



Trends and Best Practices:

Cost Containment Strategies for Higher Education Institutions

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Create Opportunities

The outlook isn't brilliant for the industry, but many colleges and universities are bucking the negative trend with adaptive and nimble methods of controlling costs.



Both the private and public sectors of higher education are facing significant financial headwinds. Moody's Investors Service continues to report a negative outlook on the state of the industry. It noted several financial strains that have administrators scrambling for new ways of generating revenue and controlling costs.

- Weak net tuition revenue growth is curbing operating revenue growth.
- Rising labor costs are causing expense growth to top revenue growth.
- Demographic shifts are driving enrollment numbers down.
- International enrollment has been waning over the last few years.
- Increasing student debt and competition for borrowers are putting pressure on tuition and fees.
- State subsidies have been reduced at some schools.
- Debt capacity is reaching its limits and forcing some schools to spend from endowment funds.

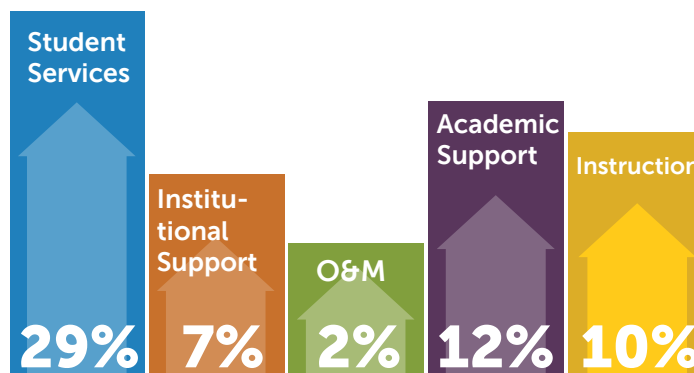
But many colleges and universities are finding ways to buck the negative trends by transforming their business model: becoming more agile institutions that leverage their key differentiators, identify new revenue opportunities, and effect strategies to contain costs. Cost containment is a particularly pressing concern for industry leaders, so it's important to understand what it is and how to achieve it.

Cost categories and opportunities to control them

When many experts consider the soaring costs of higher education, they mention that, because it is such a people-delivered industry, it doesn't have the benefit of leveraging innovations in automation and technology that other industries have. Higher education relies heavily on human capital, and that won't change. The cost per unit of production (degrees) has soared in higher education.

Much of the increases are in student services and academic support services, which are up over instructional costs. Many institutions are looking to improve retention and completion; more students need mental health resources; and the compliance environment has become more complex. There have also been increasing costs in the non-core administrative functions, causing institutions to look at how they can reduce that overhead to both contain costs and focus their finite resources on the academic core.

Spending Per FTES Ten-Year Trend



Private Non-Profit Masters

Identifying common spending pitfalls

There are several spending traps that institutions should avoid to help contain costs.

- **Replacing vacancies without careful review** — When a position opens, institutions should carefully review the exiting person's responsibilities. Leaders should consider whether the duties can be allocated to another individual within the institution or if the position is a candidate for outsourcing. This can be part of a right-sizing plan through attrition.
- **Hiring for oversight** — Regulatory scrutiny is not something institutions want to increase. In many instances, institutions will address a mandate issue by hiring an individual to take it on, develop new policies, and monitor it. In some institutions, this may be the right answer, but in others it may be an unnecessary cost.
- **Making long-term commitments on short-term dollars** — Are there individuals that were brought on board several years ago with temporary funding that has since run dry? The damage may already be done. However, if you are looking at a hiring situation such as this, think long-term.
- **Allowing a disconnect between the academic and enrollment plans** — In some instances, enrollment numbers are not coming in as planned. Many institutions have engaged in an academic program prioritization process to better recruit students and fill their classrooms with targeted program enrollees.

Diagnosing cost overruns

Institutions can diagnose where and what their costs problems are by examining the data they already have and the many benchmarking resources available in our industry.

- **Complete an analysis of salary expenditures by function and cost center** — When considering salaries, an institution may uncover areas of spending that do not match output or enrollment. Some institutions may find they have growth in expenditures that is outpacing the growth rate for other functions or peer institutions. In areas where there has been frequent turnover, an institution may identify increased costs of replacement and lost productivity.
- **Review organizational spans, layers, and portfolios** — Some institutions may find, after reviewing organizational charts from each department, that they are not properly leveraging positions and people. Are the number of organizational levels and staffing patterns consistent with peer and comparable-sized organizations? The number of levels between the president and front-line staff can be telling. The staff-to-supervisor ratio at a smaller institution should be five-or-six-to-one, and seven-to-one (or more) at larger institutions.
- **Consider lean principles and a business process review** — This can help identify process redundancies and opportunities for automation or new technology. Look for non-value-added steps such as delays, rework, rejects, and storage. You may have frequently repeated steps or no control points that can be eliminated.
- **Use benchmarking data for comparisons** — Whether it is process time, staffing ratios by function, cost per SCU or FTEs, examining yourself against your peers, against your aspirational institutions, against yourselves over time can help illuminate strengths and best practices as well as gaps between performance and strategy.
- **Review and prioritize academic programs** — Academic programs with declining enrollments and increasing costs do not support your institution's differentiation strategy. Look at the enrollment and sustainability of the program and whether the resources allocated to it are commensurate with its current outcomes. Know the differentiators and how you can better develop them.

Identifying and applying cost containment best practices

After going identifying spending pitfalls and cost overruns, it's easier to narrow in on cost containment opportunities in a number of areas.

- Organizational redesign
- Shared services
- Program discontinuation or merger
- Automation/business process redesign (streamline processes, leverage new technologies, reduce process delays)
- Outsourced or co-sourced solutions

Take advantage of economies of scale and those that can provide better service and less disruption from turnover in key positions. It may not be an institution's core competency, but it is one of the service provider's.

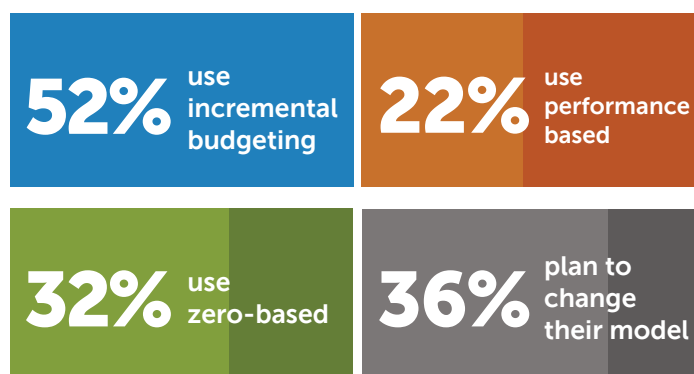
Typically outsourced	Newer trends and opportunities
Dining services	Controller/general accounting
Bookstore	Bursar
Housing	Financial aid
Landscaping and grounds	Human resources
Custodial	Payroll
Facilities operations	
Information technology	

Don't end up in the same old place: rethink the budget approach

Some institutions are in their current situation because of outdated budgeting strategies. If budgets aren't aligned with the institution's mission and strategies, it is difficult to get the desired outcome.

Budget Model

Public Institutions:



Inside Higher Education 2016 Survey
of College and University Business Officers

Most budgets are incremental, meaning you got what you got last year and you can put in a request for a little more. Many administrators acknowledge that they have a lot of conversations about what they need to do, but never about what they should stop doing.

But there has been a reemergence of zero-based or performance-based budgeting. Annually examining all expenditures in the context of the institution's priorities strengthens accountability and control. Many institutions recognize it is time for a new allocation model as well as mid-year budget reviews. Every strategic plan should include performance metrics and resource alignment. Every new initiative should go through a process of strategic assessment so the "bright, shiny objects" don't get undue attention and resources. With each new initiative, consider the necessary resources, the institution's capacity to invest in or allocate them, and which other programs or expenditures should be eliminated to make room for it.

The road map

A succinct summary of the cost containment process is captured here and can help frame your efforts.



The future hinges on adaptability

Institutions should accept that the downward pressure on tuition costs and lower enrollment will continue. Many have made up for lost revenue with endowment spending but are now easing off that approach and getting more strategic about their debt capacity. CFOs tend to believe their tuition discount rate is unsustainable, so many colleges and universities are taking a closer look at their tuition discount strategies. And legislators haven't been particularly generous with subsidies for public institutions, even in good years.

A new budget model could give schools some of the agility they need to stay competitive and thrive. Honing in on and strengthening differentiators with proper resources and attention may help quell expectations that the status quo is on its way back. Higher education has changed; that's a fact. Colleges and universities that embrace this reality and adapt to it with smart cost containment strategies will be the likeliest to rise above other institutions and withstand for the long term.

How we can help

CLA's higher education professionals can help your institution review and apply best practices for evaluating the costs of your academic programs, human capital, procurement processes, and facilities. We can help you create opportunities to recalibrate your initiatives for a better balance sheet.

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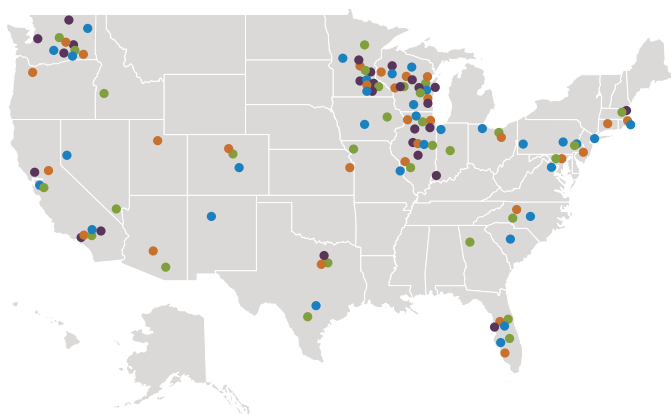
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