-traditional sources that are within their control. To maximise outcomes, they see a need to align their operating model, structure and governance to their growth ambitions.**



# Case studies

## INNOVATIVE METHODS EMPLOYED TO DIVERSIFY REVENUES USING EXISTING ASSETS & CAPABILITIES

### STUDENTS

In Australia there is price regulation in many degrees and policy limitations that prevent differential pricing (at least for Commonwealth supported places [CSPs] for UG students), including a cap on student services and amenities fee (that is indexed each year). However, they may be capacity to consider pricing models outside of these limitations.

In the US for example, some universities are looking at changing fee models to cater to the new demands of their students. Spelman College in Atlanta has announced that students who are completely remote will receive 10% off tuition and 40% off fees in the upcoming academic year<sup>(32)</sup>. On the other hand, the University of Michigan will increase its student fees by \$500 for out-of-state students, in addition to a new \$50 health and safety charge. Merrimack College in North Andover will charge a COVID-19 mitigation fee of \$950 for a year<sup>(33)</sup>.

Differential tuition has also been in use, based on factors such as market demand/value of the degree and cost of instruction. For example, Utah State University charges differential tuition based on the chosen college and course level. For example, Business courses are charged \$2.05 per credit for the 1st and 2nd year of study and \$161 per credit for courses from year 3 and onwards – contrasted with \$5.24 and \$26.16 respectively for education undergraduates. Other fees for technology, campus recreation and library etc. are not charged on a fixed rate, but vary based on the number of credits a student undertakes<sup>(34)</sup>.

Other trends include attracting students using COVID-19-related government subsidies. For example, the University of Canberra introduced a range of short, government-subsidised. Graduate and UG certificates to help build skills for the future<sup>(35)</sup>. This has led to an increased enrolment from 2019 to 2020, where most other universities have seen student attrition in the same period<sup>(36)</sup>.

### TEACHING/EDUCATION CAPABILITIES

With online learning increasingly becoming the norm, universities across the world are further exploring the development of new course formats. For example, University of Bath has successfully enrolled around 700 students in a 100% online Master's program<sup>(37)</sup> and universities in Australia (e.g. University of South Australia, Monash University and University of Melbourne) have also developed 100% online new diploma and degree courses to provide additional pathways and flexibility for students.

To further increase enrolments, universities are also exploring partnerships with corporates to offer additional courses to non-traditional students. For example, London Business School has formed a \$38 million contract to train non-traditional students: senior managers at Kuwait Petroleum Corp<sup>(38)</sup>. In Australia, we have seen examples where in regional universities try to attract and create pathways to address skill shortages in their region. For example, the University of Central Queensland has recently introduced qualifications in cyber security due to industry demand<sup>(39)</sup>.

Some universities have been utilising offshore campuses and research centres as a creative means to grow revenue. For example, Monash University utilised its Monash Suzhou facilities in China to allow more than 130 Monash students enrolled at Monash Clayton in Australia to commence their studies while awaiting the re-opening of borders<sup>(40)</sup>. The original purpose of the facility was to provide technical and consulting services in China.

## RESEARCH CAPABILITY

Tapping into **research capabilities through collaborations** can create substantial revenues in the medium-to-long term. For example, the Victorian Government has partnered with the University of Melbourne, the Doherty Institute, and the Burnet Institute to establish a \$550 million hub that will accommodate 1,500 researchers, public health experts and clinicians to prepare for and combat infectious diseases<sup>(41)</sup>. Further, the University of Melbourne has partnered with the Victorian Government and a venture capital firm to establish two new investment funds that will pump \$115 million into research commercialisation over the next decade<sup>(42)</sup>.

Many universities are also establishing on-campus **incubators/accelerators** to support various cohorts of entrepreneurs and start-ups. This is often linked to early seed investment in ideas or companies originating in the university. In 2017, University of Wollongong raised seed funding of \$10 million to support university students and locals to grow their ideas into viable businesses<sup>(43)</sup>.

## BRAND AND REPUTATION

The Australian and US university systems have vastly different histories when it comes to philanthropic investment and alumni giving.

For example, in the US, it is common to **utilise brand and merchandise** to generate not only not only publicity, but significant revenue. At least 14 universities in the US receive \$3+ million annually each over the course of their sports apparel contract with shoe companies (cash and product)<sup>(44)</sup>.

Universities also rely on their alumni to generate cash. Universities in the US have built on this culture of giving, offering **affinity credit cards for alumni**. For example, 70,060 alumni of Penn State University have a PSU card and have directed \$4.99 million to the school<sup>(45)</sup>.

In recent years we have seen significant philanthropy success in Australia – especially by the larger institutions, with both University of Sydney and the University of Melbourne successfully raising over \$1 billion for a philanthropic campaigns that ran over a decade<sup>(46),(47)</sup>.



**Successful execution of revenue generating ideas will require a multidisciplinary team from various part of the university to regularly come together to track the performance.**

Director Finance, public university

## INFRASTRUCTURE/REAL ESTATE & ADMIN/CAMPUS OPERATIONS

Other universities are **diversified assets** to raise additional income. For example, University of New South Wales is looking to sell parts of its carparking facilities (estimated at about \$100 million), with the University of Technology selling its Sydney student accommodation portfolio<sup>(48)</sup>. The University of Sydney has raised \$62 million by selling its nine properties, which includes a Glebe commercial building sold for \$39 million<sup>(49)</sup>.

We are also seeing universities **developing facilities to generate commercial revenue**. For example, Western Sydney University is developing multiple projects including an innovation precinct and shopping centres that are predicted to generate \$1 billion in the next 5 years. Curtin University is also executing \$300 million for the development of an “exchange precinct” which will feature 1,000 students, a hotel, apartments, and commercial space<sup>(50)</sup>.

Making efficient use of **campus facilities, services and an infrastructure portfolio** also helps to generate revenues. College sports in the US utilise their sporting grounds and generate millions of dollars for universities each year<sup>(51)</sup>. California State University, Northridge (CSUN) has a formal program to offer the use of its campus for TV, commercial and film shoots. CSUN charges \$1,125-\$13,200 per 14-hour day for filming, prepping and striking<sup>(52)</sup>.

Other models include investing in **renewable energy** to generate revenue and cost savings. The University of Queensland has commenced its operations of \$2 million battery storage to generate revenue and hedge against electricity price volatility<sup>(53)</sup>.



**It is important to continuously apply this systemic approach and use criteria to prioritise revenue generating ideas. It is not a one-off exercise.**

University CFO, public university

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# A HOLISTIC PORTFOLIO FOR FINANCIAL SUSTAINABILITY

**A holistic portfolio approach will help universities to build financial sustainability by maximising the value of assets they have (i.e. diversifying services to create revenues from non-traditional sources) while at the same time remaining purpose – and not profit – driven.**



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## BUDGETARY CONTROL

Our analysis has shown that there is potential for Australian universities to establish greater flexibility and control of their annual and long-term financial outcomes, assisting to optimise financial resource allocations to fuel strategic investment in research and education.

We recognise achieving greater financial stability should include a more transformative view of cost efficiency – i.e. going beyond the transitional effort to reduce costs through staff/fee changes and freezing of capital budgets. This report however, focuses on the revenue diversification element in the financial equation, as we believe it is critical yet under-exploited for some universities.

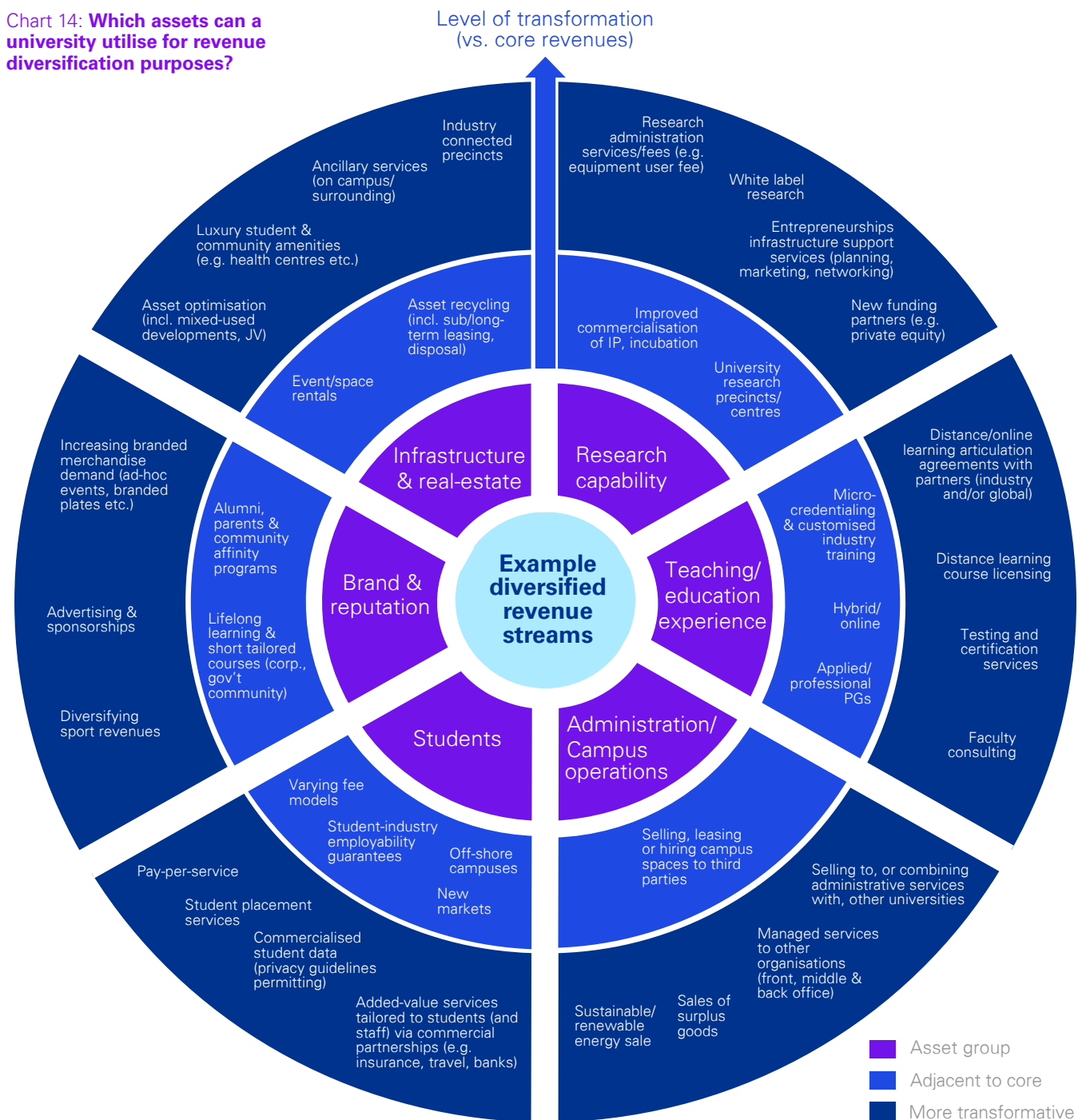
We suggest three main hypotheses: (i) improved utilisation of existing assets/capabilities has high revenue potential; (ii) a portfolio approach would assist the choice of where/how to diversify in a way that amortises risk, aligns to institutional strategy and the academic heartland; and (iii) operating models may need to be adjusted.

## MAXIMISE VALUE OF EXISTING ASSETS

Our hypothesis is that the traditional, physical assets that a university has, coupled with its operational and intellectual capabilities, which include education, research and administration/campus operations (collectively 'assets') can be utilised differently to create commercial revenues through new and improved product and service provision. The visual on page 25 illustrates potential avenues, and see pages 21-22 for examples from Australia and overseas in each category.



**Chart 14: Which assets can a university utilise for revenue diversification purposes?**



Above, example ideas are presented for each asset/capability group, demonstrating varying levels of maturity, risk and investment profile.

The asset groups include:

1. Research capability
2. Teaching/education experience
3. Administration/campus operations
4. Students
5. Brand & reputation
6. Infrastructure/real estate

Successful universities tailor the assessment of where and how they can diversify revenues based on their own unique asset portfolio as well as their ambition and their risk/investment appetite.

The result – a portfolio of opportunities that align with each university’s unique vision, comprised of the most impactful 2-3 ‘big bets’ and potentially other revenue-generating opportunities from existing assets that the university will commit to pursue.



The rationale for this ‘asset-maximising’ approach is underpinned with a pragmatic view that seeks to improve the value/utilisation of existing assets – physical or other – that a university has, and therefore be easier to execute (vs taking on new business lines that have little or no relationship to a university core business).

A portfolio approach recognises it is likely that a university will pursue a mix of revenue-generating initiatives with various levels of risk and return over changing time horizons. This will assist to hedge financial risks and deal with the volatility many are facing. As such, its flexibility caters to universities at all scales.

Which assets can and should be prioritised will vary according to a university’s unique strengths and objectives. In consultation with university leaders, we have outlined an approach that assists a university to arrive at an agreed revenue-diversification strategy, as illustrated in Chart 14 and detailed on the right. The approach addresses three key questions:

1. What are the strategic and financial ambitions?
2. How are we going to get there?
3. How do we operationalise the strategy?

KPMG’s 5-phase agile approach involves stakeholder engagement and multiple touch-points. It will typically take 10-14 weeks to complete, and is comprised of the following:

**Phase 1:** Understand the truth about today i.e. the current state (including baselining to confirm strengths) and through scenario planning, align internally on ambition, revenue diversification targets, timeframes to achieve them, and selection criteria/framework.

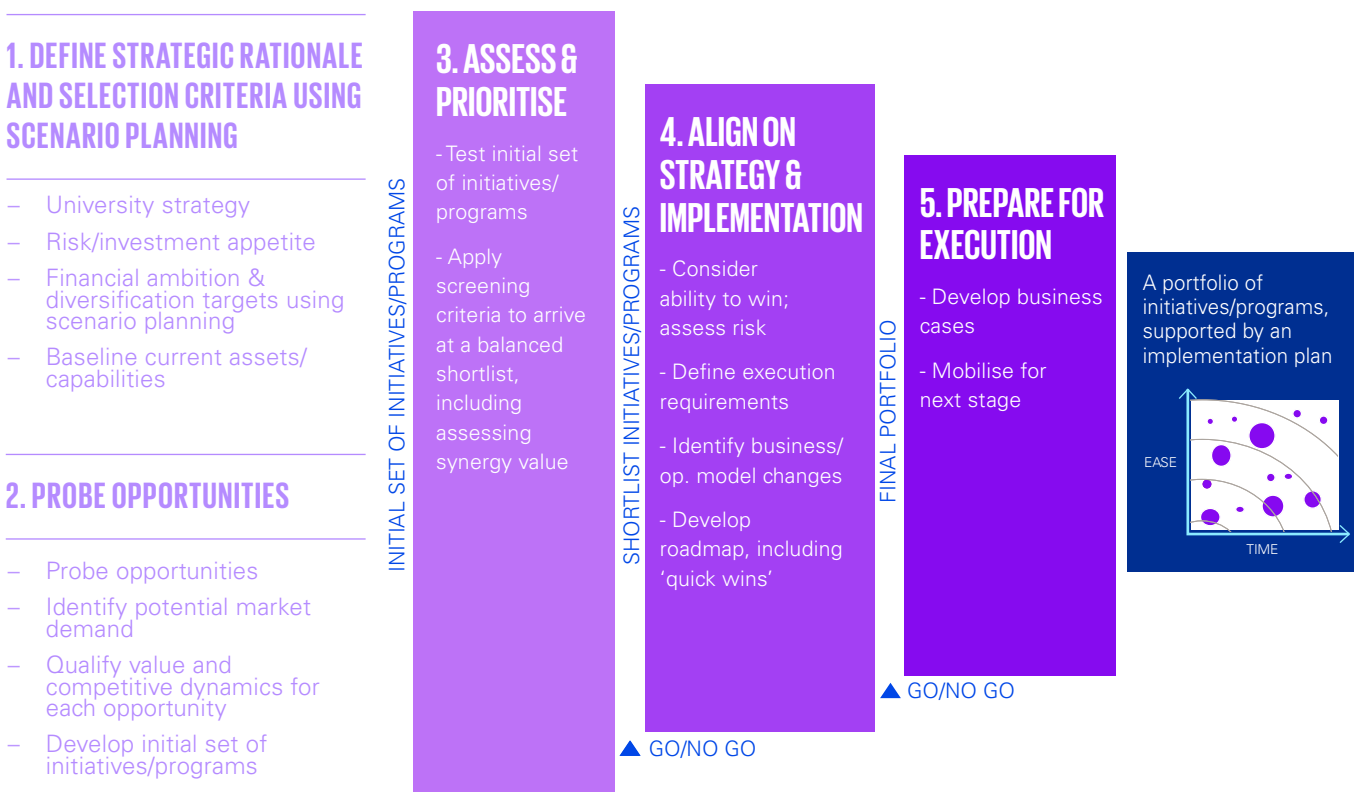
**Phase 2:** Explore (ideally with customers) revenue diversification initiatives/programs based on existing assets/capabilities vs market potential (accounting for opportunity value and competitive positioning).

**Phase 3:** Assess and select a portfolio of revenue diversification initiatives/programs based on the agreed selection criteria (risk vs value) of each initiative and potential synergistic value of multiple initiatives. The number of initiatives will depend on the scale of change required to achieve ambition.

**Phase 4:** Adjust portfolio based on the ability to execute and win and define implementation strategy, including adjustments to business and/or operating models, consideration of risk appetite, plan to bridge capability gaps, and an execution/sequencing roadmap (including ‘quick wins’ to build momentum).

**Phase 5:** Prepare for implementation by facilitating approvals and mobilising to next phase, including establishing governance and oversight processes (multidisciplinary team).

Chart 15: Illustration of a standard, high-level approach to guide revenue diversification choices



## BENEFITS OF A SYSTEMIC APPROACH

There are multiple advantages for universities at all scales in undertaking a more methodological, iterative and co-designed portfolio approach to ensure they remain financially sustainable:

- Development of opportunities that align with a university's unique vision, strategy, focus (differentiation), and risk - investment appetite.
- De-risk investment, accounting for uncertainties through scenario planning.
- Focus on the most high-value opportunities that can be scaled-up using an evidence-based approach that considers not only market value, but also the institution's ability to win.
- Identification of synergistic value beyond a single revenue opportunity (using a whole-of-portfolio approach).
- The ability to realise the full value of identified opportunities due to implementation planning.
- Scale to iterate and refine over time.
- Quick wins and 'no regret' moves can be accelerated.
- Assistance in directing the right resources to where it matter most – including the more complex one or those that require collaboration with other universities.
- Avoid over-reliance on a single, high-volatile revenue-generating source.

## PURPOSE-LED SELECTION CRITERIA

In applying the 5-phased approach, each university will design its own key criteria and design principles help inform its choice of revenue to diversification initiatives. For commercial organisations, these are commonly comprised of a mix of the:

- Value – the potential financial and non-financial contribution and return of each initiative/program, including scale and longevity of the impact (e.g. student attraction); and
- Likelihood to deliver value – the implementation considerations, such as cost, complexity, time, capacity to deliver, compliance, and reputational risk.

Within value, a critical component is strategic fit – compliance with regulatory requirements and the university's governance/policy frameworks and aligned with its strategy. For universities, this also includes a unique component – balancing the need to secure revenues without compromising the university's values, autonomy or quality of research and teaching.

We believe our approach can achieve the right balance between a university's need for financial sustainability without compromising their purpose. In order to achieve this, we have highlighted three key principles that should be adhered to, see diagram below.

### A balanced approach for revenue diversification – key principles

#### 01 PURPOSE FIRST:

Revenues are only the means to maintain and enhance a first-class educational and research institution and the knowledge it generates. Any profit will be re-invested to the benefits of the students, staff and community.

#### 02 PROMOTE ACADEMIC ENDEVOUR:

The pursuit of revenues will not comprise but even extend scholars' academic autonomy and priorities.

#### 03 INNOVATE WHERE PURPOSE UNLOCKS VALUE:

Focus on revenue that serves a university's purpose and enhances its societal value in areas of priority.

These principles recognise that the choice of where and how to diversify revenues should be guided by the ability to generate value for students, the university's academic, research and professional staff, as well as its partners and broader society. Done right, growing revenues can lead to an enhanced experience for both students and staff. These can include:

- Increased responsiveness to the changing needs of students, clients and partners.
- New quality service offerings based on student demand and skills of staff.
- Development of new partnerships, collaboration and the strategic pooling of resources across the higher education ecosystem.
- Securing alternative funding – for example, via private equity partners – provided it aligns with a university's mission and values.

A well-structured revenue-generating strategy that aligns with the university's priorities can also create a clear point of difference, and help signal a clear message about a university's areas of focus, strategic strengths and brand.

## CRITICAL EXECUTION CONSIDERATIONS

Revenue diversification at scale requires a strong appetite for innovation from leadership, and an institution-wide culture that is agile and adaptive. In our discussions with selected Australian universities, the need to build further commercial capabilities, competence, resources and management attention was emphasised as being key to maximise the likelihood of successful financial sustainability through revenue diversification. This means rethinking how to adapt and align their business and operating models. Example considerations to assist with the thinking around the need to align the university's business and operating models are listed below.

### University leaders should be asking themselves:

#### BUSINESS MODEL CONSIDERATIONS

##### How can we...

- Pursue an agenda that drives specialisation and differentiation and achieves clarity around what the University will be known for?
- Build the University's brand in the agreed areas of focus for revenue diversification?
- Develop a contemporary, fit-for-purpose service model and partnership framework?
- Rapidly implement diversified fee/pricing models or similar quick wins?

#### OPERATING MODEL CONSIDERATIONS

##### How can we...

- Ensure the University has the capacity and capability to orchestrate a commercial agenda supported by its partners?
- Create a governance model with clear accountability, decision making authorisation and a supporting oversight process and a risk appetite?
- Address internal capability and culture issues, including encouraging agility and the appetite for innovation and commercialisation, and using KPI and incentive schemes effectively?

To be effective, consideration should be given to assigning dedicated resources to drive the growth agenda and lead key activities. This means:

- Getting the right people with the right capabilities focused on commercial returns while not compromising the university's research and teaching mission.
- A faster response to market to meet the needs of students, employers and partners.
- The reallocation of talent within a university, or creation of new jobs, or both.

Being intentional in dedicating resources to pursue the growth and diversification agenda is an investment that will lead to a higher return and pay dividends over time.

## THE CRITICAL ROLE OF PARTNERSHIP IN EXECUTING DIVERSIFICATION STRATEGY

Whilst the leadership and oversight of any revenue diversification strategy should be led internally, there are a variety of options when it comes to the design, delivery and implementation of associated initiatives. These can be done through government, education or industry partners locally and/or globally, or perhaps with third-party providers. Models might, for example, include collaboration between universities, or even creation of a 'system of universities' to jointly pursue opportunities. This is logical in areas where market education is required, where success depends on collective actions, or for instance eliminating duplication of courses to allow an individual institution to divert the avoided costs and budget into other revenue-creation activities. Indeed, universities are already starting to explore new collaborative possibilities, such as the NUW Alliance in NSW or the Innovative Research Universities (IRU) pursuing joint opportunities.

The role, number and profile of partners would vary greatly across different types of revenue diversification. For this reason, any approach should be developed through careful assessment across a number of context-specific criteria.

# Glossary

<b>ACU</b>	Australian Catholic University	<b>PPE</b>	Property, Plant and Equipment
<b>ANU</b>	Australian National University	<b>QUT</b>	Queensland University of Technology
<b>BIIT</b>	Batchelor Institute of Indigenous Tertiary Education	<b>RMIT</b>	RMIT University
<b>bn</b>	Billions	<b>RTCs</b>	Royalties, trademarks and contracts
<b>CSUN</b>	California State University, Northridge	<b>SCU</b>	Southern Cross University
<b>CDU</b>	Charles Darwin University	<b>Swinburne</b>	Swinburne University of Technology
<b>CSU</b>	Charles Sturt University	<b>UM</b>	The University of Melbourne
<b>CGS</b>	Commonwealth Grant Scheme	<b>UNE</b>	The University of New England
<b>CQU</b>	CQUniversity	<b>UON</b>	The University of Newcastle
<b>CAGR</b>	Cumulative average growth rate	<b>UOND</b>	The University of Notre Dame Australia
<b>Curtin</b>	Curtin University of Technology	<b>UQ</b>	The University of Queensland
<b>Deakin</b>	Deakin University	<b>Usyd</b>	The University of Sydney
<b>ECU</b>	Edith Cowan University	<b>UWA</b>	The University of Western Australia
<b>EFTSL</b>	Equivalent full-time student load	<b>UG</b>	Undergraduate
<b>FedUni</b>	Federation University Australia	<b>UA</b>	University of Adelaide
<b>Flinders</b>	Flinders University	<b>UC</b>	University of Canberra
<b>Griffith</b>	Griffith University	<b>UNSW</b>	University of New South Wales
<b>Go8</b>	Group of Eight	<b>UniSA</b>	University of South Australia
<b>JCU</b>	James Cook University	<b>USQ</b>	University of Southern Queensland
<b>La Trobe</b>	La Trobe University	<b>Utas</b>	University of Tasmania
<b>Macquarie</b>	Macquarie University	<b>UTS</b>	University of Technology Sydney
<b>m</b>	Million	<b>USC</b>	University of the Sunshine Coast
<b>Monash</b>	Monash University	<b>UOW</b>	University of Wollongong
<b>Murdoch</b>	Murdoch University	<b>VU</b>	Victoria University
<b>PG</b>	Postgraduate	<b>WSU</b>	Western Sydney University



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# NEXT STEPS

Revenue diversification represents a significant yet unexploited opportunity for Australian universities, not only in achieving financial sustainability and greater control over budgets, but also in enhancing value and experience for students, staff, the community and society.

In order to identify a revenue diversification strategy that is appropriate for your institution, university leaders should seek to prepare for Phase 1 of our approach – *Define strategic rationale and selection criteria using scenario planning*. This involves mapping of:

- Likely drivers/forces of change.
- Financial performance (historic and expected).
- Drivers of performance.
- Past and on-going revenue diversification initiatives (including lessons learnt).
- Existing and emerging partnerships that might be capitalised on, or even expanded, in the identification and execution processes of revenue diversification.

## WE WOULD LOVE TO HEAR FROM YOU



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