



THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

The University of North Carolina at Chapel Hill

Cost Diagnostic: Final Report Summary
July 2009

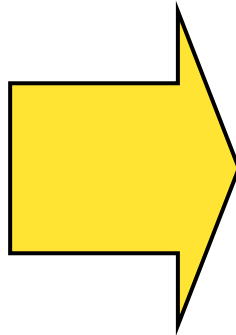
Meeting agenda

- Introductions
- Project objectives and scope
- Key findings
- High potential options
- Next steps

Project objective and guiding principles

Objective

Identify options to improve UNC-Chapel Hill's operating cost structure through more efficient and effective operations to facilitate long-term growth, within boundaries of guiding principles



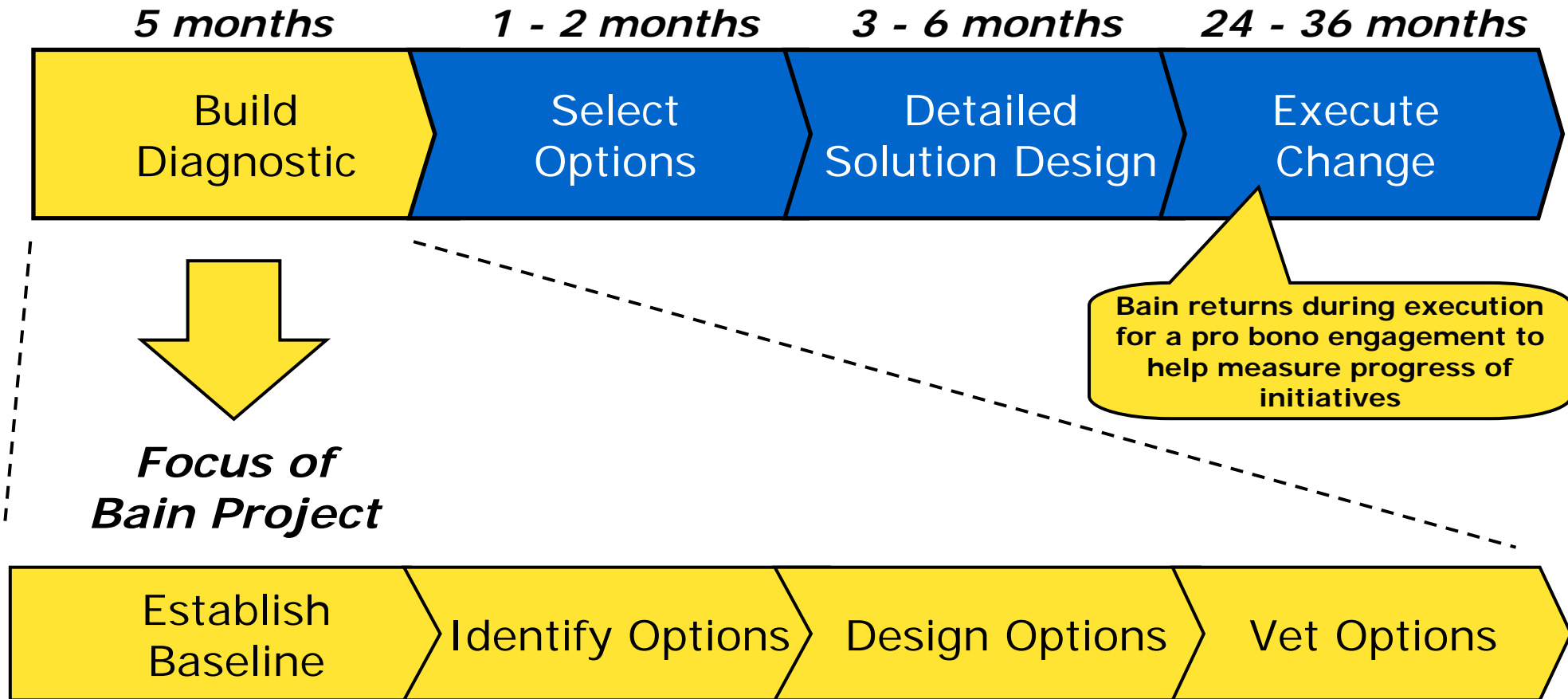
Guiding principles

- Options must comply with **regulatory, statutory, and policy environments** under which the university operates
- **Academic quality** must be maintained
- **Carolina's reputation** as a leading public institution must be preserved
- Must sustain sound **internal control and compliance** environment
- Costs must be evaluated against **relative value** they generate in return

Project scope

- Diagnostic **included University Administration and all 14 Schools**
- Increased focus on expenses paid for by **General Institutional Support Funds (GISF)**
 - GISF includes State Funds and F&A (i.e., overhead)
- **Auxiliary Enterprises** that impact the use of GISF were analyzed more closely
 - Energy Services, Facilities Services, Printing, Tar Heel Temps
- **Some areas were out of scope** for the 5-month diagnostic:
 - UNC Health Care System and UNC Physicians & Associates
 - New sources of revenue
 - Capital projects

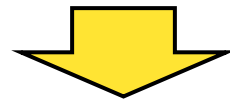
Final report describes high potential options identified during Bain-led diagnostic



Note: Diagnostic ran from January 2009 – May 2009

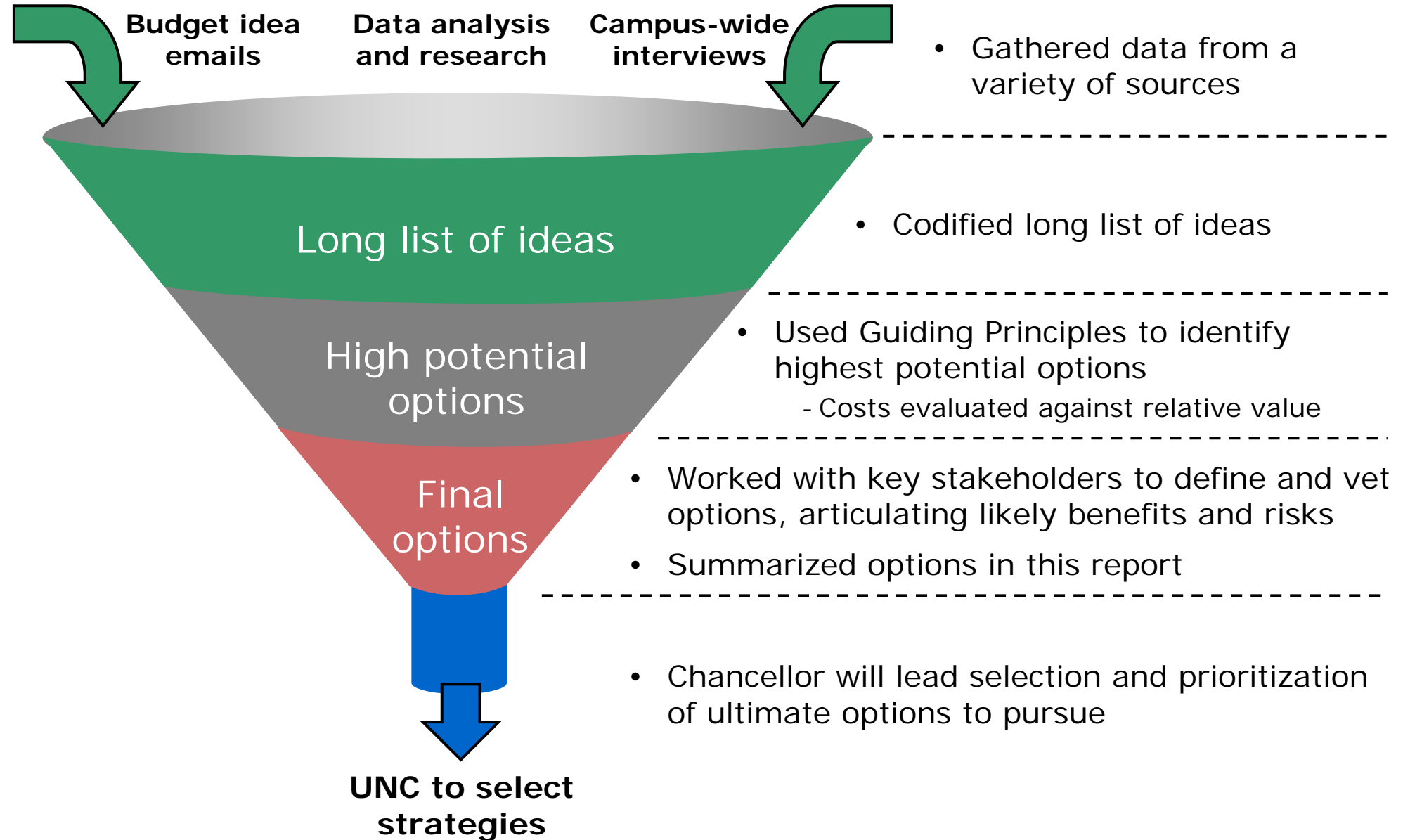
Summary of key findings

- Administrative expenses per student have grown faster than academic expenses
- UNC has a complex org structure
 - Redundancy and lack of scale across many areas
- Multiple layers of management can exacerbate complexity
- Complexity and related operating issues lead to inefficiency



What high potential opportunities can UNC pursue to reduce complexity and improve efficiency and effectiveness?

We used a rigorous and collaborative process to identify, design, and vet options



Report description and disclaimer

- The final report is a compilation of **potential options** to improve efficiency and effectiveness, but should **not be viewed as final recommendations** for initiatives
- All options were designed and authored with **input and consultation** from the **UNC leadership** team
- Potential **financial values and timelines are estimates**
 - Value and timelines are dependent on option selection, leadership approach, and implementation
 - Savings could be **reallocated to support Carolina's core mission** (i.e., teaching, research, and public service) or address budget concerns
- In general, **organizations rarely achieve 100% of identified savings** options
 - 60-80% is more common based on a variety of factors
 - 40-60% more likely at UNC given regulatory constraints
- Many options are **difficult to implement** and will require significant time and investment

Focused on 10 potential options

1

Overall University Structure and Strategy

- Organization re-design
- Spans and layers optimization

Area Deep Dives

Admin Support

2 Procurement

3 IT

4 Finance

5 HR

Teaching, Research, and Public Service

6 Centers & Institutes

7 Research &
Compliance

University Operations

8 Utilities

9 Facilities services

10 Space utilization

High-level description of 10 potential options (1 of 4)

	Area	Opportunity/Options	Estimated Annual Value	Estimated Timing
Structure	Org. structure	<ul style="list-style-type: none"> Reduce organizational layers and expand average spans of control Establish policies and guidelines to maintain 'flattened' organization structure 	\$3 - 12M	1 - 2 years
Administrative support	Procurement	<ul style="list-style-type: none"> Invest in adequate systems for data capture, process automation Restructure procurement organization to more heavily invest in strategic (vs. purely transactional) support of distributed units 	\$40 - 45M	2 - 5 years
	Information Technology	<ul style="list-style-type: none"> Consolidate 'hidden' IT infrastructure from within departments to school or division level Invest in central capabilities and further resolve past trust/perception hurdles to facilitate migration of IT services into ITS 	\$12 - 19M	2 - 3+ years

Note: Organization rarely achieve 100% of identified savings; Additional detail in complete final report

All observations contained in this document are for discussion purposes only.

High-level description of 10 potential options (2 of 4)

Area	Opportunity/Options	Estimated Annual Value	Estimated Timing
Administrative support	<ul style="list-style-type: none"> Near-term (before ERP) platform consolidation and process simplification Restructure distributed Finance organization to automate clerical task execution and consolidate core finance activities to realize benefits of scale 	\$4.5 - 9M	1 - 2+ years
	Human Resources	<ul style="list-style-type: none"> Early focus on platform consolidation and process simplification Restructure distributed HR organization to streamline communication and realize benefits of scale 	\$3.5 - 5M

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High-level description of 10 potential options (3 of 4)

Area	Opportunity/Options	Estimated Annual Value	Estimated Timing
Centers & Institutes	<ul style="list-style-type: none"> • Reduce C&I dependence on state funds, including use of shared resources <ul style="list-style-type: none"> - Assumes adequate allocation of F&A for operating budget • Create standard policies on C&I start-up, funding, and review processes 	\$14 – 53M	1 – 3 years
Research & Compliance	<ul style="list-style-type: none"> • Invest in automation and resources to meet expected increased in sponsored research awards and ensure compliance with regulations • Restructure research support offices to eliminate redundancies and provide better service to campus 	Investment in increased effectiveness	N/A

Teaching, Research, Public Service

Note: Organization rarely achieve 100% of identified savings; Additional detail in complete final report

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This information was prepared solely for the use of the University of North Carolina at Chapel Hill; it is not to be relied on by any 3rd party

High-level description of 10 potential options (4 of 4)

University operations

Area	Opportunity/Options	Estimated Annual Value	Estimated Timing
Energy Services	<ul style="list-style-type: none"> Focus on utilization of assets and decreasing energy consumption 	\$11 – 16M	3 - 7+ years
Facilities Services	<ul style="list-style-type: none"> Little in the way of significant 'low-hanging fruit' Some opportunity to optimize procurement spend and practices 	\$1 – 2M	1 – 4 years
Space Utilization (classrooms)	<ul style="list-style-type: none"> Sufficient classroom space should exist for expected future growth (through 33K students) Key lever for sustaining growth is better utilization of classroom space: <ul style="list-style-type: none"> - Standardizing class times - Increasing utilization of classrooms during peak and non-peak times 	3 – 6K additional students supported	1 year

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While financial benefits could be significant, “soft” benefits can be equally or more important

Increased effectiveness

- Better communication and information for decision-making and execution
- Schools, Departments, Centers/Institutes able to focus on core missions
- Simpler, more responsive systems and processes

More satisfied people

- Reduced bureaucracy and corresponding frustration
- Increased focus on core elements of their job that they like
- Greater sense of connectedness to leadership and University
- More empowerment

Where are the next steps for Carolina?

- Chancellor to lead selection of options
 - Align key stakeholders and university around which options to pursue and relative priority
- Establish program management, process and tools to lead and track change initiatives
- Identify and assign sponsors and owners for initiatives to drive change
- Bain has committed to return for a pro bono engagement to help measure progress of initiatives