Penny-Wise, Pound-Foolish?

BY JIM HUNDRIESE
NOVEMBER/DECEMBER 2016

TAKEAWAYS
In order to be prosperous, colleges and universities must end the cycle of cost cutting and focus on growth so as to fulfill their missions.

The most successful innovations are those that allow a college or university to stay true to mission, leveraging its greatest strengths.

The institutions that succeed in innovating are honest about their financial needs and reflect deeply on how to align mission to larger market trends, including demography, technology, policy, workforce, and enrollment trends.
For most institutions, revenue has remained flat or decreased and costs have increased since the Great Recession. Changes in traditional revenue streams are causing leaders to think so intently about the difficulties in higher education that many don’t seize the opportunity to think differently about how to adapt to and create new business models. For example, an institution’s first reaction when faced with a budget shortfall is often to cut costs, which is both understandable and sensible. But when budget goals are not met the next year, more cuts are made, a problem-solving response that shows a lack of both creativity and long-term thinking. This cycle of cost cutting, while not sustainable, has become a familiar solution for many a campus.

More than a few institutional leaders report that they believe innovative thinking is the key to growing and diversifying institutional revenue, but the slow pace at which they are initiating institutional change is unlikely to make enough of a difference. Now is the time to start reframing the conversation to maximize impact for long-term sustainability. Here are some ways boards might begin thinking about it.

WHEN COST CUTTING WORKS AGAINST SUSTAINABILITY

Cutting costs can help with immediate budget shortfalls, but short-term measures are not meant for long-term success. Don’t misunderstand: All institutions should operate efficiently, but frequent cost cutting hurts long-term sustainability. For example:

Suspended contributions to employees’ 403(b) plans can help with cash flow when used as a short-term measure. But if this holds for more than a year or two, an institution’s best people will leave or morale will begin to suffer in unrepairable ways.

Cutting student-life budgets—those that fund campus activities or extra-curricular programs—may seem to make sense, since the core of the institution’s function should be strong academic programs with proven outcomes. But for many campuses, engaging students outside of their classroom experience is key to recruiting and retaining them. For instance, rural or smaller campuses must provide an engaging and robust total student experience to build an environment that invites other students to enroll.

Marketing and student-acquisition expenses are often an easy target, since nothing is taken away from the institution or its students and community. But cutting these costs can, and likely will, impact revenue in the next two to three admissions cycles. (Institutions serving an adult population will realize an impact on enrollment and revenue sooner.)

Reducing administrative staff allows an institution to keep its focus on teaching, research, and service, but it also may slow the speed of other services, such as processing transfer applications or creating new marketing campaigns. Ultimately, the institution is harmed when offices can’t operate at optimal capacity.

Institutions should be applauded for making hard decisions during difficult times; many of the short-term measures institutions have taken were needed. But in order to be prosperous, colleges and universities must end the cycle of cost cutting and focus on growth in order to fulfill their missions.

MAINTAIN MISSION, RAISE REVENUE

It isn’t easy for institutions to increase revenue (if it were, there would be no struggling colleges or universities), but doing so is imperative for long-term success. Many institutions think increasing revenues means diverting money from mission or just adding more academic programs that align with the current mission. The reality is that many institutions have the capability to increase revenue by breaking down barriers that decrease enrollment, fixing broken systems, or creating partnerships that increase efficiencies
without sacrificing service.

All institutions seek to educate students and offer them a variety of opportunities, but as academe has become more complex, these enhancements have not necessarily helped institutions maximize their potential or focus on achieving organizational goals. The uniqueness of each institution’s approach to its mission does not take away from the larger purpose of higher education, but each must begin to think about how to become more efficient while still remaining aligned with its mission.

This is an important point, because too often institutions believe that developing new revenue streams means deviating from mission or abandoning the institution’s core competencies. In fact, the opposite is true: The most successful innovations are those that allow a college or university to stay true to mission, leveraging its greatest strengths.

**Unmet learning needs.** An institution may already have a successful, established program that can be expanded to accommodate additional students—think evening classes for those who would not otherwise be able to attend during the day, or dual-enrollment programs for highschool seniors looking to earn their first few college credits.

A postsecondary program could also lead to an expansion of offerings. Widener University’s Delaware Law School, for example, added non-JD programs (such as a master’s of jurisprudence) to its offerings after enrollment in its traditional JD program fell about 50 percent in the last five years. Today, close to one-third of its students are enrolled in non-JD programs.

Of course, there is also the option of creating an entirely new program in a growing field, such as data science, healthcare, or hospitality. While it may take time to see a return on these types of investments, this path has the potential to create new sources of revenue. In some cases, linking existing courses across departments, schools, or colleges can identify the building blocks for a new major or minor, particularly if the field is cross-disciplinary, which may provide an efficient means to recruit more students.

In all cases, using existing programmatic and academic strengths to serve a greater number of students fulfills mission and financial goals while also utilizing an institution’s core competencies.

**Partnerships.** Institutions should not shy away from partnering or affiliating with another organization—even another college or university—if it offers students greater access to learning opportunities or resources. For example, the Vermont State Colleges united two colleges into one institution, allowing each campus to remain distinct but to operate with the efficiencies of a single administration while providing more resources to students.

Not all partnerships mean consolidations or mergers. In many cases, an affiliation can entail contracting out services or joining with a corporate partner for a shared-use agreement. DePaul University engaged with the Chicago Convention Center for a shared-use facility. (See “Parallel Tracks, Same Destination.”)

“It made no sense for DePaul to spend $250 million for a major arena that would be used for only 30 dates a year,” says The Rev. Dennis Holtschneider, DePaul’s president. “Chicago’s convention center needed an arena as part of its complex of buildings, and this partnership made it possible for both of us to achieve our goals. In the end, DePaul paid $82 million up front and received all naming rights to the building for 50 years, which should more than cover our end of the deal over time.”

Other institutions have worked with corporations to create programs to address workforce shortages in the region. In these cases, students benefit from greater access to facilities, programs, and internships that
would not have been otherwise available.

Giving up autonomy can be daunting, but often the financial viability and mission of the institution are furthered when costs are shared.

**Utilize new approaches to education.** This phrase generally refers to online learning or degrees, which help institutions to both curb costs and enhance the student experience and outcomes. For some, this can mean entire degrees offered online and “global” campuses. For other institutions, this approach can remain mission-centric and still increase revenues through efficiencies in classroom or laboratory usage and enhanced learning outcomes.

Yet other institutions bristle at the idea of vast digital classrooms and degrees, particularly when compared to the intimate and personal experience of on-campus learning. Current research shows our youngest students welcome new technologies if they maximize their face-to-face time with faculty. For institutions that adopt a learning management system, this practice of “flipping” the classroom helps integrate technology into the student experience and improves one-on-one time between professors and students by reducing faculty time spent administering courses.

The University of North Carolina at Greensboro, for example, has experimented with flipping courses to reduce delivery costs and maintain quality by using online video for a portion of course instruction and lowering the in-person class size.

In short, not all institutions will have (or should have) online degree programs, but all institutions should have a digital strategy that optimizes their mission within their budget and seeks to educate with the appropriate tools to deepen learning. Moreover, today’s students—who, as is often pointed out, are digital natives—expect more to be available online, and for that online experience to be seamless. Today, 7.1 million students, or 33 percent of the total higher education enrollment, have taken at least one online class.

**WHERE TO BEGIN?**

If cutting costs isn’t the path to sustainability or long-term growth, and embracing new revenue opportunities doesn’t mean sacrificing mission, what is the best way to move ahead? The institutions that succeed in taking the next step are honest about their financial needs and reflect deeply on how to align mission to larger market trends.

*Quantify Need*

The first step is to determine the growth needed to ensure institutional sustainability and prosperity over the next three to five years. In its simplest form, this figure is the gap between revenue and expenses, projected out over several years. Few institutions can expect to have no cost increases. For an average institution, costs grow at a rate of 3 percent to 5 percent each year.

Second, account for what was cut from the operations budget in the last five to eight years. As a campus looks at its priorities, past cuts are often linked to faculty or staff retirements (and unfilled positions) or are cuts to services that will be less noticeable to students. Sometimes, institutions make across-the-board cuts, thinking the solution is to reduce spending in all areas without regard for growth, potential return on investment, or strategic opportunities that will strengthen the institution. When considering the future, boards should evaluate what areas require reinvestment to better serve students or whether there are academic program areas in which growth or revenue diversification can occur.
Third, consider infrastructure needs. What must be maintained or upgraded to attract students and/or meet their service or quality expectations? These costs might include technology infrastructure, building maintenance, or classroom upgrades.

Taken together, these three steps can add up to a daunting figure—particularly when infrastructure is factored in. But in order to understand the level of innovation required, boards must understand the total need.

**Align Strengths and Mission to the Market**

Once an accurate figure has been established, an institution can begin to tackle the innovation required for sustainability and prosperity. The more significant the financial challenge, the greater the need for innovation.

Note that this mindset isn’t easy: When times are tough, it is tempting to simply do more with less, work harder, and muddle through. In this mindset, employee capacity and capabilities often go untapped, and new strategic priorities that may lead to innovation, creativity, and growth are ignored. Institutions must grow or operate differently in order to survive, which necessitates a mental reframing of the issues.

Institutions seeking new revenue sources should consider the trends in the market and reflect on what matches their strengths and mission. The opportunities we see tend to fall into these large categories:

**Academic-major trends:** Growth predictions in academic programs can lead to institutions adding programs that align with market trend data around student interest. This data is often linked to jobs, but the cost of these academic programs can be considerable. While it is important to consider market demand for these types of programs, it is also essential to do an analysis of how much a program will cost to run versus the net revenues received from new students.

**Demographic trends:** Consider national demographics (for example, the average age of college students is increasing), as well as local demographics (for example, whether the state’s population of high-school graduates is projected to increase or decrease). Household income data can be a valuable tool when assessing marketing efforts and understanding potential for market share. It is also important to note that fewer students (or parents) are seeing loans as simply “financial aid” but rather as a deferred cost that has them increasingly concerned about the long-term return on investment linked to these loans.

**Policy trends:** Boards should be paying attention to what is happening with state appropriations, both within their state and in those surrounding it. A state college or university with decreased appropriations will likely begin recruiting out-of-state students. How does that impact the recruiting practices of other institutions in the area?

**Technology trends:** More and more students will take a course online, and most seek this sort of flexibility. How can an institution lower delivery costs by leveraging new technology?

**Enrollment trends:** The right mix of students is crucial for institutional success. This will usually include a prioritization first of recruiting and enrolling more students (with lower levels of preparedness), then better-prepared students (ready for college rigor, but more costly to attract through higher scholarships and decreased net tuition), and finally less-expensive students (those who pay higher net tuition with a lower discount rate). Most institutions can only focus on two of these three categories linked to enrollment.
Workforce trends: Emerging fields can be the impetus for new programs with strong consumer demand. Again, consider national workforce shortages, as well as industries specific to a region.

This kind of supply-and-demand thinking can be helpful, but there is no one-size-fits-all answer. Rather than search for the single perfect trend, institutions should identify four to six that align with mission or strengths.

For some institutions, this sort of innovation and diversification might be outside their comfort zones. In some cases, institutions might try a new idea that doesn’t succeed—perhaps implementation was too complex, or the market wasn’t what they expected. But just because it didn’t work doesn’t mean it was a bad idea.

For other institutions, it might be time to ask if their mission will see them through to a viable future. Those with more focused missions (such as enrolling a specific population or offering a highly specialized curricula) might not have the volume of students to make the institution financially viable. They should weigh the value of mission against sustainability and determine which core strengths align with future market trends, allowing for growth and redesign through new offerings.

In summary, merely cutting costs could ultimately cost institutions more than it gains. Innovation, growth, and revenue diversification are the path to long-term sustainability, prosperity, and mission fulfillment in the 21st century.

REFERENCES

ABOUT THE AUTHOR
Jim Hundrieser is associate managing principal of AGB Institutional Strategies (AGBIS).

IMAGE CREDIT
FRANCESCO BONGIORNI

RELATED
SPENDING AND MANAGEMENT OF ENDOWMENTS UNDER UPMIFA
DASHBOARDS FOR BOARDS
THE INVESTMENT COMMITTEE: PITFALLS TO AVOID
TUITION DISCOUNTING
INVESTMENT COMMITTEES