

A Penny Saved

How Schools and Districts Can Tighten Their Belts While Serving Students Better

American Enterprise Institute

Thomas B. Fordham Institute

January 11, 2010

The collected papers from this conference are available online at
www.aei.org/event/100164.



An Overview of School Spending and How to Drive Effectiveness of Spend

A Penny Saved Conference
AEI and the Thomas B. Fordham Institute



Conference presentation by Kartik Jayaram
January 11, 2010

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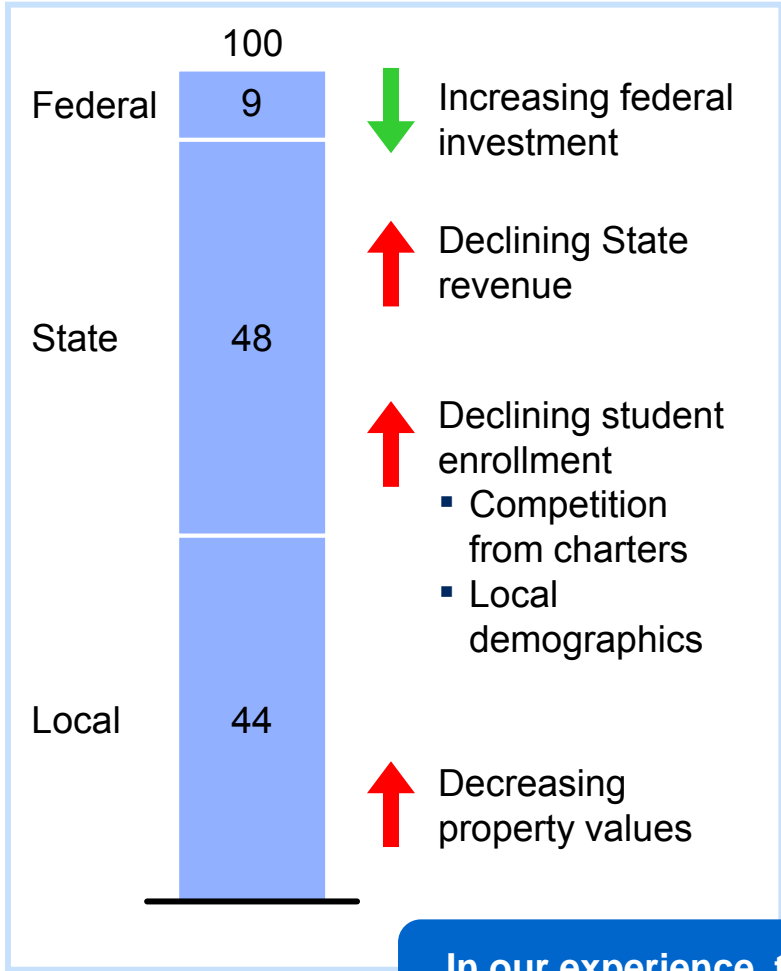
Executive summary

- 1 Increasing pressure on both revenues and expenditures will likely lead to significant financial challenges for some districts
- 2 In order to improve student outcomes while combating financial pressures, districts need a range of strategies addressing both non-instructional and instructional spending
- 3 In our experience, districts can realize massive savings from their total budget while maintaining service levels – these funds can be reinvested in effective instructional programs and reforms
- 4 In order to capture this opportunity without negatively impacting service levels, districts must quickly develop a detailed fact based understanding of the opportunity and then develop and implement reform plans

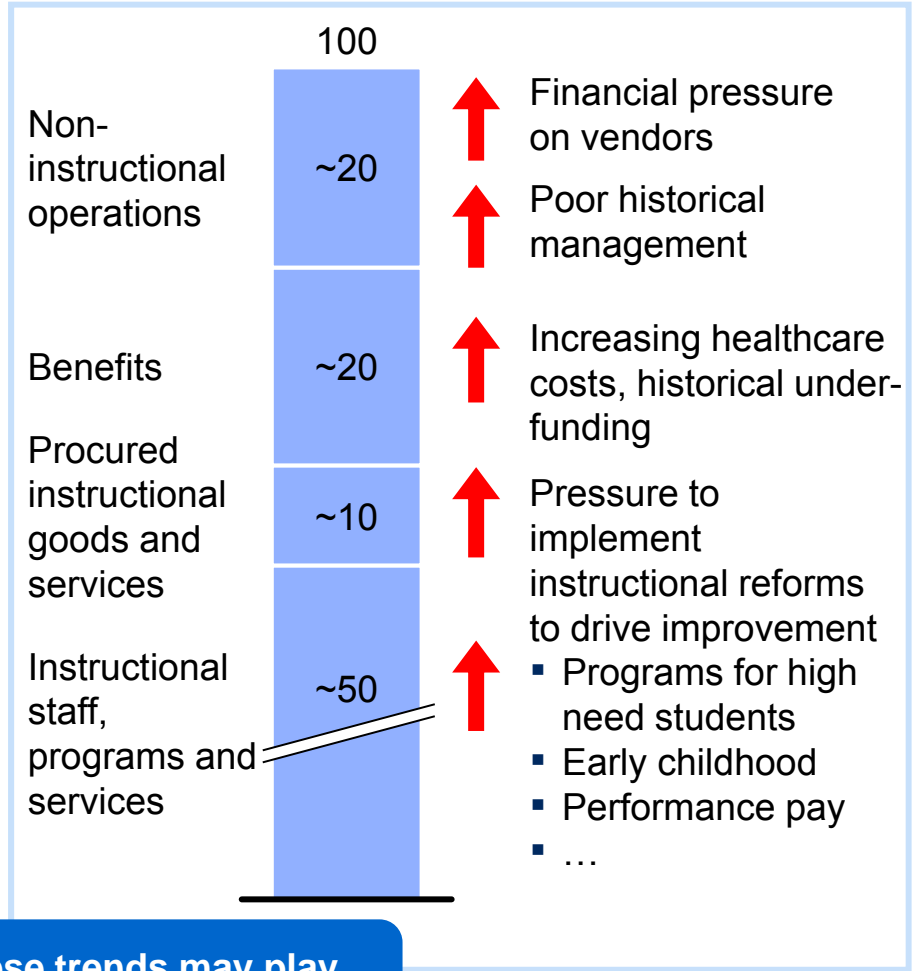
1 Forces impacting school spending

 Increases pressure
 Decreases pressure

Revenues



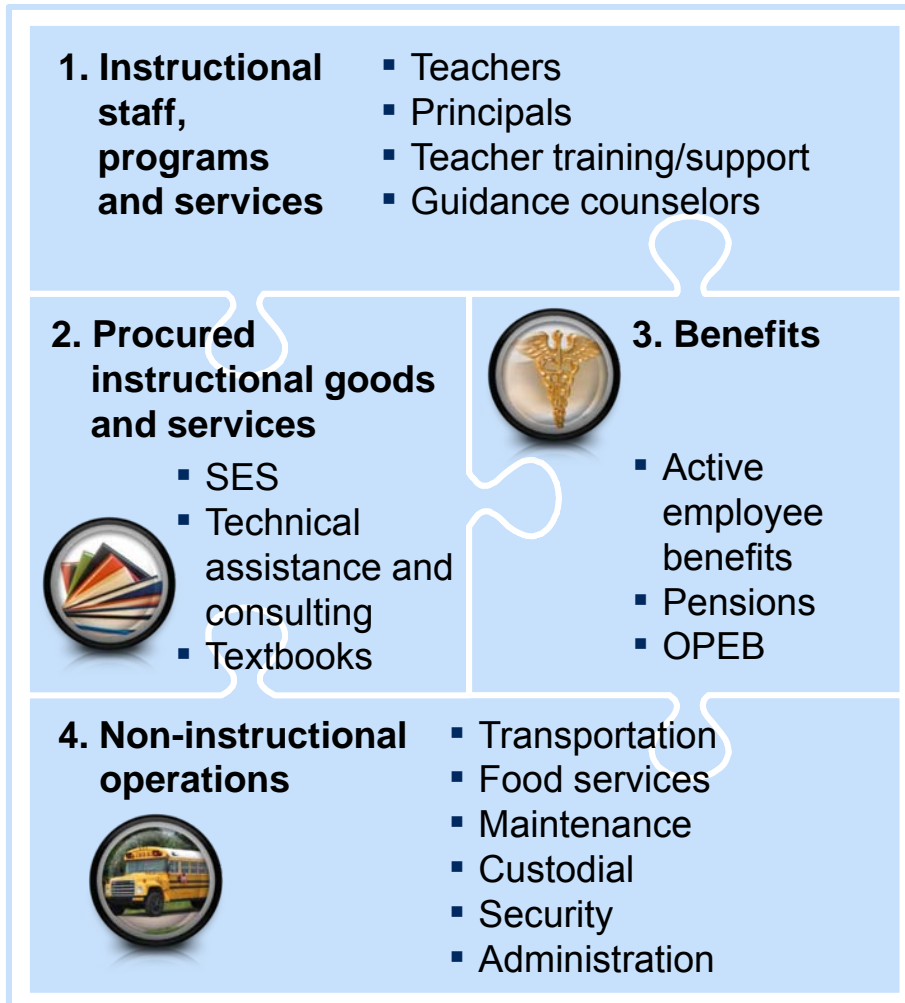
Expenditures



In our experience, these trends may play out very differently at the local level

2 There are 8 key levers to drive cost savings AND improved effectiveness

Operational transformation framework

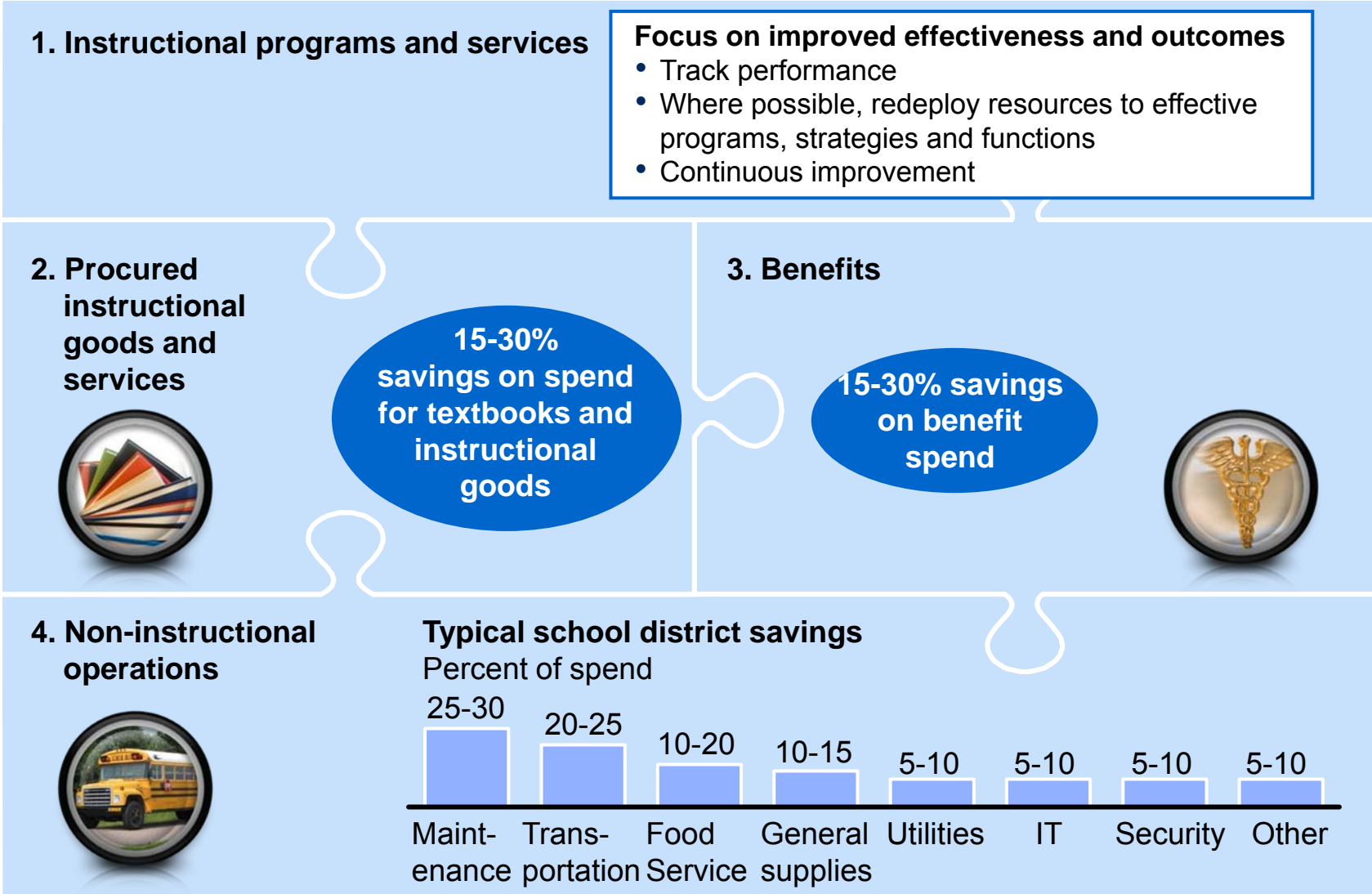


8 key levers

- 1 Strategic sourcing**
 - Vendor management and negotiation
 - Demand management
- 2 Transportation optimization**
- 3 Lean operations and efficiency**
- 4 Benefit program redesign**
- 5 Central Office efficiency and effectiveness**
- 6 Efficient use of facilities**
- 7 Performance management**
- 8 Instructional program efficiency and effectiveness**

3 Massive opportunity exists to cut costs and improve effectiveness

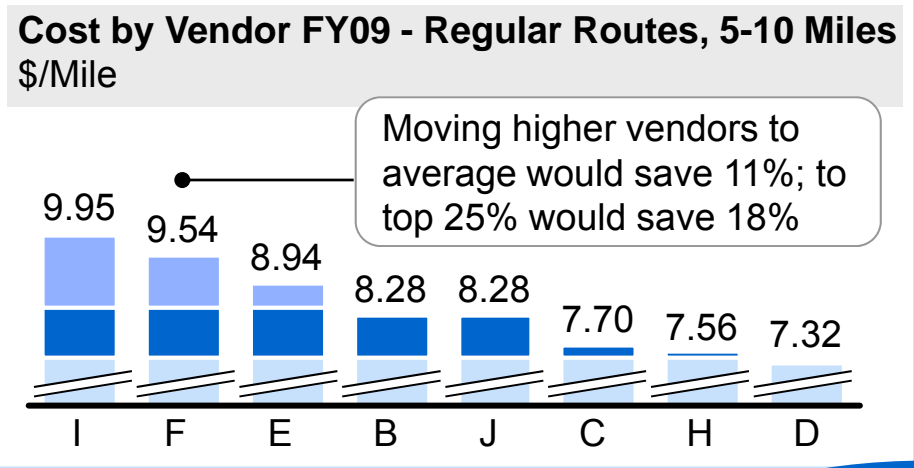
BASED ON
FIRM EXPERIENCE



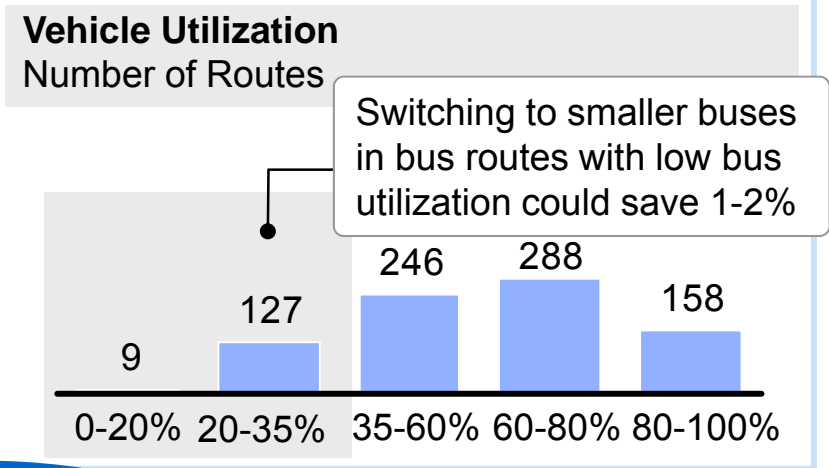
3 Transportation case example – Identifying savings

SANITIZED CLIENT
EXAMPLE

Benchmarking of current vendor costs (Internal benchmarking)

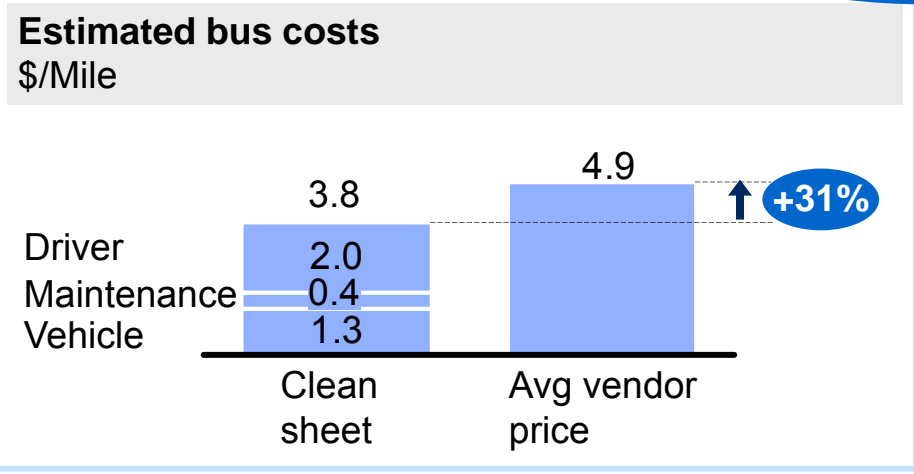


Network optimization

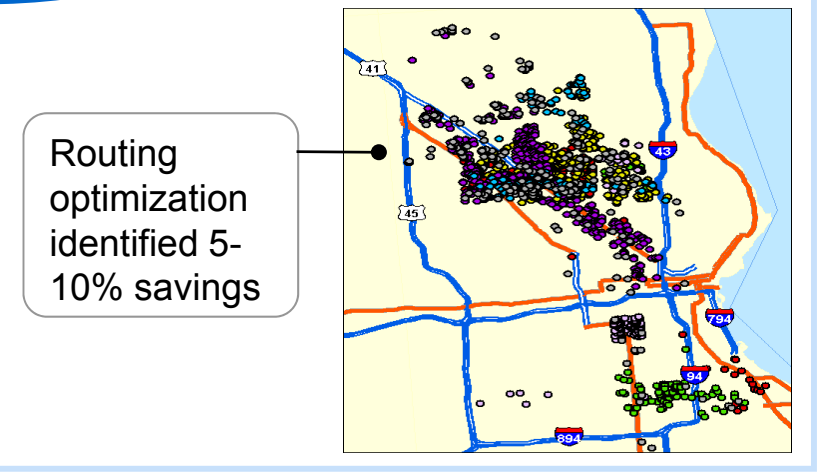


Clean sheet analysis (Based on private sector comparisons)

~20% savings opportunity



Routing optimization



4 Proven 5-step process for identifying and capturing savings

1. Benchmark to identify opportunity

- Benchmark elements of the budget and operations against
 - Other districts
 - Other public sector
 - Private sector

2. Build a factbase

- Understand each category in detail including
 - Supply market
 - Trends
 - Variations across schools
- Understand constraints
 - Regulations
 - Labor agreements
 - Funding

3. Identify potential levers

- Develop hypotheses
- Conduct analysis to test hypothesis
 - Site visits and observations
 - Clean sheet
 - Vendor comparisons
 - Interviews
 - Process maps

4. Develop a savings and effectiveness strategy

- For procured goods and services, develop RFPs, contact vendors and plan negotiations
- Develop implementation and change management plans

5. Implement the plan

- Develop dedicated capacity to manage implementation and monitor impact

4 Our core beliefs on capturing the savings

- 1** Identifying savings and redeploying funds should be considered an integral part of the overall reform agenda: sustained instructional improvement requires schools to spend more of their available resources in the classroom, and to support classroom efforts with the most efficient supporting infrastructure they can
- 2** Maintaining and improving service levels must be as high a priority as cutting costs and they are not mutually exclusive
- 3** Operational efficiency cannot be delegated. These efforts must have leadership attention at the district and building level
- 4** Change must be urgent. Long, drawn-out programs are far less likely to succeed than fast, focused efforts.
- 5** Education agencies need to identify and allocate capacity to drive the change. The cost of a small, dedicated, highly effective team will be far outweighed by the identified savings
- 6** Capturing and sustaining change will require a change in mindset as much as the right approach and plan – this mindset must include a relentless and daily focus on identifying and capturing potential opportunity

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