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Apocalypse Later

January 10, 2013 - 3:00am

By Peter Stokes

“The best vision is peripheral vision.” – Nicholas Negroponte

Back when I was a carefree grad student, some 20 years ago, I decided to write a dissertation about apocalyptic discourse. The millennium was then looming on the horizon like a Mayan baktun or a disruptive innovation, threatening to bring about the end of the world as we knew it. In one corner stood those who confidently predicted that a comprehensive desolation would be visited upon everything that we'd once held sacred, and in the other corner stood those for whom the clanging bell of the millennium would most certainly signal the restoration of a profound peace and a lasting illumination.

Who could resist stepping into a fight like that?

Not only did it sound like fun to tell them they were both wrong, but it also seemed fundamentally true. I felt pretty confident, for a start, that the world wouldn't really end.

I feel much the same today when I confront yet another breathless news story about whatever latest innovation (hint: it's always a MOOC) is going to change higher education utterly, for better or worse, full stop. Except it doesn't, and they never do – film didn't change education utterly, television didn't, the computer didn't, and the Internet hasn't. After all, I write this to you from the cozy corner of a major urban research university; the old ways are still very much with us, even as we make way for the new.

While I don't want to lay the blame for all of this apocalyptic rhetoric at the doorstep of Clayton Christensen, I would still like to have a word.

Don't get me wrong, I'm a longtime fan of online learning (as well as classroom learning; I've studied and taught in both environments, and each has its strengths). I also like change as much as the next person – whether it's the sun coming out in December or a shiny new iPhone. All of these things have something to recommend them. But do any of them portend the end of time? I don't think so.

I read Christensen's *Innovator's Dilemma* with real interest back in 1997 when I was an IT market analyst. I even reviewed it for a trade newsletter. I think his theories of “sustaining innovation” and “disruptive innovation” offer interesting tools for understanding how a variety of industries have evolved at particular moments in the past.

Whether these theories can be used to predict the future, however – well, I'm not so convinced.

For example, I was surprised to read the following prediction from Christensen's *Disrupting Class* in 2008: “by 2019, about 50 percent of high school courses will be delivered online.” I already knew back then that the penetration of online learning in higher education was nowhere near approaching that level, and I also knew that higher education was far advanced in its experimentation with online learning relative to high schools. While Christensen and his co-authors had some interesting mathematical models to draw upon to support their prediction, common sense and recent history seemed to suggest that the revolution probably wouldn't come as early as they'd anticipated. In fact, if the prediction turns out to be true in six years' time, I'll eat this article.

My real beef, though, isn't with Christensen. He's a smart man, even if he's still something short of a prophet. My real problem is with the acolytes – and I urge any young readers out there considering a dissertation of their own on apocalyptic discourse to keep an eye out for these types. Acolytes tend toward reductivism, simplification, and speaking very loudly. And often they mangle the prophet's core message in the process, occasionally even inverting it.

Take disruptive innovation. Please.

In higher education, at least judging by the recent conferences I've attended, far too many people have come away from Christensen's work (or whatever second- and third-order echoes of it they've picked up from the media) with the idea that, if we all try, we can simply disrupt ourselves. And that way, nobody has to lose a job or a research grant or move back to the home office.

Among this strand of believers, "disruptive" innovation appears to be synonymous with "cool" innovation, or even simply "change" – or even, more simply, "the status quo."

What these believers forget, or perhaps never knew, is that Christensen uses the concept of disruptive innovation as a means of describing how the giant company is so often killed by the little guy with the sling shot – a sling shot that just happens to be cruder, easier to use, less expensive, and more attractive to a heretofore unengaged set of new consumers than the giant's weapon of choice. In other words, if genuinely disruptive innovation does occur within higher education, traditional universities are much more likely to play the role of the giant than the innovator.

And yet some of the more attentive readers of Christensen's work have taken to heart his hopeful message that the only way for incumbent leaders to survive these market disruptions is to create new and separate business units of their own, free from profit pressures and growth strategies of the core business, and allow them to break all the rules en route to coming up with "the new, new thing" that will prove to be the true category-killer. If any institutions within higher education succeed at disrupting themselves, it may be the few that have adopted this model. But for those institutions working desperately to preserve the rules and still somehow survive in a dynamic market – the ending may not be the one they expect.

In the months ahead, I'd like to use this column to reframe and refocus the conversation about innovation in higher education. All of this talk about disruption has become a distraction – an apocalyptic tick. It reminds me of that great line from Tolstoy, "He in his madness prays for storms, and dreams that storms will bring him peace." Let's leave that aside for the time being and look at productive change in higher education from a different vantage point.

"The best vision," Nicholas Negroponte likes to say, "is peripheral vision." New ideas are out there – in the margins, away from the main frames of reference. Their immediate effects may be small or local in scale, but they can gradually introduce meaningful improvements to mainstream practices. In this column I want to examine some of the interesting experiments taking place in the margins of our field of vision – experiments that may well inform how we refine our approach to delivering higher education going forward.

Along the way, I'd like to propose that we focus on a humbler but still worthwhile form of innovation – the kind that isn't dependent upon hype, gadgetry, a singular eureka moment, or the game-changing end of all that came before it. I'd prefer to focus on the kind of innovation characterized by a planned and responsible approach to strategy and management, the kind that continuously seeks to transform products and services in ways that are more responsive to the evolving needs of the contemporary marketplace, and which, as a consequence, delivers enhanced benefits to all participants, whether they be students, faculty, administrators, parents, governments, or the public.

And let's assume the world is still there with us, too.

Read more: <http://www.insidehighered.com/views/2013/01/10/first-installment-peter-stokes-peripheral-vision-column-essay#ixzz2HaA0D695>

OnCourse

Business insights and trends for trustees and higher education administrators December 2011

Top 10 imperatives facing higher education institutions in 2012

Larry Ladd, Director, National Higher Education Practice

Now more than ever, higher education officials must think strategically about the future of their institutions; today's economic and regulatory landscape is changing rapidly. The professionals at Grant Thornton LLP closely monitor emerging trends that influence the financial outlook at colleges and universities. Following are what we believe to be the top 10 business imperatives in higher education.

10. Staying abreast of the changing regulatory environment

Legal and regulatory requirements affecting higher education institutions are constantly in flux. Colleges and universities need to have reliable and consistent processes in place for identifying and complying with applicable laws and regulations. Most audit committees now see monitoring compliance as a key responsibility. One way to stay current is to read Grant Thornton's publications, especially our regulatory alerts and accounting updates, which are delivered electronically.

9. Anticipating demographic shifts

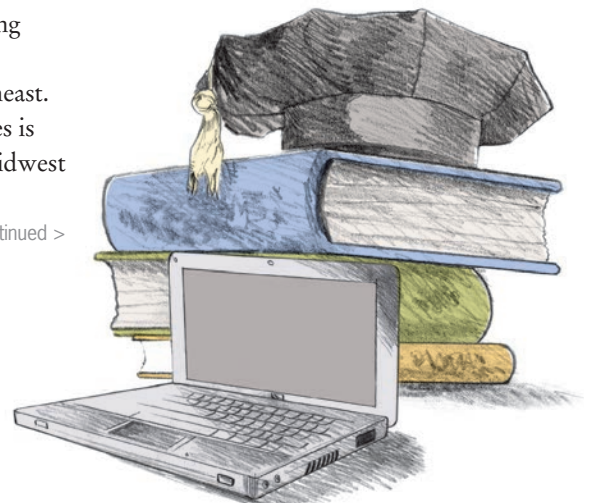
If colleges and universities are to attract sufficient enrollment, they need to anticipate the radical demographic changes that are occurring now and will accelerate over the next several decades. Relying on the same locales and high schools for student applications will result in sharp drops in qualified applicants.

According to the College Board's *Higher Education Landscape* report, the number of high school graduates in the Northeast and South is expected to increase only slightly in the coming few decades; the number is actually declining in some parts of the Northeast. The number of high school graduates is growing fastest in the Southwest, Midwest and West.

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Top 10 imperatives facing higher education institutions in 2012 (continued)

The *Higher Education Landscape* report notes that students of White, non-Hispanic European descent will soon be in the minority; in the last 10 years, their enrollment has risen by only 12 percent. By contrast, Hispanic enrollment grew by 70 percent, Black enrollment by 50 percent, Asian enrollment by 40 percent and American Indian enrollment by 31 percent.

To deal with these changes in a positive manner, colleges must make their cultures more welcoming and responsive to prospective students in a wider demographic — and must shift their recruiting efforts accordingly.

8. Improving governance and accountability

Originally sparked by the Sarbanes-Oxley Act, the need to improve governance and accountability remains a high priority for colleges and universities. Institutions must be prudent managers of the assets entrusted to them by donors, the government and students. While colleges and universities have largely adopted the formal rubrics of good governance, such as conflict-of-interest policies and codes of ethics, there is often a gap between policy and behavior. Boards of trustees and audit committees are increasingly focused on embedding good governance practices, especially those involved in communicating expectations, within the cultures of their institutions. In addition, closer attention is being paid to coordination among the trustee committees (audit, finance, investment, development) that address resource management and the oversight of internal controls.

While audit committees are continuing to perform assessments of business risk, we believe that enterprise risk management, which involves looking at the institution's overall risk profile, will become an increasingly common practice among audit committees. Many audit committees aren't there yet, but we think they will be soon.

7. Using assets strategically

Given today's competitive environment, colleges and universities need to think about how their financial and physical assets can best be aligned to achieve the institution's strategy. Institutions need to integrate and align their management of operations, capital investments, debt and endowments to maintain appropriate liquidity levels and mitigate risk.

Increasingly, colleges and universities are looking at new budget models to replace incremental budgeting, which works in times of stability but not in times of radical change. When overall revenue is essentially flat, program initiatives can no longer be funded from new revenues but must be funded by eliminating some other program or cost that has a lower priority. Inside Higher Ed's recent survey of more than 600 chief business officers showed that 9 percent of institutions have shifted to zero-based budgeting, 4 percent to revenue center management and 7.4 percent to performance-based budgeting.¹ Each of these budgeting tools essentially creates a budgeting by substitution model, which is the likely future in higher education.

6. Decreasing governmental commitment

Colleges and universities can no longer rely on the partnership with government that has characterized higher education since the end of World War II. We are experiencing a loss of confidence in institutions that have played key roles in the past half-century: government, organized religion, unions and even higher education.

At the state level, median appropriations for higher education declined from just above \$10 to slightly more than \$6 (exclusive of federal stimulus funds) per \$1,000 of personal income during the period from 1989–90 through 2009–10, according to the College Board's *Trends in College Pricing 2010*.² Public universities have watched their state appropriations shrink dramatically, and private colleges and universities have seen state commitment to student aid drop.

Among business officers surveyed by Inside Higher Ed, potential cuts to federal student aid programs were the third most commonly cited financial issue confronting institutions over the next two to three years.³ Indeed, in the current negotiations over deficit reduction, both federal student aid and the charitable deduction are on the table, and it is likely that these important subsidies to higher education will be reduced.

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¹ Green, Kenneth C.; Jaschik, Scott; and Lederman, Doug. *The 2011 Inside Higher Ed Survey of College & University Business Officers*, p. 17, 2011.

² Baum, Sandy; and Ma, Jennifer. *Trends in College Pricing 2010* (College Board Advocacy & Policy Center), p. 19, 2010.

³ Green, Kenneth C.; Jaschik, Scott; and Lederman, Doug. *The 2011 Inside Higher Ed Survey of College & University Business Officers*, p. 22, 2011.

Top 10 imperatives facing higher education institutions in 2012 (continued)

5. Going global

Higher education institutions are continuing to go global, with an increased presence outside the United States and rising numbers of international students and faculty on U.S. campuses. Many colleges and universities that are currently considered to be U.S. institutions will become multinational in character.

Institutions are establishing branch campuses on every continent, as well as contracting with other nations to plan and administer programs overseas. Much of this activity is opportunistic at the moment, but globalization is fast becoming an integrated part of university strategy.

To continue attracting the very best faculty and students, colleges and universities must reach far beyond their borders. Campuses will increasingly become multicultural, with all the governance and service challenges this change represents.

In response to the need to manage their programs internationally, rising numbers of universities are establishing a little “state department” to serve as a central office for oversight of their more far-flung programs.

4. Understanding and controlling costs

To stay competitive, universities are prone to adding new programs, facilities and services. Yet to avoid conflict, institutions resist closing down existing programs and services. And remarkably, students continue to enroll at institutions even as the price of attendance skyrockets (see 2., at right).

Although most colleges and universities haven’t focused on systematic cost reduction, there is a growing consensus that the cost spiral in higher education isn’t sustainable; in order to remain competitive, institutions will need to reduce their internal costs. And trustees, presidents and chief business officers see that need: according to Inside Higher Ed’s survey, 26 percent of respondents at public institutions believed that their institution was in fair or poor financial health, while 37 percent of those at private institutions felt that their institution was in fair, poor or failing (0.7 percent) health.⁴ At the same time, almost 40 percent of all respondents said that their institution could make additional budget cuts without hurting quality.⁵

In response to cost concerns, institutions are increasingly aligning their strategy with their budget and adopting metrics to gauge the success of the strategy.

Moody’s *2011 Outlook for U.S. Higher Education* says that institutions with the best prospects have either the strongest reputations or the lowest costs.⁶ We believe that an institution’s reputation can be improved by lowering costs selectively and reinvesting savings strategically.



3. Sustaining adequate net tuition revenue

For most colleges and universities, net tuition is the primary source of revenue, and sustaining that revenue is critical. Higher education institutions continue to worry about the discount rate, and with good reason: according to the National Association of College and University Business Officers *2010 Tuition Discounting Study Report*, the average discount percentage for entering freshmen increased from 37.3 percent in 2000 to a record high of 42.4 percent in 2010.⁷ The discount percentage for those receiving institutional grants rose from 77.5 percent to 87.5 percent during the same period.⁸

However, net tuition (tuition less the discount rate) for entering freshmen grew from \$12,000 in 2000 to \$17,000 in 2010, rising at an average annual rate of 4.3 percent until the recession hit.⁹ Net tuition increased by less than 2 percent in 2009 and by just under 3 percent in 2010.¹⁰ While this trend isn’t good for affordability (see 2., below), it demonstrates that even with rising discount rates, colleges and universities continue to see growth in revenue per student.

2. Making education affordable

A college education is increasingly unaffordable for many students and their parents. The annual cost of a private college has grown from under 80 percent of per capita income to 112 percent since 1980, and the cost of a public college has risen from less than 40 percent to 49 percent.¹¹ Average student debt per borrower at a private college was \$22,300 in 1999–2000, as compared with \$26,100 in 2008–09 (the most recent academic year for which statistics were available), according to the Federal Reserve.

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⁴ *Ibid.*, p. 5.

⁵ *Ibid.*, p. 8.

⁶ Moody’s Investors Service. *2011 Outlook for U.S. Higher Education*, January 2011.

⁷ National Association of College and University Business Officers. *2010 Tuition Discounting Study Report*, p. 8, 2010.

⁸ *Ibid.*, p. 10.

⁹ *Ibid.*

¹⁰ *Ibid.*

¹¹ Ricketts, Lowell R. “Is a College Cap and Gown a Financial Ball and Chain?” *Liber8® Economic Information Newsletter* (Research Library of the Federal Reserve Bank of St. Louis), August 2011.

Top 10 imperatives facing higher education institutions in 2012 (continued)

The federal government provides the bulk of undergraduate student aid through loans (43 percent), Pell grants (18 percent), grant programs other than Pell (8%), education and tax credits (4 percent), and work-study (1 percent). Of all undergraduate student aid, 6 percent comprises state grants.¹² As mentioned earlier, these aid programs are prime targets in the deficit reduction talks and are unlikely to survive at their present levels, putting more pressure on affordability.

Calls for government regulation of educational costs have escalated over the past decade, but we believe that self-regulation of prices by colleges themselves is the best solution (see 4., on the previous page).

1. Going digital

The biggest changes in higher education will be technological. Technology continues to transform how students learn and how institutions are managed. In 10 years, the university will be a dramatically different place from the one it is now. In fact, it may not really be a place — at least not a physical place — at all.

Here are some ways in which we believe the educational landscape will change:

- Distance education will become typical rather than supplemental. Fewer students will see the need to be in a physical classroom, and universities will recognize that they can deliver better and cheaper education through online and conference call pedagogies. Current research shows that distance education, if done right, can be just as effective as, if not more effective than, a traditional classroom education.

- Cloud-based computing will become the norm for both academic and administrative IT functions. Cloud technology has already been adopted for email and other low-risk functions, but as security improves and products mature, universities will rely on the cloud for enterprise resource planning services, as well.
- Information will become more accessible, especially on mobile devices. “Open courseware,” by which universities are putting course content online and available to anyone, will allow more students to access the best faculty from any location. Digital libraries will make information more readily available. Social media will mean that everyone can be connected to everyone else.

Growth in higher education will rely on colleges and universities reaching out to students where they are located rather than expecting students to reside on campuses. And in order to survive and thrive, higher education institutions will need to understand and embrace the new technologies.

Are we experiencing one of the really big shifts in higher education?

There have been moments in the history of higher education when seismic shifts occurred in response to significant demographic, economic and sometimes religious changes. Colleges in what is now the United States were started almost immediately after European immigrants arrived, looking to preserve religious identity and institutions. At that time, colleges prepared students to enter the guilds of ministry and

teaching. The next shift came with the Industrial Revolution, when universities were created as engines of research to provide the fundamental science and engineering knowledge essential to the economy. New universities emerged, and then as now, most colleges that stayed successful adapted radically and quickly. The advent of the Cold War was the third major shift, when massive federal investment in research and student aid transformed colleges and universities into instruments of the national purpose. Today, the information age brings with it new opportunities and new challenges; one commentator has pointed to the newspaper industry’s struggles as a precursor of what most colleges will go through.¹³ Another commentator has predicted disruptions in higher education similar to those that are happening now in the book and music industries.¹⁴ Do these upheavals signal the beginning of the next seismic shift, in which real-time access to knowledge will become universal, fixed locations will become irrelevant, and a truly free market will lower prices? •

For more information

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¹⁴ Keller, Bill. “The University of Wherever,” *The New York Times*, Oct. 2, 2011.

Higher education board committee best practices: Integrated governance strategies

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Introduction

The evolving responsibilities of boards of trustees within the higher education community place a new onus on board members to be educated about the critical nature of their role in school governance and institutional success. A dynamic board engaged in the decision-making process across all areas of governance will help ensure positive results for the school, its faculty, its students and its many stakeholders. This happens when members of the board are well-versed in best practices and regulatory requirements, and join executive leadership as partners in the success of the institution.

Below are some prudent action steps that a higher education institution should consider taking periodically as part of its regular due diligence.

1. Completing an evaluation of board committee structures (e.g., the number of committees, the charter for each committee, and composition and membership requirements)

2. Conducting an assessment of committee reporting requirements and board membership protocols (e.g., the nominating and appointment processes, trustee development, and succession planning for board and committee leadership and membership)
3. Actively seeking opportunities for integrated board committee decision-making
4. Regularly assessing the skills and interests of individual board members, along with their commitment to best practices in governance

This article will outline specific opportunities for facilitating integrated decision-making among the different committees of the board, with particular emphasis on the audit, compensation and finance committees. These concepts can be applied across the many board committees that may exist within an entity. Atypical situations make the need for integrated governance particularly timely. Such situations can occur when an organization comprises an institution of higher education and a related health care entity, and must therefore navigate the ever-changing landscape of health care reform from the standpoint of a provider as well as an employer. This would be coupled with the growing expectation within the higher education community that new vehicles must be sought for learning and new revenue streams.

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Higher education board committee best practices: Integrated governance strategies (continued)

The board committee structure: Aligning member roles with responsibilities

A clear and formal statement of purpose, responsibility and authority is an essential element of the decision-making process for every board committee. Draftsmanship aside, everyone in the institution should understand the reality of why a committee has been formed, what responsibility it has in relation to the success of the organization, and what authority the committee and its members have in order to make and implement decisions and fulfill the organization's purpose.

Below is a sample formal statement of purpose for a compensation/HR committee.

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A sample formal statement

The compensation/HR committee (the committee) of Prestigious University (Prestigious) is a critical component of the overall governance role that the board of trustees has in relation to the ongoing leadership, decision-making and success of Prestigious. This committee will consist of five members of the board of trustees, each of whom is experienced in supporting complex, effective and compliant compensation, benefits, HR and/or succession planning programs in higher education or a similar environment. Each member receives a three-year appointment to the committee by the chairman of the board of trustees.

The committee is responsible for the oversight, administration and design of the various total compensation programs offered by Prestigious to its employee constituencies; serves as an adviser and partners with senior HR leadership in developing optimal HR strategies; oversees the administration of performance management programs; and evaluates, on at least an annual basis, the total compensation provided to the executive leadership team of Prestigious by comparing the institution's total compensation offerings with those of similar institutions in a manner that is consistent with federal regulations. In addition, the committee is responsible for administering the performance evaluation process for the president of Prestigious and for establishing an effective succession planning program across the institution's leadership.

The committee has the authority to hire advisers in relation to its responsibilities and is specifically charged with setting annual performance metrics for the president and the other members of the institution's leadership team. Those positions may vary from year to year and time to time, but the leadership team will typically include a provost, a CFO, a general counsel, a chief investment officer, a chief technology officer, an athletic director, a dean of the medical school, a dean of the law school and a dean of undergraduate studies. The committee will also have the authority to establish compensation levels, benefit offerings, and employment conditions (e.g., terms of employment contracts, severance programs and deferred compensation arrangements) for the president and the other members of the leadership team on an annual basis, subject to the ability of the full board to be informed of any decisions that are made regarding the conditions of employment and/or tenure of the president of Prestigious.

The committee in its sole discretion may from time to time delegate its responsibilities to a subcommittee or special committee of the board, provided that authority for decision-making remains with the full committee. Examples of subcommittees are a president's compensation committee, a physician compensation committee and a faculty compensation committee.

Committee members should be familiar with the committee's formal statement of purpose, or charter, but most importantly, the members of the committee should be experienced enough to handle the issues that they will face during their tenure. This alignment of individual skills and talents with the stated purpose, role and mission of the committee will provide for optimal performance.

Higher education board committee best practices: Integrated governance strategies (continued)

Integrated decision-making and enhanced communication opportunities across board committees

While the ability to segment roles and responsibilities is important for focusing board and committee members' attention, stressing their individual talents and optimizing their performance, the evolving nature of committee responsibilities calls for a transparent communication style. For example, audit committee members should be able to discuss with the HR committee any issues related to compensation risk, and HR committee members should have the ability to review with the audit committee appropriate measures of organizational success when those measures pertain to the institution's financial operations.

As the roles and responsibilities of board committees grow more and more complex, the practice of overlapping committee appointments may become increasingly difficult to sustain; therefore, a climate that encourages open communication — whether through joint meetings or through reports outlining decisions with potentially broad implications — will support the overall mission of the institution.

One opportunity to optimize communication and integrate information sharing arises when executive compensation levels are being set. As the compensation/HR committee goes through its process of developing an effective compensation program based on comparable market data, it may estimate the total dollar amounts using a sample

Form 990 Schedule J. This exercise helps the committee predict the implications of different scenarios and benefit design options over the next five to seven years (or some other time period) prior to finalizing any compensation decisions. Preparing sample disclosures before making final decisions allows the compensation/HR committee to contemplate potential stakeholder reactions to the programs being developed or considered. Providing the audit committee with these projections will allow the members of that committee to also discuss potential stakeholder reactions.

Another excellent opportunity for enhanced communication between board committees might involve the compensation/HR and finance committees. If the compensation/HR committee is thinking about offering a nonqualified deferred compensation arrangement for the leadership team and is contemplating various funding designs (e.g., a rabbi trust versus an unfunded liability versus a springing trust), this committee may be in discussions with legal counsel regarding technical design issues. The committee may also be talking with an external consultant about compliance issues pertaining to executive

compensation practices, designs and levels used in a comparable market. In any event, if the compensation/HR committee submits to the finance committee a notice of potential cash flow or budgeting issues prior to finalizing any decisions, the outcome might improve, and the decision-making process might be streamlined. At the same time, the finance committee should consider bringing concerns about areas needing improvement (e.g., financial performance measurement setting) to the attention of the compensation/HR committee. This two-way communication could provide the opportunity for specific compensation features to be integrated into performance management processes, incentive plans or total compensation programs.

As one might imagine, there are any number of opportunities for board committees to share information in addition to the reports or other updates they provide at the annual board meeting. While these reports are certainly informative — and important to the overall operations of a board — the collaborative nature of a truly transparent and integrated approach to fiduciary communication involves more than just annual updates. The goal is to streamline decision-making and enhance outcomes.

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Higher education board committee best practices: Integrated governance strategies (continued)

The unique higher education-health care model (the academic medical center and beyond)

Turning our attention to the relatively small yet integral community of academic institutions that have a formal relationship with a health care provider, we would like to supplement our previous discussion with a few additional observations.

The disparate cultures of these organizations can often challenge a board of trustees. The amount of market variation that must be factored into the cost of recruiting and retaining many types of top talent (e.g., academic deans versus physicians or physician assistants versus faculty) presents substantial difficulties for even the most experienced HR team. Additionally, legal counsel will often state that a separation of boards, board members and board decision-making practices is necessary to satisfy legal concerns regarding risk mitigation. However, we find that the need to recruit and share talent among related legal entities within this setting is becoming ever more commonplace, whether as a cost savings measure (e.g., physicians serving as adjunct professors) or in response to health care reform legislation (e.g., physicians assisting with the development of revised medical school curricula as part of meeting new demands placed on primary care physicians). Therefore, the organization might consider making enhancements

to committee structures similar to the changes discussed previously. For example, a physician compensation committee may be a subcommittee of the compensation/HR committee.

In any event, having an integrated communication strategy that permits the full board of trustees to be knowledgeable about the compensation/HR committee's philosophies, benefit offerings and formal statement of purpose will allow related entities to draw from collective experience and avoid potential pitfalls.

Conclusion

These are challenging times, and the ever-growing burdens being placed on boards of trustees at higher education institutions are creating a clear need for targeted training, focused attention, real transparency and optimal communication practices. Having board committee structures that reflect the need for informed decision-making through formal practices, processes and protocols will assist organizations as they address ongoing concerns, improve performance by enhancing the decision-making process, and mitigate issues related to potentially noncompliant or risky outcomes. The benefits of an integrated communication strategy ultimately accrue not just to the board of trustees, but to the entire institution. •

These are challenging times, and the ever-growing burdens being placed on boards of trustees at higher education institutions are creating a clear need for targeted training, focused attention, real transparency and optimal communication practices.

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He has worked in the field of higher education research and policy for 23 years, previously in Minnesota's Department of Finance as a budget analyst, where he was responsible for executive branch planning and development of public sector postsecondary operating and capital budgets. He then became vice president for research and policy development at the Minnesota Private College Council, where he was responsible for analysis of state and federal higher education policies, particularly as they related to education finance and student financial aid, as well as collection and analysis of institutional enrollment and financial data.

Much of his work and writing focuses on demographic and economic trends and their impact on higher education and public policy, and he is currently engaged in writing a book about "educationomics." He is a frequently invited speaker nationally on demographic trends, the economics of higher education, and the intersection of mission, market, and institutional values, most recently appearing at the Midwest Regional College Board Forum, the College Board Colloquium, and the Consortium on Financing Higher Education Financial Aid Directors Retreat. He serves on the College Board Midwest Regional Council and as a member of the College Scholarship Service Assembly Council.

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Disruptive Adaptation

The New Market for Higher Education

BY JON MCGEE

He is the best who, when making his plans, fears and reflects on everything that can happen to him, but in the moment of action is bold.

— Herodotus, ancient Greek storyteller and historian (5th C. BCE)

Transition points in history often result from the confluence of multiple seemingly unrelated events. And while in retrospect the signals of change and their impact may appear clear, our real-time experience of change often is murkier and less certain. History most often does not come neatly wrapped in a bow. The period of transition from one historic period to the next—a liminal moment—typically is jarring as we become unmoored from the security of current context and practice and move to a future that appears less certain and less secure. Adaptation, innovation, and leadership become premium values during transitional periods.

Disrupted by jarring economic change and long-predicted demographic shifts, higher education today finds itself in its own liminal moment.

The Great Recession of 2008 seamlessly morphed into the Endless Slowdown. At the same time, significant demographic changes in the traditional-age college population have begun to take full effect. Assumptions

colleges may have held as truths about their students, their families, and themselves prior to 2008 have been continuously and uncomfortably challenged in the years since then. What we surely hoped or expected to be temporary has instead resulted in something more lasting. It now appears that we are not simply biding our time in a temporary interruption of an historic trajectory. Instead, the economic, demographic, and (likely) cultural and political trajectories have changed. The new pathways have produced a continuing disruption as both families and institutions struggle to adapt to new and changing market conditions.

The disruption challenges assumptions and long-held, often revered, practices and values. The signature characteristic of the new trajectory, for colleges and families alike, is scarcity. The battleground for what is best described as disruptive adaptation will be defined by economic choices. And colleges of all stripes will be challenged in remarkably complex ways to find new approaches to align their mission, market, and management practices and aspirations.

Forces of Disruption

What are the signature issues of the higher education marketplace today? The economy, though better to be sure, has not yet fully recovered and remains fragile. In addition, the forces of demography, long-predicted, also continue to evolve and exert pressure on our enrollment practices and expectations. A review of five key forces of disruption suggests that complex choices will remain the norm for most colleges and families.

1. Demography. The basic force driving enrollment, demographic projections have for years indicated that markets for traditional-age students across the country would change in dramatic ways. The projections have played out. Demographic change has unfolded in three ways, each of which has significant and long-term implications for colleges everywhere:

- After reaching its apex in 2008, the number of high school graduates nationally began a protracted period of slow decline¹. Though not a particularly steep decline, the change came on the heels of already historically high college participation rates, which suggested, at a minimum, that the higher education marketplace would become more congested and more competitive. And that has played out. Admission yield has become increasingly difficult to predict and manage at colleges and universities across the country.
- More significant for most colleges, demographic change has occurred in different ways in different parts of the country. While the number of high school graduates in the South and the West has remained mostly stable, the Midwest and East each have experienced significant declines. Most students nationally travel less than 100 miles from home to college (and 80% travel less than 500 miles)—meaning that the vast majority of higher education is local or regional. Local demographic

change will continue to impact the competitive environment for higher education.

- The U.S. population—particularly the young population—is increasingly racially and ethnically diverse. Between now and 2020, the only growth that will occur in high school graduates nationally and regionally will occur among young people of color. The number of white graduates will fall by 7% between 2012 and 2020, while the number of graduates of color will increase by 19%. It is important to pay attention not just to the big numbers, but also to what is happening among sub-populations. Most notable, the country will continue to experience extraordinary growth in the number of Hispanic high school graduates over the next eight years (expected to rise by a whopping 35%). Hispanic students already make up the largest share of graduates of color—and their plurality will widen to a majority share by 2020 and beyond (46% in 2012 to 52% in 2020).

Changing demography presents new opportunities but new challenges, as well. New markets are not born overnight. Moreover, selectivity notwithstanding, most colleges in the country do not choose their market. The market chooses (or doesn't choose) them.

- 2. Unemployment.** Persistently high unemployment remains a nagging remnant of the Great Recession. While job numbers have improved recently (unemployment in March 2012 reached its lowest level in three years), hiring remains slow. The number of unemployed, marginally employed, and discouraged workers in the U.S. totals nearly 23 million². More significantly, those defined as long-term unemployed (more than 27 weeks) comprise more than 42% of all unemployed people—more than twice historic averages and suggestive of a long-term structural unemployment problem in America.

A review of the five key forces of disruption suggests that complex choices will remain the norm for most colleges and families.

Unemployment is a key statistic not just because of the personal devastation it wreaks and the economic drag it creates, but also because the statistic itself drives social and political anxiety. It is as important perceptually as it is in reality. Almost surely an overlooked statistic outside of the financial aid office, colleges need to pay closer attention to the changing employment situation both broadly and among their own students. The employment devastation wrought by the Great Recession touched families of all types and continues to influence economic behavior, including college choice.

3. Family income. In spite of significant economic growth prior to the recession, Census Bureau data indicates that real median income for families with children declined by nearly 11% between 2000 and 2010³. Inflation-adjusted median income is now similar to what it was in 1996. Real income has fallen for families of all types—but colleges looking forward need to pay closest attention to families who do not yet have college-age children. Real income for young families (those headed by someone aged 25 to 34) fell by nearly 13% between 2000 and 2010. The picture is not encouraging and suggests that financial aid expenditures will continue their inexorable rise for the foreseeable future—irrespective of changes in tuition price.

4. Home values. Homes are most families' largest asset. For generations, it was an unassailable American presumption (though not an empirical truth) that home prices and property values would always increase. Unfortunately, many families learned the hard way that they don't. According to the S&P/Case-Shiller index of home prices⁴, prices peaked in April 2006. The housing bubble burst shortly thereafter and, since then, home prices have plummeted by 34%, stabilizing in summer 2009 but ebbing downward again in 2011. Research by the Federal Reserve Board⁵ indicated that between 2007 and

2009, the median value of homes owned by couples with children fell by nearly 18%. While other assets like stocks have recovered most of their value over the past several years, homes have not. Falling home prices and home values have put many families at financial risk—many holding mortgages worth far more than the value of their homes. Combined with flat or falling income and high unemployment, a large number of American families are simply poorer than they were five years ago—which has had and will continue to have extraordinary implications for financial aid and college affordability.

5. Family debt and saving. Americans took on extraordinary amounts of debt in the run-up to the Great Recession. However, when faced with the reality of unsustainable debt addiction, they changed their behavior. For reasons both self-directed and externally imposed, families have spent the better part of the last three years reducing their debt obligations (student loans being a notable exception). Financial obligations as a percentage of disposable personal income dropped sharply after the recession began as families bought down or wrote down debt of all kinds. Between the middle of 2007 and the end of 2011, the average financial obligations ratio (which measures the ratio of household debt of all types to disposable personal income) fell by nearly 20% among homeowners⁶. In addition, after reaching dismal lows by 2005, personal saving rose sharply in the immediate aftermath of the recession, reversing a long-term trend of progressively lower savings rates⁷. Though savings rates have declined since 2010, they remain higher than the average for the five years prior to the Great Recession. That's good news from an overall financial health standpoint. What remains to be seen is how families will re-rank their spending priorities and whether they will return to old habits if and when the opportunity presents itself.

The question for most colleges will not be whether they survive, but rather how they will adapt to succeed in a new marketplace.

Each of these indicators matters because they individually and collectively shape college opportunity from the vantage point of both families and institutions. Each represents a long-term issue not easily subject to short-term change. In a brute force way, the indicators direct colleges to think long term and to better understand their markets.

Disruptive Adaptation: Making Choices in a New Marketplace

The forces of disruption are everybody's story and nobody's story. On the one hand, the challenges they present will continue to influence and re-shape the broad market for higher education. On the other hand, they impact different institutions in vastly different ways. Which is why in spite of the swirl of uncertainty around us, two things are absolutely clear:

- Colleges and universities everywhere must have a deep and clear-eyed understanding of their own markets, their own opportunities, and their own constraints.
- Solutions that suggest one-size-will-fit-all will not work. All solutions or responses must be contextual.

This is not a time for dreamy future-gazing or stubborn commitment to past practice. Nor is it a time to wallow in a sea of gloomy news. Rather, the imperative is to address the realities of our environment in a forward thinking, grounded, and assertive way. In the end, our aspirational ambitions must align with our operational realities. Models projecting ruin come to fruition only if behavior does not change. The question for most colleges will not be whether they survive, but rather how they will adapt to succeed in a new marketplace.

Most colleges will spend the better part of the next decade (not just the next year) continuously working to align their aspirations with their operations. They will do so in an environment of increasingly scarce resources, intense

demand, and rising expectations for performance and management. Innovation surely will play a significant role in future planning and success. But I believe adaptation will play an even larger role.

The crosscutting pressures of the marketplace mean that some amount of adaptation to the disruptive forces of the marketplace is required across the spectrum of college operations. Adaptation will occur along three basic lines:

1. Market adaptation identifying new markets, new ways to succeed in current markets, and new pricing practices. Each of these options presents complex choices: new markets typically take years to develop, new ways to succeed in current markets requires a competitive leap forward, and new pricing practices require a sophisticated financial calculus.

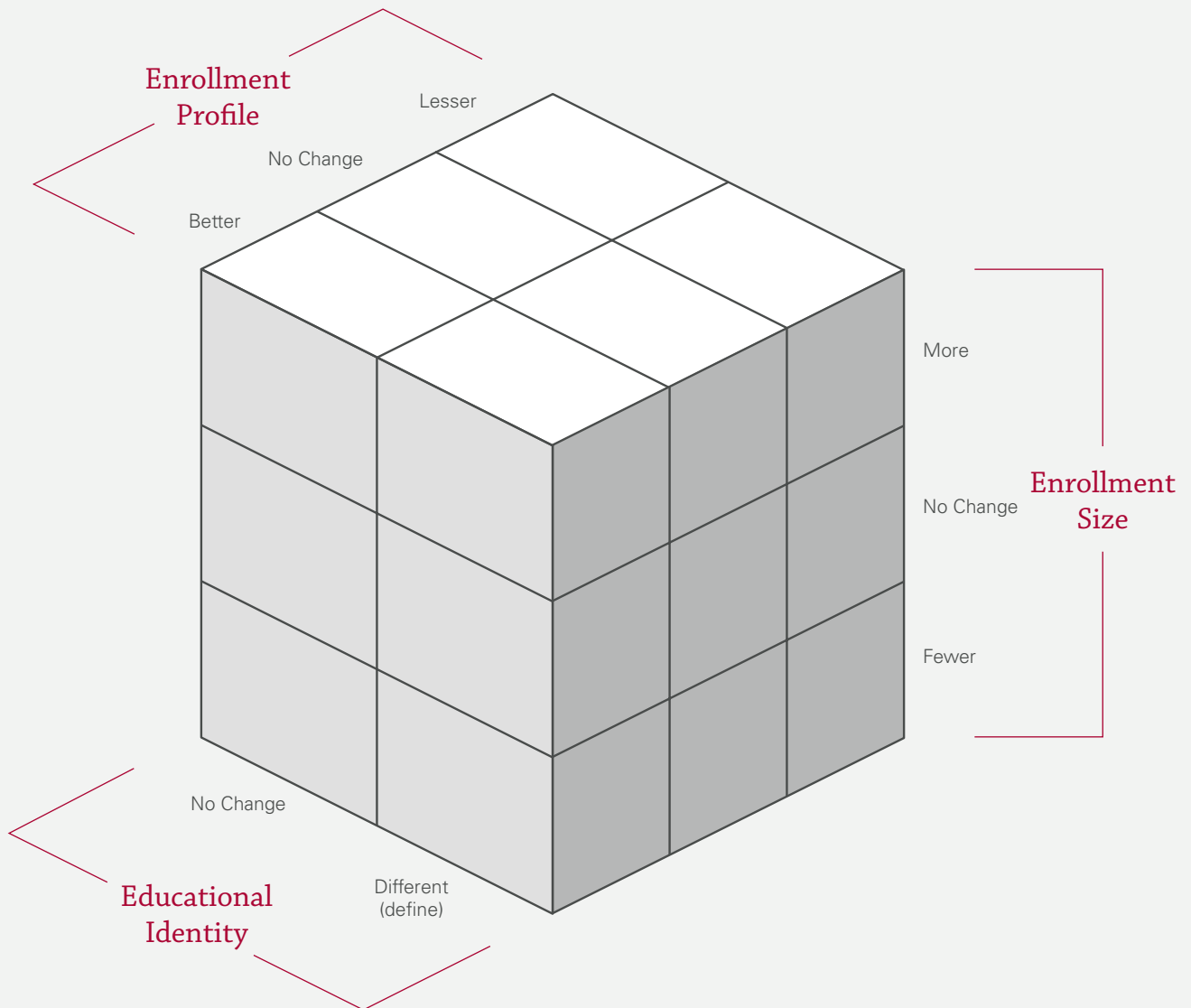
2. Management adaptation involving a combination of new pathways to efficiency and new ways of delivering and supporting the infrastructure of higher education. The subject of dozens of management practice texts, management adaptation will require a careful assessment of productivity.

3. Learning adaptation exploring new ways of imagining and delivering the learning experience. This likely is the most fertile ground for change. However, it also presents the set of choices most burdened with the weight and trajectory of institutional history and values.

None of these vectors of adaptation is independent; choices in one influence choices in the others. Whether generated internally or imposed externally, some amount of change along all three lines is likely for the vast majority of higher education. Institutional conditions will (and should) determine the particular type and degree of change required at any given college or university. The question, then, is the framework by which we can evaluate these independent issues.

Due to the pressures
of the marketplace,
disruptive adaptation
will play a very large role
in the future planning
and success of colleges.

THE DECISION CUBE



A Contextual Tool for Addressing Disruptive Adaptation: The Decision Cube

In the face of continuing disruption, it is more important than ever for colleges to define their markets. Two questions are paramount:

1. Should we make changes to accommodate our current markets, adapting to the ways those markets have changed?
2. Should we seek new markets in new ways in new places?

Unfortunately, while each question likely yields an interesting discussion, neither lends itself to an actionable conclusion. Part of the problem rests with the term “market.” It encompasses many variables, both dependent and independent, inclusive of enrollment and learning profile. The challenge is to dimensionalize those variables in a way that makes their points of intersection—and therefore the points of trade-off—clear.

The universe of market-related choices is encompassed along three distinct but related dimensions: enrollment size, enrollment profile, and educational profile or identity. Choices along any one dimension influence choices in the other two—collectively forming a kind of strategic decision cube (like a Rubik’s Cube, only not equal sided). The decision cube provides a framework for addressing disruptive adaptation and making choices in turbulent times.

The three dimensions of the cube present the following choice field:

- **Enrollment Size.** All institutions have three basic enrollment choices—enroll more students, fewer students, or the same number of students. An enrollment target is a singularly consequential choice for most colleges, particularly those that are tuition dependent. It involves consideration of both new and returning students. Retention strategy must be a key component of enrollment decision-making.
- **Enrollment Profile.** Similar to the size question, all institutions also have three choices related to their student profile—improve the profile (this can be specified in any number of terms), lessen the profile (typically, though not exclusively, expressed in terms of academic characteristics), or maintain the current profile. A decision to change the enrollment profile is complex because few colleges actually own their profile market—and in many cases, their profile market owns them.
- **Educational Identity.** Only two choices here—maintain your current educational identity (e.g. residential, full-time, undergraduate, traditional-age, liberal arts, particular program mix, etc.) or change it to something different (which must be defined). Changing educational identity is even more complex than

changing the enrollment profile because it often is deeply rooted in history and sense of self, and contextualized by any number of taxonomies and peer and aspirant groupings. Nonetheless, it represents a real choice, particularly during disruptive or transitional periods.

The decision cube demands simultaneous consideration along all three dimensions for any discrete choice along one dimension. For example, a decision to increase enrollment also requires reflection on enrollment profile and educational identity (e.g., What happens to our profile when we increase enrollment? Is our current educational identity sufficient to attract the additional students we seek to enroll?). In other words, all market choices related to size, profile, and identity are integrated.

Each choice along any one of the three dimensions requires choices along the other two dimensions.

Each choice along any one of the three dimensions requires choices along the other two dimensions. Each collection of choices lands an institution in one part of the cube or another.

The size, profile, and identity dimensions of the decision cube define market and mission choices.

Those choice combinations clearly have significant management or operational implications. Consequently, in addition to making basic choices about size, profile, and identity, each box in the cube—irrespective of the degree of change in any of its particular components—carries with it four management imperatives that bring the market and mission dimensions together.

1. Financial requirements.

How do we create and allocate resources to ensure the success of a particular choice? The consideration must include a review of net tuition requirements, fundraising requirements, and expense requirements. The net revenue opportunities associated with any set of choices must at least match its expense requirements—meaning any choice must either yield revenue in excess of expenses or be financed by a set of trade-offs that bring the revenue and expense equation into balance.

2. Program requirements. What program strategies are required for success in either new or existing markets? Program requirements include consideration of both curricular and co-curricular programs and activities. In the end, programs and activities provided by an institution cannot be constructed independent of the needs, interests, and demands of the institution's market.

3. Recruitment requirements. How will we go to market to ensure our success? Recruitment strategy must include an assessment of current markets, capacity for market development, and recruitment support. Well understood in admissions offices everywhere, all enrollment goals require the formulation and execution of clear tactical strategies. Enrollment success rarely results from hopes and wishes.

4. Brand communication requirements. How must we position the institution in the marketplace to ensure success? Does that require changing the way the college currently is understood? The more significant the change along any of the three dimensions of the decision-making framework, the more important brand communication becomes.

Every institution begins the cube exercise in the same place: a current level of enrollment, a current enrollment profile, and a current educational identity. That place reflects a college's summative marketplace identity. During disruptive times, the challenge for institutions is to address the four management imperatives to determine whether their current market position is sustainable (or if they are willing to make the trade-offs necessary to make it

sustainable). If not, the decision cube model provides a tool for consideration of adaptive (or innovative) change.

The objective in the end is to reach a kind of two-way equilibrium. Colleges need to find a point of sustainable economic equilibrium, a point at which revenues and expenditures each are secure enough to create long-term prospects for success and excellence. Put in the form of a question, what decisions must we make to create sustainable conditions for excellence in the context of a shifting marketplace that requires continuous adaptation? Students and families seek a similar point of equilibrium—a point of balance between what they are able to pay (an economic question) and what they are willing to pay (a value question). Put in the language of economics,

for families, the marginal value (or utility) of attending a particular college must equal the marginal financial effort required of the family. Each point of equilibrium is the product of a complex set of decisions wholly owned by neither institutions nor families. Colleges address market issues from their own vantage point. However, the cube framework provides an opportunity for

institutions to simultaneously consider mission, market, and management issues as they make decisions.

And in the End

Mission, market, and management choices ought not be the product of benign neglect or drift. Few colleges today can afford the cost and consequences of drift or neglect. The challenge is to marry the three dimensions in a way that is considered and capable of yielding a sustainable and successful future. ■

The challenge for institutions is to determine whether their current market position is sustainable.

ENDNOTES

¹ See *Knocking at the College Door*, Western Interstate Commission for Higher Education, March 2008, www.wiche.edu/pub/11556, for detailed data on projections of high school graduates.

² See *The Employment Situation – March 2012*, Bureau of Labor Statistics, U.S. Department of Labor, April 6, 2012, <http://www.bls.gov/news.release/empsit.toc.htm>.

³ See *Income, Poverty, and Health Insurance in the United States: 2010*, Current Population Survey, U.S. Census Bureau, Tables F-9 and F-11, <http://www.census.gov/hhes/www/income/data/historical/families/>.

⁴ See <http://www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff--p-us--->.

⁵ See *Surveying the Aftermath of the Storm: Changes in Family Finances from 2007 to 2009*, Finance and Economics Discussion Series, Divisions of Research and Statistics and Monetary Affairs, Federal Reserve Board, March 2011, www.federalreserve.gov/pubs/feds/2011/201117/201117pap.pdf.

⁶ See *Household Debt and Financial Obligations Ratios*, Federal Reserve Board, March 2012, <http://www.federalreserve.gov/releases/housedebt/>.

⁷ See *Personal Savings Rate*, Bureau of Economic Analysis, U.S. Department of Commerce, April 2012, <http://research.stlouisfed.org/fred2/data/PSAVERT.txt>.

About The Lawlor Group

THE LAWLOR GROUP is one of the nation's preeminent higher education marketing firms. We are totally committed to enhancing an organization's value proposition and creating organizational distinction through the art *and* science of marketing. The focus of our work is on four core areas of expertise—market research, brand management, institutional marketing, and enrollment management. Our market domain is private colleges and universities, and our services fall in three categories—research, consulting, and communications.

The Lawlor Group has provided research, strategic counsel, and integrated marketing communications assistance to more than 200 education clients since our founding in 1987. The firm also publishes *The Lawlor Review*, a critically acclaimed education marketing journal; *Lawlor Perspective*, a series of white papers for senior management and trustees; and *Lawlor Focus*, a monthly e-newsletter that explores topics relevant to marketing and communications professionals in higher education. In addition, we sponsor a series of professional development seminars and symposiums for education marketers through events such as Lunch with Lawlor and Lawlor Forum, in addition to our co-sponsorship of the annual Summer Seminar. If you would like to learn more about The Lawlor Group, please check out our website at www.thelawlorgroup.com, email us at tlg@thelawlorgroup.com, or call us at 1.800.972.4345.

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INTELLIGENT MARKETING SOLUTIONS FOR EDUCATION



The financially sustainable university

A focused strategy can help colleges and universities reinvent their industry and stop spending beyond their means

By Jeff Denneen and Tom Dretler

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The authors would like to thank Jeff Selingo for his contributions to the report. Jeff Selingo frequently writes about higher education and is the author of the forthcoming book *College (Un)Bound: The Future of Higher Education and What It Means for Students*, due from Amazon Publishing/New Harvest in spring 2013.

Few industries in the United States have achieved unquestioned global leadership as consistently and effectively as our higher education system. US colleges and universities are the cornerstone of our economic prosperity and the key to realizing the American dream. Thirty years of growth have confirmed the sector’s leadership and vibrancy—the result of demographic and economic factors combining to lift higher education even higher.

Despite this success, talk of a higher education “bubble” has reached a fever pitch in the last year. The numbers are very familiar by now: Annual tuition increases several times the rate of inflation have become commonplace. The volume of student loan debt has surpassed \$1 trillion and is now greater than credit card debt. Most college and university presidents, as well as their boards, executive teams and faculty members, are well aware that a host of factors have made innovation and change necessary.

Still, at the majority of institutions, the pace of change is slower than it needs to be. Plenty of hurdles exist, including the belief that things will return to the way they always were. (Note: They won’t.) But the biggest obstacle is more fundamental: While leaders might have a sense of what needs to be done, they may not know how to achieve the required degree of change that will allow their institution not just to survive, but also thrive with a focused strategy and a sustainable financial base.

Leading change is challenging in any organization. But in higher education, it’s markedly more difficult. If the stakes weren’t so high, incremental improvements might be enough. But they aren’t, and that’s become abundantly clear. Change is needed, and it’s needed now. What follows is a road map for college and university presidents and boards of trustees, explaining the scope and depth of the situation, the key actions required and—most important—what it will take to succeed in leading change.

The liquidity crisis facing higher education

If you are the president of a college or university that is not among the elites and does not have an endowment in the billions, chances are cash is becoming increasingly scarce—unless you’re among the most innovative.

The reason is simple: Approximately one-third of all colleges and universities have financial statements that are significantly weaker than they were several years ago (see Figure 1).

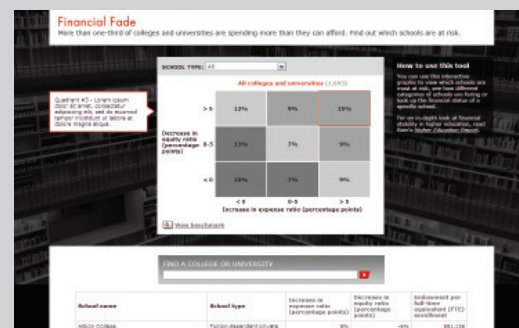
On the balance sheet side, the equity ratio (equity as a percentage of assets) is down—sometimes way down.¹ On the income statement side, the expense ratio (expenses as a percentage of revenue) is significantly up.² And, to make matters worse, endowments have taken a major hit and are not likely to see the type of year-over-year growth they were accustomed to seeing in the decade before the recession.

The translation: Institutions have more liabilities, higher debt service and increasing expense without the revenue or the cash reserves to back them up.

In the past, colleges and universities tackled this problem by passing on additional costs to students and their families, or by getting more support from state and federal sources. Because those parties had the ability and the willingness to pay, they did (see Figure 2). But the recession has left families with stagnant incomes, substantially reduced home equity, smaller nest eggs and anxiety about job security. Regardless of whether or not families are willing to pay, they are no longer able to foot the ever-increasing bill, and state and federal sources can no longer make up the difference (see Figure 3).

Financial fade

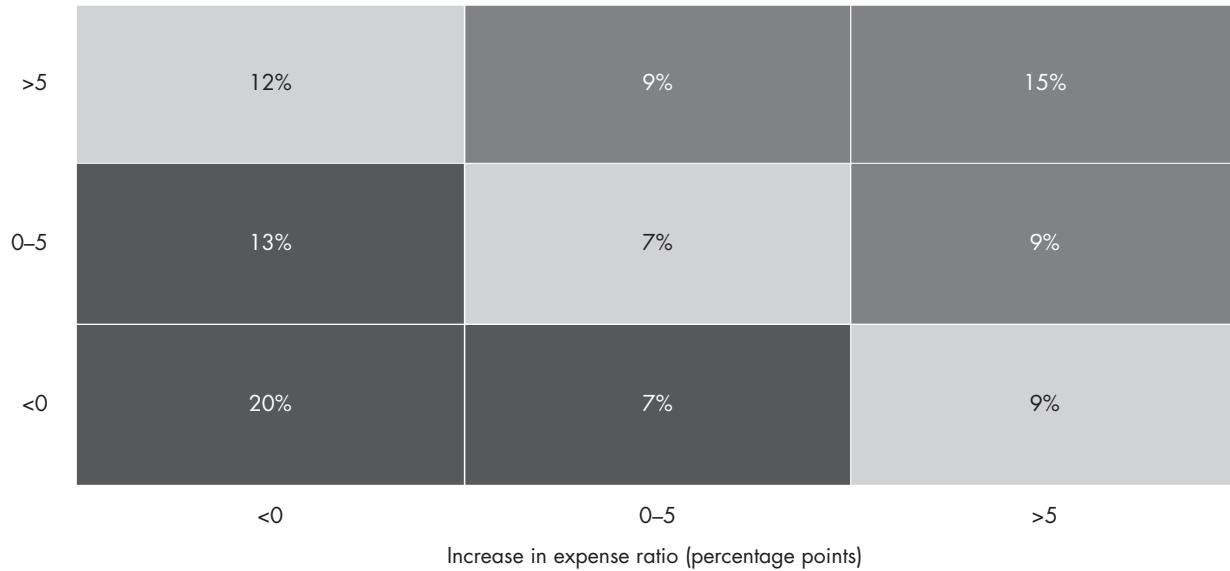
Which schools are spending more than they can afford? Explore the data in our interactive graphic at www.thesustainableuniversity.com



The financially sustainable university

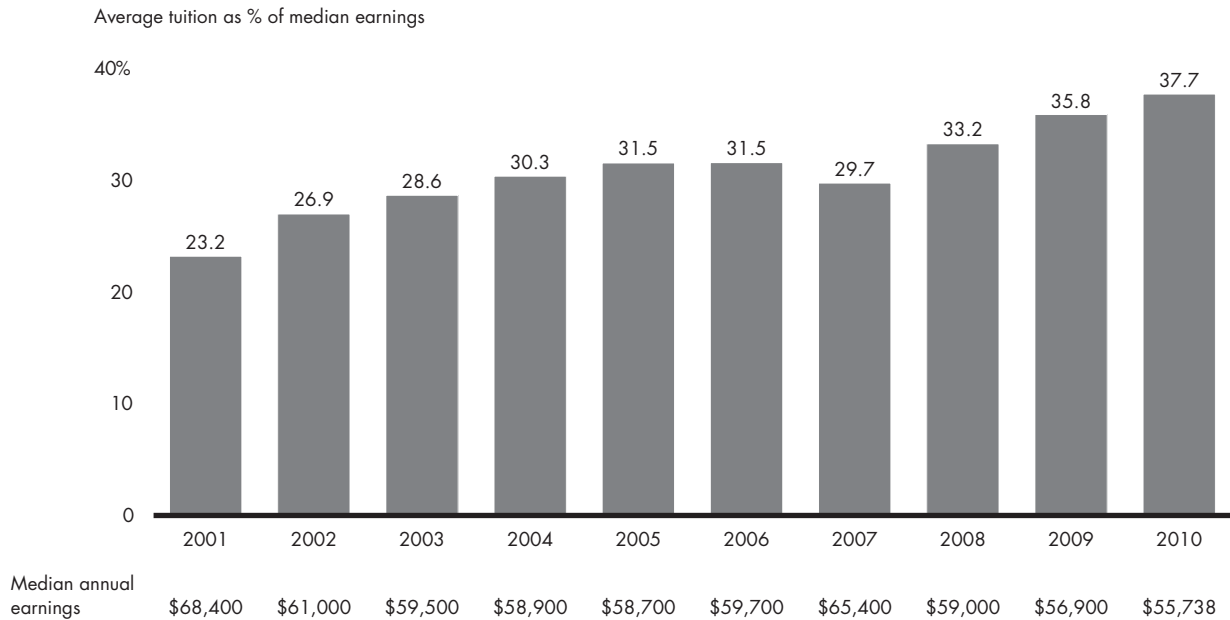
Figure 1: Change in equity vs. expense ratios for US colleges and universities

Decrease in equity ratio (percentage points)



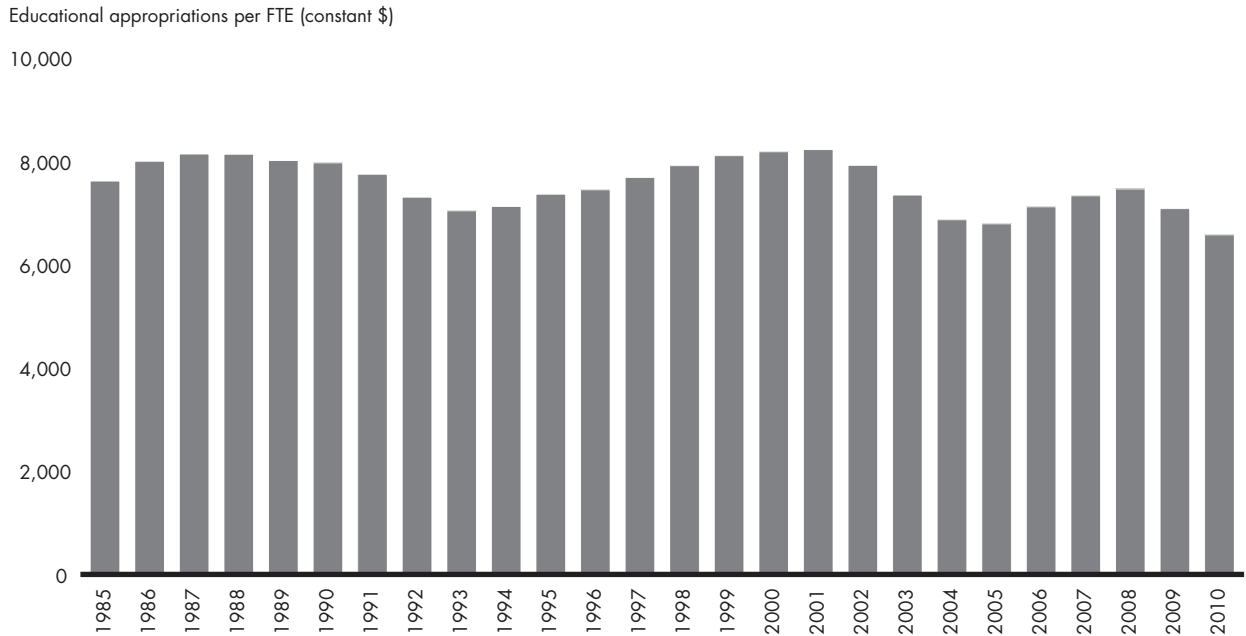
Note: To see which schools are in each segment, go to www.thesustainableuniversity.com
 Sources: Integrated Postsecondary Education Data System (IPEDS) 2006-2010; Bain & Company and Sterling Partners analysis

Figure 2: Higher education inflation (2001-2010)



Sources: US Bureau of Labor statistics (BLS); IPEDS; Bain & Company and Sterling Partners analysis

Figure 3: Educational appropriations per FTE, US (fiscal 1985–2010)



Source: State Higher Education Executive Officers

Which institutions are at risk?

Presidents who want to give their institution a stress test can simply refer to the list of questions provided in the box on page 7 (*see sidebar*). From a financial perspective, highly selective institutions don't need to worry because they possess pricing power (although they may be concerned that their mission will suffer if they must make compromises to the need-blind admissions policy). Well-endowed institutions or those with strong financial statements through prudent financial management are also fine, because they have ample resources to serve as "shock absorbers."

But what about the others? The data is clear: A growing percentage of our colleges and universities are in real financial trouble. And if the current trends continue, we will see a higher education system that will no longer be able to meet the diverse needs of the US student population in 20 years (*see Figure 4*).

The social and economic implications of that are staggering.

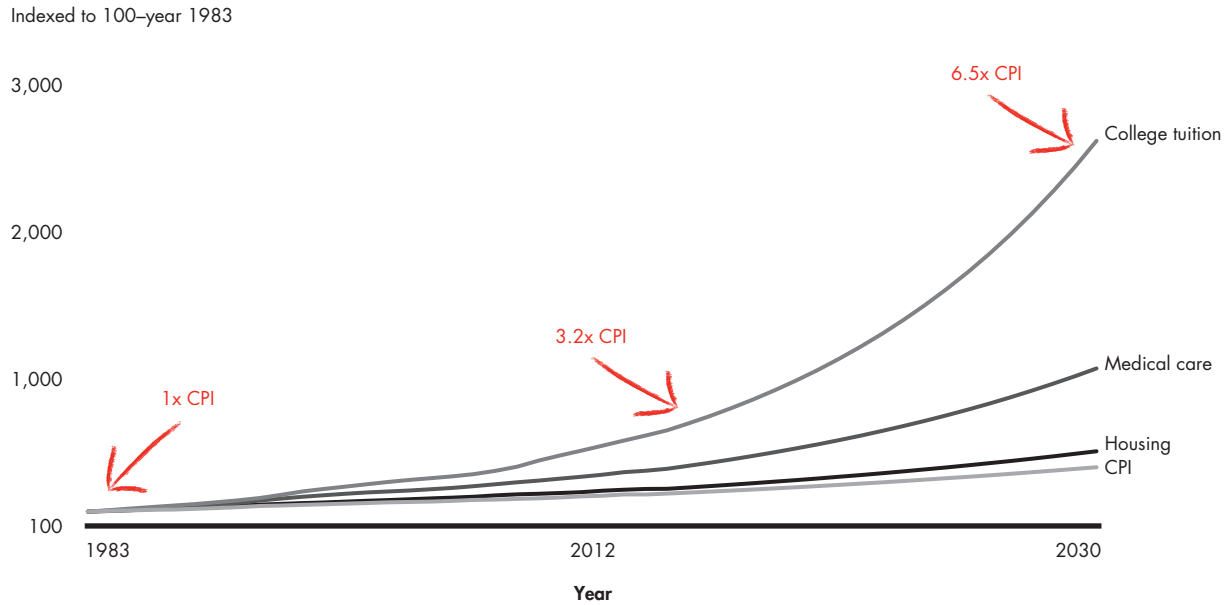
Reversing the "Law of More"

Much of the liquidity crisis facing higher education comes from having succumbed to the "Law of More." Many institutions have operated on the assumption that the more they build, spend, diversify and expand, the more they will persist and prosper. But instead, the opposite has happened: Institutions have become overleveraged. Their long-term debt is increasing at an average rate of approximately 12% per year, and their average annual interest expense is growing at almost twice the rate of their instruction-related expense (*see Figure 5*). In addition to growing debt, administrative and student services costs are growing faster than instructional costs. And fixed costs and overhead consume a growing share of the pie (*see Figure 6*).

This cost growth is at odds with the concept of the experience curve, which holds true in almost every industry. The experience curve indicates that as a company's or an industry's cumulative output goes up, cost per unit of production will go down. A prime example of this is

The financially sustainable university

Figure 4: Projected tuition levels based on historical trends



Note: Housing costs—owner’s equivalent rent; all metrics based on US city averages and are seasonally adjusted; forecast based on compounded annual growth 1983–2010
Sources: BLS; Bain & Company and Sterling Partners analysis

“Moore’s Law,” the principle that the number of transistors on a computer chip will double approximately every two years. The semiconductor industry has maintained this pace for decades, leading to consistent increases in computing power and cost reductions for the technology that is at the heart of the digital revolution.

The natural question for higher education, then, is what incremental value is being provided for the incremental cost?

To reverse the Law of Moore and create a more differentiated and financially sustainable institution, innovative college and university presidents are doing four things:

1. Developing a clear strategy, focused on the core
2. Reducing support and administrative costs
3. Freeing up capital in non-core assets
4. Strategically investing in innovative models

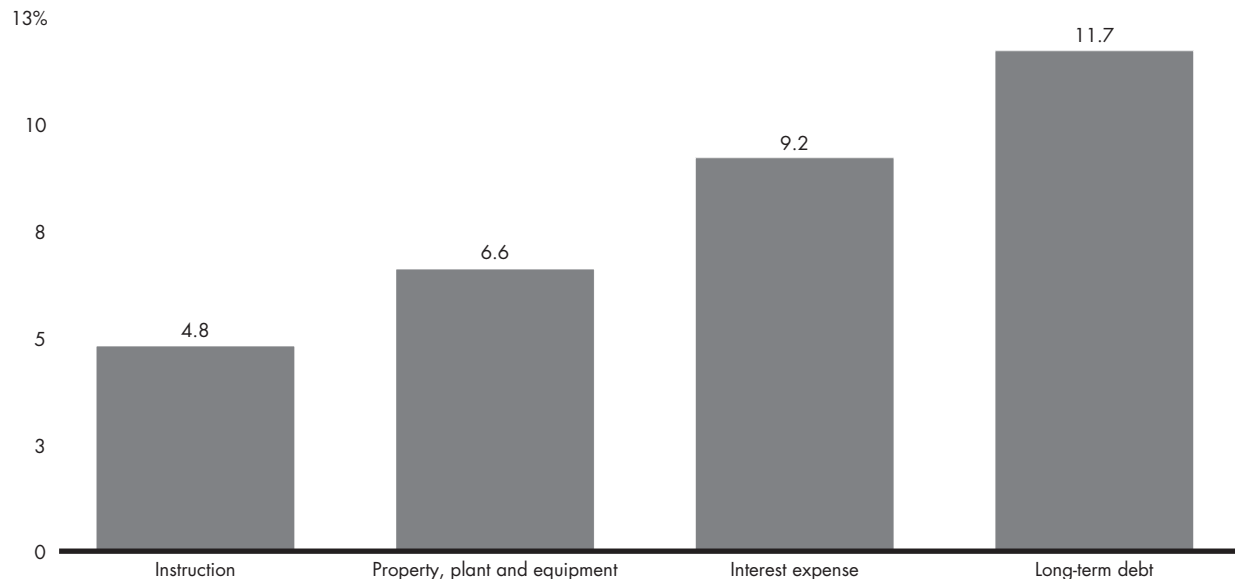
You might think you’re doing many of those things through your strategic planning process, but too often that is not the case. Colleges and universities frequently aspire to be the same thing, with a focus on moving up to the next level and gaining greater prestige. It can be far more about “me-too” as opposed to carving out a unique strategic position. As a result, most of the strategic planning that happens in higher education is on the margins and not focused on making the hard decisions that will ultimately lead to success.

Focusing on the core

The healthiest organizations—from Fortune 500 companies to start-ups to academic institutions—operate with a discipline that allows them to stay true to their core business. The core is where high-performing institutions invest the most and generate the greatest returns. It is the area where they are the clearest about the value they add. It is the domain where they are the most differentiated and the place from which they derive their identity. In

Figure 5: Higher education and the “Law of More”

Increase in key components of higher education cost base (CAGR 2002–2008)



Sources: BLS; IPEDS; Bain & Company and Sterling Partners analysis

short, the core is the strategic anchor for the focused company or the focused university.

In any industry, there are three primary paths to competitive advantage: differentiation, low cost or structural advantage. The trick in pursuing a differentiation strategy is truly understanding your unique core and then focusing resources on it. An implicit part of having a focused strategy is not only defining what you are going to invest in, but also clearly articulating what you are not going to do. If institutions try to pursue too many areas of differentiation, they’re likely to invest too broadly and, thus, reduce the return on investment for precious capital.

We recognize that focusing on the core is hard to do, given the history and culture of universities—authority is often diffuse and people don’t like to say “no,” especially in the absence of any definition of value. But the worst-case scenario for an institution is to be relatively expensive and completely undifferentiated. Who will pay \$40,000 per year to go to a school that is completely undistinguished on any dimension?

Unfortunately, many institutions seem to be headed down that path. But by focusing on the characteristics that are truly distinctive and channeling resources to them, institutions can positively improve their performance and get on the path to long-term sustainability.

Reducing support and administrative costs

Boards of trustees and presidents need to put their collective foot down on the growth of support and administrative costs. Those costs have grown faster than the cost of instruction across most campuses. In no other industry would overhead costs be allowed to grow at this rate—executives would lose their jobs.

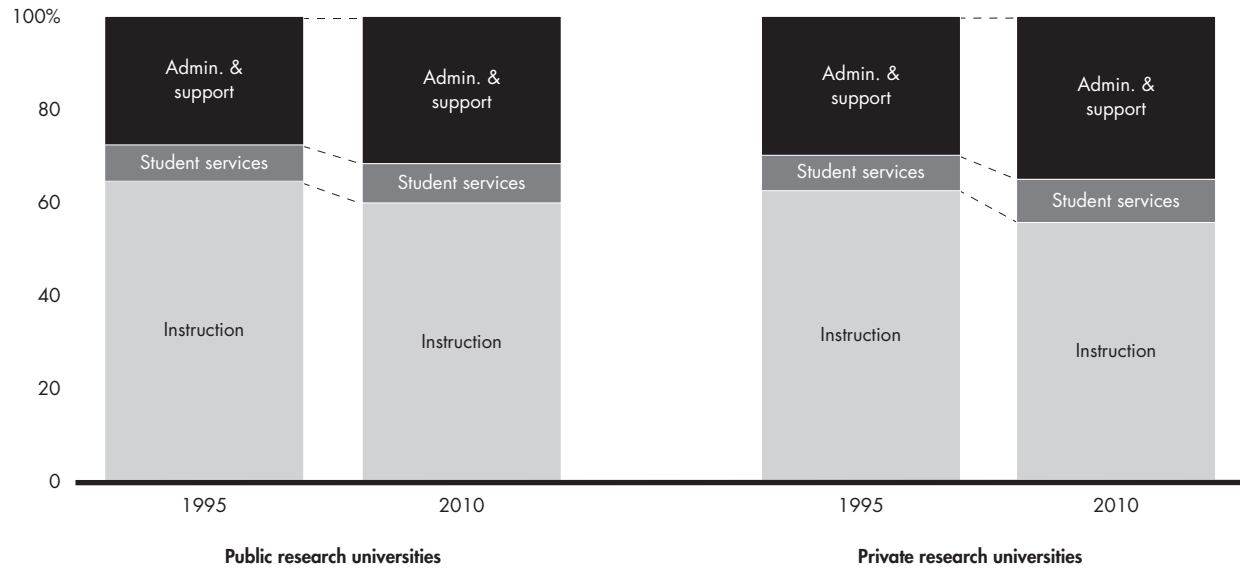
As colleges and universities look to areas where they can make cuts and achieve efficiencies, they should start farthest from the core of teaching and research. Cut from the outside in, and build from the inside out.

Growth in programs and research, increasing faculty and student demands, and increasingly cumbersome compli-

The financially sustainable university

Figure 6: Relative expenditures in US higher education (1995–2010)

Relative share of expenditures per FTE enrollment



Sources: IPEDS; Bain & Company and Sterling Partners analysis

ance requirements have all contributed to the growth of administrative costs. The reasons are often very legitimate.

But as new programs are added, old programs often are not curtailed or closed down. The resulting breadth of campus activities creates too much complexity for staff to manage with any efficiencies of scale. Units don't trust one another or the center to provide services, and incentives are not aligned across the campus. These issues ultimately manifest themselves in multiple ways:

- Fragmentation.** Data center management is a good example of fragmentation on campus. At the University of North Carolina at Chapel Hill (UNC), the central IT group managed fewer than half of the servers on campus in its data center. For the servers located in the colleges, fewer than half were managed by college IT groups—the rest were considered “hidden” at the department or faculty level. Despite the inherent data and security risk of having so many unmanaged servers on campus, faculty members were very skeptical about turning over control to the

university's central IT department. In similar cases, outsourcing data centers would be a good solution. Third-party data centers, whether they are managed or cloud-based, could provide more sophisticated solutions, higher levels of security, greater flexibility in capacity and lower cost than internal solutions—all with greater accountability and less politics.

- Redundancy.** At the University of California at Berkeley, as on many other campuses, procurement was managed at the department level. There were no product standards, and each department negotiated its own vendor contracts. A sample of purchase orders showed that the same item was being bought for as much as 36% more in some departments than in others. By centralizing and standardizing more of its procurement going forward, Berkeley expects to save more than \$25 million per year.
- Unneeded hierarchy.** Most campuses have too many middle managers. Before it reorganized, Berkeley had average spans of control (the number of employ-

You might be at risk if....

1. You are not a top-ranked institution

- Your admissions yield has fallen and it's costing you more to attract students
- Median salaries for your graduates have been flat over a number of years
- Your endowment is in the millions not billions, and a large percentage is restricted

2. Your financial statements don't look as good as they used to

- Your debt expense has been increasing far more rapidly than your instruction expense
- Your property, plant and equipment (PP&E) asset is increasing faster than your revenue
- You have seen a decline in net tuition revenue
- Tuition represents an increasingly greater percentage of your revenue
- Your bond rating has gone down
- You are having trouble accessing the same level of government funding

3. You have had to take drastic measures

- You are consistently hiking tuition to the top end of the range
- You have had to lower admissions standards
- You have had to cut back on financial aid
- You have reduced your faculty head count

ees reporting directly to a manager) of around four, compared with more than six for average companies and closer to 10 for best practice companies. Fixing spans and layers, as well as better defining roles, empowers an organization, reduces bureaucracy and significantly boosts productivity.

- **Misaligned incentives.** Unlike the corporate world, where profit and share price (mixed with a pinch of anxiety about pay and job security) ultimately help create alignment, there are fewer mechanisms within a university to improve alignment across the campus. Universities tend to operate as a federation of colleges, and colleges as a federation of departments. Budget models are complex and the flow of funds convoluted. The people who manage budgets often have limited options to influence the entities responsible for consumption and, ultimately, costs (e.g., many campuses don't charge departments for electric power based on consumption). Despite a culture of openness, there is surprisingly little transparency because

data is poor, silos are strong and performance management is virtually nonexistent.

- **Complexity.** Simply put, campuses engage in too many activities that require too broad a skill set to effectively deliver in-house. Take IT application management, for example. Not only does it need to support classroom and research needs across a diverse set of disciplines (history, music, law, engineering, biomedical sciences), it also has to cover functions (finance, HR, research administration, registrar, libraries, student services). If that weren't enough, IT also has to serve industries beyond the core academics, including bookstores, retail food, debit cards, hotels, museums, stadiums, publishing houses, veterinary hospitals and power plants. A single IT group would have a hard time managing all of that well, given the expertise required, leading to either poor service delivery or fragmented, sub-scale and costly delivery.

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Outsourcing more of the non-core activities would reduce campus complexity and cost. Third-party providers typically have greater scale capability and skill because the outsourced service is *their* core business, enabling them to deliver the same or better service at a lower cost.

Ultimately, in order to reduce administrative costs without diminishing service—and perhaps even enhancing it—campuses will need to consolidate subscale operations by creating shared services or outsourcing; improve processes by eliminating low-value work and automating more; refresh the organization by streamlining spans and layers and improving performance management; and strengthen controls by updating the budget model, modifying policies and increasing transparency.

Freeing up capital in non-core assets

Another significant opportunity for institutions to strengthen their cash position is to better manage their assets. Whether it is real estate, physical assets or intellectual property, colleges and universities are involved in a number of activities where partnerships with third-party providers would allow for financial relief and improved performance.

Real estate

US colleges and universities collectively have more than \$250 billion worth of real estate assets on their balance sheets. In other real estate-intensive industries, such as lodging, restaurant and healthcare, organizations have consistently found ways to turn a portion of these assets into cash by selling and leasing back, without losing their ability to use the real estate in the same way as before. At some colleges and universities, real estate represents the single largest asset on their balance sheet. The former president of a large land grant institution in the Pacific Northwest expressed one of his biggest frustrations during his tenure: He had been sitting on \$2 billion worth of real estate assets, but he hadn't had the opportunity to use any of it to improve his university's financial situation. Converting even a small portion of an institution's real estate assets to cash could change its strategic trajectory.

Physical assets

Many institutions own other physical assets that could also be converted to cash through sale and leaseback arrangements or outsourced service contracts. In most IT outsourcing deals, for example, the service provider buys the client's IT assets (infrastructure, equipment, facilities and so on) up front and then provides service on a long-term contract.

Hard assets like power plants and cogeneration facilities offer campuses another opportunity to free up capital, as commercial power companies may be interested in acquiring those assets. There is also a growing class of private equity investors looking to infrastructure investments to provide low-risk, stable cash flows to balance out their portfolios. By selling these assets, campuses could free up tens of millions of dollars in capital.

Intellectual property

Many college and university presidents feel that technology transfer offices are the custodians of some of their institution's most underleveraged assets. Indeed, US colleges and universities spend some \$92 billion each year in R&D and realize approximately a \$2 billion annual return on those investments. Conversely, intellectual property companies that manage the patent portfolios of technology giants such as Microsoft typically get returns of several times their clients' original R&D investment. Some of those companies are beginning to look at the higher education sector as an area where they can make a major impact and bring innovative products to market. By partnering with intellectual property companies in the private sector, colleges and universities could tap into a lucrative new source of revenue to strengthen their balance sheets and support other mission-focused organizational activities.

Strategically investing in innovative models

College and university presidents are well aware of the "disruptive innovations" that are changing the landscape within higher education. According to a 2011 survey by the Babson Survey Research Group in collaboration with the College Board, online enrollment grew at a compound

annual growth rate of more than 15% per year between fall 2002 and fall 2010, increasing from less than 10% of all higher education enrollments to just more than 30% during that period. A recent Bain survey of 4,500 students also indicates growing online enrollment: Approximately 45% of respondents had taken an online course.

The rapid growth of online education has changed the game in a number of areas: value proposition (flexibility for students), economics (higher fixed-cost percentage, but lower fixed-cost dollars), marketing and recruiting (increasing reach) and outcomes and assessment (better tracking and measurement). Nearly two-thirds of the college and university leaders at more than 2,500 institutions surveyed by the Babson Survey Research Group said that an online strategy is critical to the long-term success of their institution. Yet surprisingly, less than 50% of responding CEOs had included online programs in their campus strategic plan.

There is no question that the online market is rich with opportunity, but until you have defined your core strategy and identified significant capital to invest in creating academic value, you will not survive in the online arena. For some institutions, rushing into the online space too rapidly to grow enrollment and create new revenue is another me-too strategy. There are already too many entrenched players and new entrants with significant capital in the market for an undifferentiated strategy to succeed.

As online courses enter the market and employers begin to accept “badges” and other credentials (further decreasing demand for traditional degrees), the price students will be willing to pay for undifferentiated brands will continue to fall. While this won’t be a problem for elite institutions like Harvard and MIT, it represents a significant challenge for most colleges and universities.

Leading the change necessary to be successful

Creating change on campus is harder than creating change in a corporate setting. In the corporate ecosystem, power resides largely with the executive team and cascades down. In academia, power usually emanates from the faculty and works its way toward the central admin-

istration. The concept of shared governance, combined with academic autonomy and tenure, leads to an organization where broad change cannot be mandated. Instead, change on a large scale can only be achieved by working with the faculty to build a compelling case and a clear path forward—one that supports the mission of the institution, but copes effectively with fiscal constraints.

Based on the many conversations we’ve had with campus leaders, it’s clear that they generally know what to do, but really struggle with how to do it. To implement a strategy that allows the organization to focus on the core, reduce costs, outsource and monetize assets, and develop online and lower-cost programs, institutional leaders need to bring key stakeholders on board and be clear about roles and accountability.

Bringing key stakeholders on board

One university chancellor told us, “20% are always going to be on board with me and 20% are always going to oppose, regardless of what the change is. The trick is getting the 60% in the middle to first engage and then buy into the change.”

By nature, faculty members tend to have a low tolerance for business administration and change that disrupts their routines. But most faculty members are also evidence-based decision makers who care deeply about the educational mission of the institution they serve, and this is an area where the president and the faculty can find common ground. There are a few truths that may or may not be self-evident to faculty, but that the president should have ample evidence to support. These truths are 1) there is no status quo; 2) effective change needs to be institution-wide; and 3) budget doesn’t always correlate with value.

There is no status quo

Too often, stakeholders believe that the current cash crunch and need for change is a temporary phenomenon that will subside as the economy continues to improve. But those who see things this way probably haven’t been exposed to the data presented here and in other reports that show convincingly that this time is different. Faculty

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and other key stakeholders must be shown clear and compelling facts to disprove the “return to the status quo” notion and to clarify the corresponding negative implications and consequences of inaction.

Change needs to be institution-wide

The magnitude of the challenges being addressed is too great and the organization is too complex for changes to be restricted to certain corners of the campus. Scale matters when you are trying to minimize the cost of administrative functions, and few departments or colleges on a campus have enough scale to achieve real benefits. The support of key stakeholders must be elicited across the organization.

At UNC, the central facilities administration spearheaded a clear example of what can be achieved by working together. The project’s goal was to improve classroom utilization in order to accommodate a growing student body without the need to build new buildings or renovate old ones. Based on an analysis of classroom utilization, the current space could meet anticipated demand, with a higher degree of coordination among the departments, the faculty and central administration. Many classrooms on campus had been scheduled and managed at the department level in nonstandard blocks, and some faculty had been starting their classes on the half-hour on days when the format for other classes started on the hour—effectively taking two time slots for a single class. The administration offered an inducement: In exchange for standardizing class schedules and allowing nondepartmental usage of their classrooms, the administration would pay for technology upgrades. It was a win-win situation: The cost of the additional technology was significantly lower than the cost of building new classrooms, and the departments got upgrades they couldn’t have funded from their own budgets. Beyond capital savings, the teamwork and standardization saved the university \$800,000 and gave it more flexibility in negotiating its overhead rate with federal grant-making agencies.

In other cases, it may be necessary to apply a set of consequences in order to effect change. Given the scarcity of resources and corresponding competition for those

resources, discretionary budget allocations are typically the most effective tool. At one university, the provost provided two budget alternatives to each dean and supervisor. The first was to move forward with the changes suggested by the administration’s “transformation team.” The second offered a flat cut to all units if they did not want to participate in the transformation program. The flat cut in the second alternative was significantly higher than the savings that would be achieved by participating in the transformation. The logic behind this was simple: If any unit abstained, savings would go down for everyone. But by working together across the institution, more could be achieved with less pain.

Budget does not always correlate with value

But working together across the institution does not mean that all campus activities have equal value. Part of a president’s vision for change will need to address where the institution will place priorities that are consistent with its mission and differentiated strategy. For example, in an organization that plans to reduce overall costs, it’s quite possible that some departmental budgets will increase, while less strategic ones will be cut more significantly.

On the administrative side, budget cuts are always perceived as service cuts. Given the way services have been delivered—fragmented and subscale—that’s probably true. But going for greater cost efficiency does not necessarily mean that effectiveness has to decline. Poor operations take longer to perform the same task, require more people to get the work done and tend to have significant quality issues, leading to rework and customer frustration. By building scale operations with the right expertise, process and tools, campuses can reduce cost while actually improving service levels.

On the academic side, given how difficult it is to define and measure value, the underlying rationale supporting academic budgets is rarely called into question. In the normal budgeting process, all departments typically receive what they were awarded the year before, plus a small increase for inflation. This is how one department at a world-class university ended up with a faculty-to-student ratio of greater than five to one, including majors and doctoral students.

Given the concentration of power and autonomy in the individual departments, the tendency within many colleges and universities is simply to assume that all departments should cut equally from their budgets and return those funds to central administration. While this approach is politically defensible as being “fair” and leaves autonomy with the units for deciding how to achieve savings, it is not particularly strategic and creates distorted incentives for managers. In this model, highly effective managers who run lean operations are forced to cut muscle while less effective managers simply trim fat. This leads to a culture where people unnecessarily hoard resources so that they have something to give back when asked.

Another example of budget versus value can be found by looking at Cornell University’s decision to consolidate five different economics departments, which had been spread across multiple schools within the university. All departments were well regarded, but some were stronger than others. When the decision was made to create one top-ranked economics department, some of those departments were essentially eliminated, while others were fortified in the transition. This change enabled Cornell to further its mission and to better serve its students, while also producing significant overall cost savings.

Being clear about roles and accountability

One of the biggest challenges in academia is the lack of alignment and trust that frequently permeates campus environments. There is a perception that departments and units can’t effectively collaborate because they don’t understand one another’s objectives, priorities and needs. The mistrust is compounded by a sense that outcomes aren’t measured appropriately, which leads to a lack of confidence in other departments. All of this contributes to academic units desiring independence and adds to the level of difficulty in driving coordinated institutional change. But this can be corrected by taking needed steps to clarify roles and create a culture of functional and individual accountability.

Role clarity

Several years ago, at one major research university, a plan that made the organization more efficient and saved it money was put in place. Then it was undone. Countless hours and millions of dollars were lost due to a lack of clarity about roles and responsibilities.

For some time, multiple departments at the university had been managing their own unique contract with the same learning management system (LMS) vendor. Each unit had an independent software license, a different software update version, its own server to run the application and an independent employee to manage the system. It was fragmented, redundant and inefficient, but it allowed for independence. Then as part of a campus change initiative, all the departments agreed to have the central IT office manage a single university-wide contract with the vendor. As part of the move, the central office renegotiated a single license, put all units on the same software version, had them share server space and gave a single employee the task of managing the system. The result was significant savings for the university and better operability.

But then things broke down. What hadn’t been made clear during the change was who had ultimate decision-making authority over classroom technology within individual departments. Approximately one year after the change, when central IT informed the departments that the university would be switching LMS vendors, the departments were irate. Feeling that it wasn’t central IT’s call, the departments demanded their individual contracts back—and got them. The savings were erased and trust was eroded. However, if at the outset it had been established which party was being given decision rights over vendor selection, the collaboration would have been much more likely to succeed.

Accountability

While faculty members have incredibly high standards around teaching, research and publishing, which are reinforced through peer review, grading and win rates on grants, they tend not to apply those standards and

The financially sustainable university

rigor to the administration in their own departments. Although many of them are quick to point out the flaws of central service providers, they do not recognize the same shortcomings within their own units.

Creating functional accountability is the best solution to breaking down issues of alignment and trust so that institution-wide solutions can be implemented. First, as the LMS example highlighted, it is critical to articulate roles and responsibilities, including decision rights, for each functional unit. Once that is clear, service-level agreements can be negotiated between the functional service provider and the units. These agreements should clearly spell out what level of performance is expected. Finally, service quality dashboards can be created. These dashboards can be broadly published to create transparency about actual operating performance versus agreed-upon goals. This transparency can help overcome suspicion and distrust about how decisions are being made.

Beyond functional accountability is individual accountability. Because of the decentralized nature of colleges and universities, many roles cross functional boundaries. Universities also tend to be culturally averse to providing critical feedback to staff. At one university, of the more than 6,000 performance reviews on file from the prior couple of years, fewer than 10 were rated as not meeting

expectations. Based on subsequent interviews with campus managers, it was clear that there were more than 10 underperformers on campus! Colleges and universities can put more rigor behind individual performance management by developing metrics for evaluation that everyone can understand and apply consistently.

Conclusion

The Law of More needs to be overturned. Universities simply cannot afford to increase costs in nonstrategic areas and take on more debt, if they want to survive. It is imperative that universities become much more focused on creating value from their core. That will require having a clear strategy, streamlined operations, a strong financial foundation, trust and accountability, and a willingness to invest only in innovations that truly create value for the institution.

Higher education in the United States is at a tipping point. In its time of need, the leaders of our colleges and universities have a tremendous opportunity to reshape and reinvent an industry that is directly linked to our economic prosperity and the hopes and dreams of millions.

That time is now. 

¹ Equity ratio = total net assets (assets – liabilities) divided by total assets

² The asset ratio is calculated by dividing net assets by total assets and measures the strength of an organization's balance sheet. Net assets is a term that indicates the remaining assets on an organization's balance sheet after removing liabilities. The expense ratio is calculated by dividing an organization's expenses by its revenues and indicates the financial sustainability of a business. Simply put, an organization's expense ratio is an indication of its ability to cover the expenses endured by cash inflow.

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PREFACE

Improving productivity in higher education is essential to strengthening the nation and positioning it to remain competitive in an increasingly global marketplace. Without sufficiently increasing student access, enrollment, and attainment in our higher education institutions, the United States risks being surpassed by other nations, becoming less competitive, and failing to tap the full potential of its citizenry. According to the American Council on Education's (ACE) *Minorities in Higher Education 2010 Status Report*, the tradition of young adults in the United States attaining higher levels of education relative to prior generations has stalled and for some racial and ethnic groups, the percentage of young adults with some type of postsecondary degree has actually fallen.

ACE believes that postsecondary education institutions and systems must be open to the implementation of cutting-edge strategies to enhance productivity, with the end goals of expanding capacity, improving teaching and learning, and better serving an increasingly diverse 21st century student population. At the core of significant and sustained progress in advancing productivity in U.S. colleges and universities are leaders who understand the challenges and have the right tools to effect change and lead a new era of progress and innovation on their campuses.

To this end, ACE and the Forum for the Future of Higher Education, with the support of Lumina Foundation for Education, have launched Making Productivity Real, an initiative designed to foster a national conversation around the topic of productivity. This paper, *The Innovative University: Changing the DNA of Higher Education*, is the first in a series that seeks to provide campus leaders with the latest scholarship and perspectives in this critical area. Authored by campus leader Henry J. Eyring and eminent scholar Clayton M. Christensen, this essay is based on a plenary session delivered at the American Council on Education's 93rd Annual Meeting held in Washington, DC in March 2011.

For additional information on the *Making Productivity Real* series, please contact Diana Córdova, director, American Council on Education's Center for Advancement of Racial and Ethnic Equity, at Diana_Cordova@ace.nche.edu or (202) 939-9481.

THE INNOVATIVE UNIVERSITY: CHANGING THE DNA OF HIGHER EDUCATION

Henry J. Eyring and Clayton M. Christensen

The language of crisis is nothing new in higher education. In 1973 Clark Kerr, then Chairman of the Carnegie Commission on Higher Education, spoke at the annual meeting of the American Council on Education. Kerr cited recently published books on the state of the academy that included in their titles these descriptors: anarchy, bankruptcy, blind[ness], chaos, confrontation, crisis, death, degradation, destruction, embattle[ment], explo[sion], and fall. (He stopped after titles beginning with the letter “f.”) In the face of such extreme language, Kerr urged moderation and optimism:

To those who see only gloom and doom, we can say that much that is good is occurring. To those who say that everything fails, we can say that much is, in fact, succeeding. To those who see only problems, we can say that there are possibilities available for their alleviation.¹

Today there is similar need for moderation and reason for optimism. Yet the current “crisis” is not the same as past ones. For the first time, disruptive technologies are at work in higher education. For most of their histories, traditional universities and colleges have had no serious competition except from institutions with similar operating models. Now, though, there are disruptive competitors offering online degrees. Many of these institutions operate as for-profit entities, emphasizing marketable degrees for working adults. However, the innovative learning technologies they employ have significant potential to serve young students as well, especially given these “digital natives” comfort with online communication.

Fortunately, America’s colleges and universities (hereafter called “traditional universities”) have unique competitive advantages. They perform vital functions that other institutions do not. As Jonathan Cole has pointed out in his book *The Great American University*, they are founts of discovery — including many of the discoveries that make high-quality, low-cost online learning possible. Traditional universities also preserve and refresh cultural memory, helping society build on the wisdom of the past as it embraces new possibilities. Perhaps most importantly, they involve young students in these processes of discovering and remembering, mentoring them in a special community of scholars.

Two unique assets facilitate traditional universities in the jobs of discovery, memory, and mentoring. One is their physical campuses, built up over decades at great expense. The other distinctive asset is the professoriate. The graduates of master’s and Ph.D. programs who enter academic life bring unusual skill and commitment to their work. They choose the pursuit, preservation, and sharing of knowledge over greater financial rewards to be had elsewhere. The learning environment they create in their face-to-face classrooms, offices, and laboratories is uniquely valuable.

[I]ronically, and thankfully, the glorious abundance of the virtual has created an even greater longing for the real.²

—Mary Sue Coleman, President of the University of Michigan

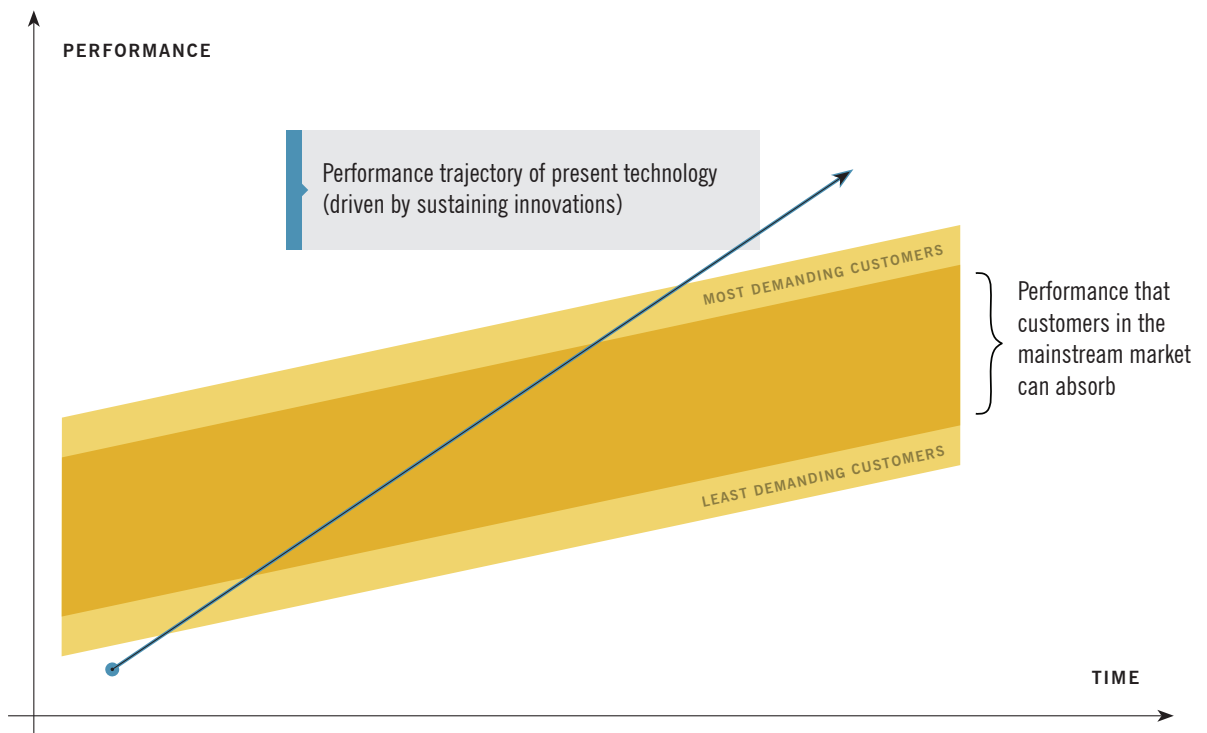
But the university learning environment is not *invaluable* in the strict sense of the word. There is a price to be paid by students, state and federal governments, donors, sponsors of research — and by the very employees whose sacrifice of higher pay elsewhere must be justified by the rewards of academic life. Increasingly, many who pay those prices are judging them to be too high. Given new competitive alternatives, that puts traditional universities at a grave risk, their unique physical and human assets notwithstanding.

THE TENDENCY TO GET BIGGER AND BETTER

Responding to the risks facing traditional universities requires understanding not only their current competitive environment but also their evolutionary behavior. Like most organizations, universities resemble living organisms in an important way: they seek not just to survive, but to grow and improve in scale, scope, and prestige. Once the typical organization has more than a few employees and has experienced a degree of success, predictable genetic tendencies switch on. These tendencies start to dominate planning and investment processes, driving the organization to make things bigger, better, or both. Diminishing in size or quality violates the genetic code — it introduces a mutation unlikely to survive the natural institutional response. Becoming bigger and better is “in the genes.”

Members of the higher education community readily recognize this tendency. With few institutional exceptions, universities continuously increase the quantity and quality of what they do. Courses become more numerous and more specialized. New degree programs are created. New buildings are added and older ones upgraded. The university seeks more-qualified faculty members and entry into more-prestigious athletic conferences increases. Through a series of “sustaining innovations,” the university’s quality and costs grow with time, as shown in Figure 1.

Figure 1: The Progress of Sustaining Innovations



The university's aversion to shrinking or simplifying is more than just a matter of personal preference; it is driven by institutional decision-making systems, individual rewards, and culture. For example, no risk-averse department chair can think seriously about cutting courses or degree programs. Even if such a proposal could be pushed through the curriculum committee, the only reward to the chair would be collegial ostracism. For similar reasons, no athletic director can view dropping a popular sport or moving into a less-expensive conference as a good career move, nor can a university president take lightly the risk of offending a major donor who envisions a new building. Through mutually reinforcing formal and informal systems — the institutional DNA so to speak — the university demands bigger and better.

Though the Carnegie classification system reinforces this tendency, it is by no means unique to higher education. Most established organizations, including for-profit companies, readily adopt innovations that show potential for enhancing their size and standing. However, they are much less likely to see the value of innovations that would reduce the price a customer pays, especially when quality might be adversely affected. As an illustration, the established makers of X-ray equipment, General Electric, Siemens, and Phillips, quickly adopted CT, MRI, and PET imaging technologies as they were developed.³ Each of these new technologies allowed them to make enhanced, more expensive equipment that vaulted them ahead of the competition and generated better profit margins.

However, for thirty years the industry-leading companies persistently overlooked the potential of ultrasound technology, precisely because it was simpler and more affordable for customers. The bigger-and-better tendencies built into these companies' institutional DNA, through systems such as profitability-based compensation for executives and salespeople, made ultrasound seem unattractive, because initially the image quality was relatively low. Now, with technology performance enhancements and with healthcare providers under pressure to reduce costs, the makers of advanced ultrasound equipment have a competitive advantage over more-expensive imaging technologies, particularly in outpatient clinics and other non-specialized care environments. The leaders in ultrasound are disrupting the status quo in medical imaging.

THE RISK OF DISRUPTION

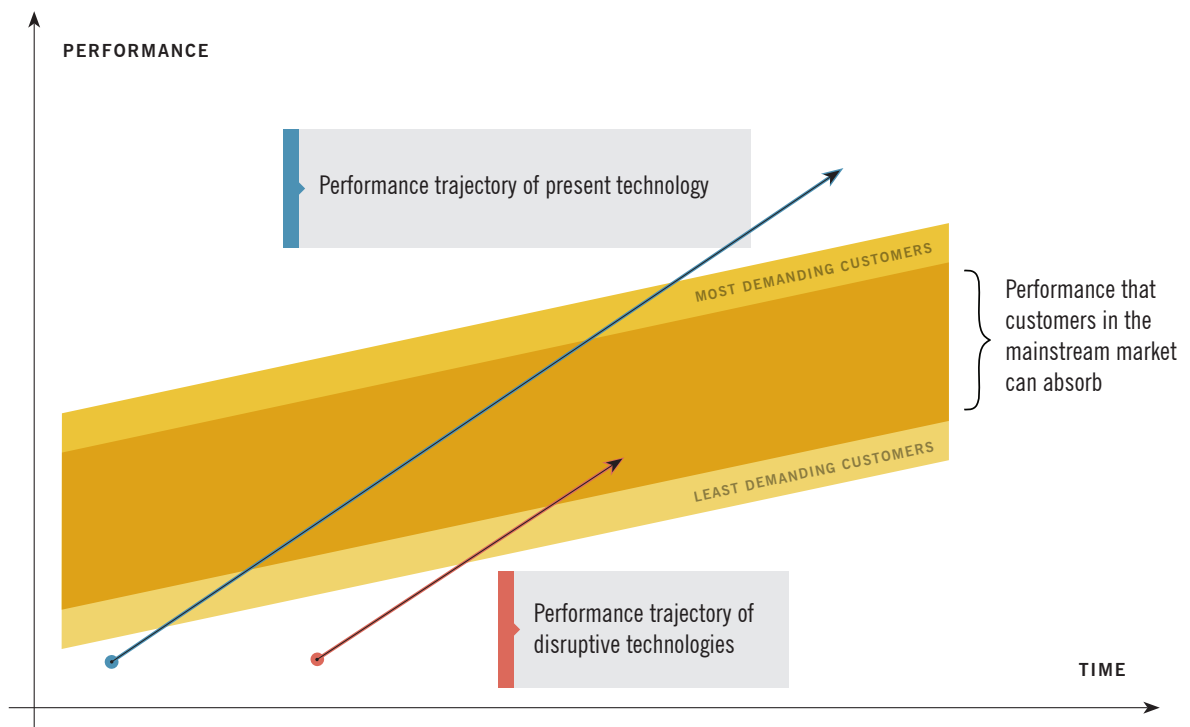
Because new entrants to an industry typically begin at the bottom of a market, selling simple, affordable products to easily satisfied consumers, the bigger-and-better tendencies in established institutions can blind them to disruptive technologies such as ultrasound. This tendency on the part of incumbents gives innovative entrants time to operate out of harm's way; they can perfect the new technology without interference from resource-rich competitors. Thanks to this competitive grace period, products that initially could be sold only to low-end customers of no interest to the incumbents steadily improve in quality.

That is what is happening in higher education. Traditional universities have spent the past century getting bigger and better, following standards set by the great research institutions, especially Harvard. In the past, that strategy of emulation proved highly successful. As community and state colleges slowly but steadily made themselves into universities in the twentieth century, they brought higher education to the masses and contributed to the advance of knowledge and of social and economic welfare. Taxpayers and donors willingly contributed to the cause, inspired by the institutional growth and the benefits that flowed from it.

However, as the costs of this climb have grown so has the number of students for whom a college education has become too expensive. Consequently, an increasing number of students are opting for online degree programs. Though they might prefer the traditional campus experience, the convenience of living at home, setting one's own schedule, and potentially retaining a job makes the online option

attractive. Online learning is a “disruptive innovation” that allows these students, who might not otherwise be able to attend college, to earn a degree. (See Figure 2.)

Figure 2: Disruptive Innovation



Though online learning initially appealed primarily to those unable to access traditional higher education, it is becoming more attractive to mainstream students. As represented conceptually in Figure 2, sustaining innovations are gradually enhancing the online learning experience. These enhancements include high-quality, low-cost videoconferencing that allows students to work in groups as though they were face-to-face, as well as computer simulations through which they can enter virtual laboratories and manage virtual companies.

In addition, new-generation learning management systems are customizing the curriculum in a way not possible in the traditional classroom. For example, using algorithms similar to those of commercial web sites that infer what an individual web-surfer is likely to buy, these systems infer the ways that a student learns best, based on his or her learning performance and interactions with course materials. These systems can offer remedial learning opportunities when a student is struggling. They can also make recommendations to both students and instructors about the types of content and the instructional strategies likely to work best. For example, a student who learns better from video than from text can be offered more of that medium.

Historically, higher education has avoided competitive disruption. One reason for this past immunity is the power of prestige in the higher education marketplace, where the quality of the product is hard to measure. In the absence of comparable measures of what universities produce for their students, the well-respected institutions have a natural advantage. A related stabilizing force is the barrier to disruptive innovation created by the accreditation process, which in the past made conformance to tradition the price of entry to the industry.

Now, though, both accrediting bodies and state and federal governments are more focused on learning outcomes. With the steady improvement of low-cost online learning technology, the prospect of competitive disruption is real. Mere budget cutting will not be enough. For the vast majority of institutions, fundamental change is essential.

*When times are flush, we are apt to spread the wealth around like marmalade. [Now] we must make real, strategic decisions about academic direction, about programs for investment and disinvestment, and about how we meet today's enormous challenges.*⁴

—Gordon Gee, President of Ohio State University

THE DNA OF THE GREAT AMERICAN UNIVERSITY

The challenge that traditional universities face is not a lack of uniquely valuable assets. Even with the advent of fully online degree programs, there is a vital need for their physical campuses and communities of scholars. The problem is that these assets are being deployed in ways that most universities cannot afford. Understanding how that has happened and what to do about it requires understanding the history of one of the world's greatest universities, Harvard.

Between 1870 and the mid-1950s, Harvard established the main features of the American research university. (See Figure 3, next page.) Until the middle of the nineteenth century, Harvard was essentially a small liberal arts college with associated professional schools that students could enter without a college degree. Other than the traditional summer break and a collection of small academic departments, Harvard bore little resemblance to the modern research university. However, three towering presidents, Charles Eliot, Lawrence Lowell, and James Conant, changed that by engineering the DNA of today's Harvard University and setting the pattern that many American institutions have emulated.

Eliot, who was impressed by the discoveries of the great research universities of Europe, sought to emulate and improve upon their design. Beginning in the 1870s he created what became the Graduate School of Arts and Sciences; it undertook the granting of Ph.D. degrees, and its faculty also took responsibility for Harvard College. Eliot made a bachelor's degree prerequisite to entry into both the graduate school and the professional schools. In effect, he placed a European-style university atop the English-style college that Harvard's founders created in 1636.

In addition to placing graduate schools atop the College, Eliot broadened Harvard's classical, lock-step curriculum by creating what he called the "elective system," which allowed students to choose from a wide range of courses that grew increasingly numerous and specialized with time. Of the breadth of Harvard's disciplines, Eliot said, "We would have them all, and at their best."⁵ He was also a champion of faculty freedom, creating professional tenure and granting autonomy in curriculum development, instruction, and research. He paid for the cost of the expanding course catalogue and research portfolio largely through success in fundraising, increasing tuition only once in his forty-year term. In the spirit of laissez faire, though not without remonstrance, Eliot also stood by as Harvard's alumni built the nation's largest football stadium (30,000 seats) and paid the team's new head coach almost as much as Eliot made after four decades at Harvard's helm.

*It is very improbable that a game which involves violent personal collision between opposing players can ever be made a good intercollegiate game.*⁶

—Charles Eliot





Eliot's successor in 1909, Lawrence Lowell, sought to order and focus the intellectual free market that Eliot established; he intended to restore the discipline of the old "collegiate way of living." Lowell introduced curricular "concentrations" (or majors) for undergraduate students, as well as the grading curve and academic honors. Thanks to the philanthropy of a Standard Oil heir, he was able to build Harvard houses in which students lived and studied with tutors, as in the days of the early College.

The innovations of Eliot and Lowell made Harvard bigger, better, and more expensive. However, it was Lowell's successor in 1933, James Conant, who introduced the institutional features that would make the university unrivaled in its quality and cost. Before his selection as president, Conant was a world-class research chemist. Concerned that Harvard's scholarly reputation had slipped during Lowell's time and that many of the tutors hired for the houses held unjustified expectations of tenure, Conant raised the bar: tenure became tied to scholarly productivity and was granted on an "up-or-out" basis. From that time on, Harvard would hire and retain only "the best" scholars, those with potential to be world-leading in their fields.

As in scholarship, Conant also brought excellence, or what became known as "meritocracy," to student admissions. He advocated standardized testing to ensure that the rare privilege of a Harvard education was granted only to the intellectually most-deserving. New financial aid packages allowed Harvard to be "need-blind" in admissions.

While Conant was personally playing a leading role in the U.S. government's World War II efforts, facilitating among other things the Manhattan Project, he positioned Harvard to benefit from the rise of government-funded research, another dominant feature of the research university's DNA. He also oversaw the development of Harvard's first general education curriculum, an innovative attempt to improve on Lowell's distribution requirements.

Figure 3: The Traditional University Model

Traditional University Trait	Harvard Era
<ul style="list-style-type: none"> • Face-to-face instruction • Long summer recess 	 <p>Harvard College 1636-1707</p>
<ul style="list-style-type: none"> • Shared faculty for undergraduate and graduate programs • Comprehensive specialization, departmentalization, and faculty self-governance • Private fundraising • Competitive athletics 	 <p>Charles W. Eliot 1869-1909</p>
<ul style="list-style-type: none"> • Curricular distribution (GE) and concentration (majors) • Academic honors 	 <p>Lawrence Lowell 1909-1933</p>
<ul style="list-style-type: none"> • Up-or-out tenure, with faculty rank and salary distinctions • Admissions selectivity • Externally funded research 	 <p>James Conant 1933-1953</p>

The institutional traits established at Harvard were widely copied, especially after the 1970 creation of the Carnegie Classification System, which placed the elite research universities at the top of what became seen as a ladder to be climbed. Significantly, certain critical traits were not copied. One was the 1945 Ivy

Group Agreement, which prohibited athletic scholarships first in football and later in all competitive sports. Another was Harvard's house system, which ensured a supportive collegiate living experience even as the university increased its commitments to graduate programs and discovery research. A third trait that didn't transfer was Harvard College's discipline in limiting the number of courses required by its concentrations, or majors; that curricular self-restraint by the faculty facilitates a four-year graduation rate of nearly one-hundred percent. The consequence of the Harvard emulators' failure to replicate these elements of its DNA is that they pay more for intercollegiate athletics, provide less support for undergraduate students, and fail to graduate them as timely as Harvard does.

Even Harvard feels the weight of its expansive model. Having integrated vertically with the addition of research to teaching and of doctorate degrees to master's and bachelor's degrees, it continued to expand horizontally, adding subjects of study and corresponding faculty departments, programs, centers, and institutes. As each of these sub-units sought to become bigger and better, the cumulative growth of the institution and its budget was exponential. Conant's successor, Nathan Pusey, who presided over Harvard from 1953 to 1971, found the university all but impossible to manage and thus focused on funding it.

Thanks to Pusey's fundraising success, Harvard has sustained its model. However, its prodigious fundraising capability, which has produced a \$27 billion endowment even after the disastrous \$11 billion loss of 2008, is the most difficult trait of all to copy. Without financial might akin to Harvard's, institutions that adopt its model struggle to attract "the best" students and scholars and to achieve academic excellence in so many subjects, degree programs, and research initiatives.

THE NEED FOR ONLINE INNOVATION

The disruptive potential of online degree providers can be seen in their divergence from the Harvard model, as shown in Figure 4. In addition to what they save by eschewing the research activities, summer break, athletic teams, and campus infrastructure of the traditional university model, online degree providers enjoy significant advantages in the delivery of instruction. Online courses are developed centrally, allowing for a lower cost of development and more systematic focus on cognitive learning outcomes. Through innovative learning systems, remedial assistance can be provided online at reduced cost relative to face-to-face tutoring. Online learning is both low cost and of increasingly high quality. It is a classic disruptive innovation.

Figure 4: Online University Divergence from the Traditional Model

Traditional University Trait	Online University Copied?
• Face-to-face instruction	No
• Long summer recess	No
• Shared faculty for undergraduate and graduate programs	No
• Comprehensive specialization, departmentalization, and faculty self-governance	No
• Private fundraising	No
• Competitive athletics	No
• Curricular distribution (GE) and concentration (majors)	Focused offerings
• Academic honors	No
• Up-or-out tenure, with faculty rank and salary distinctions	No
• Admissions selectivity	No
• Externally funded research	No

Fortunately, traditional universities have natural advantages in delivering online learning. They have all of the assets needed to compete effectively in the online environment. In fact, the subject-matter expertise of their full-time faculty members and their existing campus computer systems give them a potential quality and cost advantage in delivering online education. Whereas new online degree providers must build their IT infrastructures from scratch and seek content experts on the open market, universities can add online offerings at low “marginal cost,” benefitting from spare computer capacity and faculty members who can temporarily trade teaching duties for course development.

The real advantage of the traditional universities, though, is their ability to blend online and face-to-face learning experiences. Hybrid instruction has proven more effective than either of the pure modes.⁷ Traditional universities can deliver the best of both — low-cost, convenient online learning blended with periodic classroom-based instruction. Moreover, the face-to-face learning at the traditional university goes beyond the classroom; it includes the important informal learning that comes when students interact with one another in social activities and with professors in research.

The combination of online technology and the campus experience has the potential to take innovative traditional universities to new levels, allowing them not only to respond to disruptive competition but also to serve many more students with their existing resources.⁸ The risk of disruption is real: institutions that fail to employ online learning technology will find it difficult to grow, and the less-prestigious ones will lose students as the cost disparity between the traditional model and the technology-enabled one increases. However, innovative institutions that marry the benefits of the on-campus experience and online learning are likely to find growth opportunities beyond what they had imagined.

THE NEED FOR FOCUS

It won't be enough, though, to simply adopt online learning as a fundamental trait of the university. In addition, most institutions need to focus their current activities to be less Harvard-like in their aspirations. Online learning will allow for low-cost growth, but to compete in the new higher education environment it is necessary to revisit the assumption that the traditional university can have, to paraphrase Eliot, “everything at its best.”

*[I]f there are no trade-offs [institutions] will never achieve a sustainable advantage. They will have to run faster and faster just to stay in place ... The essence of strategy is choosing what not to do.*⁹

—Michael Porter, Harvard Business School Professor

Many universities, for example, need to narrow the range of students they attempt to serve. An institution may see replacing undergraduate students with graduates as a profitable move both financially and in terms of the Carnegie climb. But graduate programs that are under-enrolled and lightly regarded hurt more than they help, on both counts. The cost of hiring better-credentialed faculty and giving them more time for research is hard to offset with increased graduate tuition and research funding, particularly when the range of graduate studies is broad. Many institutions need to reassess their commitment to graduate programs that compete for resources with their undergraduate offerings.

Breadth of subject matter is another dimension of university choice that requires focus. For-profit institutions derive a significant cost advantage over traditional universities by targeting majors and graduate degrees that engender marketable skills and are thus highly enrolled. Traditional universities have a quality advantage in the breadth of their offerings, especially when it comes to liberal education, something that every college graduate should have. However, universities must be selective in choosing which subjects to pursue in great depth. Course catalogues and department rosters should reflect the choice to emphasize some fields more than others.

Scholarship is another crucial dimension of choice, though in this case the focused university may actually broaden the definition implicit in Harvard's notion of "the best." Traditional discovery research is becoming more expensive, both because of the growing cost of laboratories and field studies and also because of competition from a growing body of international scholars pursuing the same prizes and publications. Largely overlooked is the opportunity suggested by Ernest Boyer in 1990 and encouraged by the new Carnegie Community Engagement Classification — to take seriously the scholarship of integration, application, and especially instruction.¹⁰

*[W]e must justly prize those faculty who are truly gifted, magical teachers ... We will never totally forsake recognition for publishing in the usual academic journals, but we must be brave and wise enough to appreciate and reward other forms of scholarship as well.*¹¹

—Gordon Gee

CHALLENGING CONVERSATIONS

In tackling these challenges of innovating and focusing, the university community must put questions of people ahead of questions of strategy. That may sound un-businesslike, but it is in fact a key conclusion reached by business researcher Jim Collins in the study that led to his best-selling book *Good to Great: Why Some Companies Make the Leap...and Others Don't*. Likening a business organization to a bus and its strategy to the destination of the bus, Collins says, "Leaders of companies that go from good to great start not with 'where' but with 'who.'"¹² According to his research, the most successful businesses make sure that they have the right people on the "bus" before they decide where the company is going. These must be people who are both capable and committed to "A-plus effort."

Traditional universities benefit from having invested heavily in getting the right people on the institutional bus. The tenure process assures intellectual capacity and work ethic, and the compensation level means that most professors have put the love of discovery, memory, and mentoring ahead of financial wealth. Though the organizational structures and systems of the university may promote defensive and even self-serving behavior, the typical university has a team of remarkable capability and commitment. Its potential for innovation is vast.

However, maintaining individual commitment while changing fundamental aspects of the university's DNA requires an equally high level of commitment from the institution. With tenured positions in many fields at low ebb, faculty members cannot be expected to vote themselves "off the bus." Innovation may require them to alter their activities, but no meaningful discussion of change can be undertaken without assurances that capable members of the community who commit to innovating can remain with it. That principle guided Charles Eliot, who implemented tenure at Harvard as he undertook the innovations that established the great American university. His innovations were premised on the guarantee that the bus was big enough for its current riders. He believed that was true because of the growing need for higher education, the large number of people who could not then access it, and innovations with the potential to make it more accessible — all conditions that hold today.

Successful conversations about tradeoffs also require new measures of success. The traditional university not only prefers bigger to smaller and more-focused, it defines "better" in terms that matter more to traditional scholars than to students or employers. Faculty members in particular need the assurance of supportive success measures before they take the risk of moving to a new seat on the institutional bus, such as by rerouting their scholarly efforts into questions of instruction or application. University presidents will need to worry less about the success measures valued by the producers of rankings, foundations, and elite bodies such as the Association of American Universities (another one of Charles Eliot's innovations).

*[B]y establishing new criteria for success, we are choosing not to participate in a race that has already been lost.*¹³

—Michael Crow, President of Arizona State University

ROOTED, SELF-AWARE INNOVATION

We're cautiously optimistic about the future of traditional institutions of higher education. The caution stems from Clayton's research, which shows how difficult it is for established organizations to respond to disruptive innovation of the kind occurring now. If traditional universities and colleges can change their DNA quickly enough to avoid serious disruption, they will have defied a huge amount of experience and data.

Our optimism, on the other hand, flows from personal experiences in higher education that can't be quantified but are powerfully felt. Universities — and especially university professors — have changed our lives for the better. If anyone can beat the odds against being disrupted, it is our remarkably capable and committed colleagues in higher education.

The online technology that threatens to disrupt the university also vastly expands the university's capacity. Eliot's view of technology, as expressed in his 1869 inaugural address, suggests that he would have jumped at the opportunity to use it:

The revolutions accomplished in other fields have a lesson for teachers ... In education, there is a great hungry multitude to be fed. [I]t is for this American generation to invent, or to accept from abroad, better tools than the old; to devise or transplant ... prompter and more comprehensive means than the prevailing, and to command more intelligent labor, in order to gather rapidly and surely the best fruit ... and have time for other harvests.¹⁴

At his inauguration Eliot also prophesied, "It will be generations before the best of American institutions of education get growth enough to bear pruning."¹⁵ Some five generations later, the time for pruning has come. Even the strongest universities will do well to re-focus their activities. Most university communities will need to go further, asking fundamental questions about what they can do well and abandoning much of what they have undertaken in a spirit of emulation. Those that continue to imperfectly imitate Harvard's strategy will find their costs increasing and their market share shrinking, whether they accept the metaphor of a higher education marketplace or not.

On the other hand, those university communities that commit to real innovation, to changing their DNA from the inside out, may find extraordinary rewards. The key is to understand and build upon past achievements while being forward-looking. Lawrence Lowell spoke of looking fifty years into the future as he led Harvard.¹⁶ The universities that survive today's disruptive challenges will be those that recognize and honor their strengths while innovating with optimism.

*Look to your roots, in order to reclaim your future.*¹⁷

—Ghanaian proverb, quoted by Mary Sue Coleman

Leaders of universities will do well to remember what Eliot, Lowell, and Conant knew. Harvard's strength doesn't derive merely from its world-leading reputation and endowment, or even from its extraordinarily gifted faculty. It certainly isn't a product of clinging to tradition. Harvard's most persistent tradition, according to Lowell, is the tradition of change.¹⁸

Harvard's greatest strength is its sense of unique identity and its gift for innovating in the service of that identity. Eliot, Lowell, and Conant always had a vision of making Harvard the world's best university. But their most important innovations, many of which have since become unquestioned higher education traditions, were situational — inspired adaptations that Harvard needed at the time. Conant's up-or-out tenure, for example, addressed both the goal of assembling the world's best scholars and the peculiar problem of the large cadre of relatively undistinguished faculty members Lowell hired to staff his new houses just as the Great Depression hit. Conant's innovation allowed Harvard to simultaneously raise the scholarship bar and right-size the university's workforce and operating budget. It was a practical course correction not unlike Eliot's creation of the elective system, which addressed the excessively rigid mid-nineteenth century classical curriculum. Lowell, in his turn, created the innovative system of distribution and concentration, an innovative enhancement to Eliot's elective system.

Harvard's great strength, which can be the strength of every university, is a pattern of innovation that is continuous and focused on the university's unique mission, without undue concern for either tradition or what other institutions are doing. Harvard steadily advances, heedless of any "ladder" or the crowd of would-be competitors. Harvard pragmatically climbs its own mountain. On a higher education landscape that needs institutions of many types, that is the one Harvard trait that all should emulate.



¹ Clark Kerr, *The Uses of the University, Fifth Edition* (Cambridge: Harvard University Press, 2001), 157-158.

² Mary Sue Coleman, "Look to Your Roots, to Discover Your Future" (speech, University of Michigan, Anne Arbor, MI, March 27, 2003), <http://www.umich.edu/pres/inauguration/address.html> (accessed January 1, 2011).

³ CT, MRI, and PET stand for computerized axial tomography, magnetic resonance imaging, and positron emission tomography, respectively.

⁴ E. Gordon Gee, "A Call for 'Intentional Upheaval,'" *Minding the Campus: Reforming Our Universities*, http://www.mindingthecampus.com/originals/2009/03/a_call_for_intentional_upheava.html (accessed January 1, 2011).

⁵ Samuel Eliot Morison, *Development of Harvard University, 1869-1929* (Cambridge: Harvard University Press, 1930), lix.

⁶ Andrew Schlesinger, *Veritas: Harvard College and the American Experience* (Chicago: Ivan R. Dee, 2005), 134.

⁷ U.S. Department of Education, Office of Planning, Evaluation and Policy Development, Policy and Program Studies Service, and Office of Educational Technology, "Evaluation of Evidence-Based Practices in Online Learning: A Meta-Analysis and Review of Online Learning Studies," U.S. Department of Education, <http://www2.ed.gov/rschstat/eval/tech/evidence-based-practices/finalreport.pdf> (accessed January 1, 2011).

⁸ For examples of institutions doing this, see Byron G. August, Adam Cota, Kartik Jayaram and Martha C. A. Laboisière, "Winning by Degrees: The Strategies of Highly Productive Higher-Education Institutions," McKinsey and Company, http://www.mckinsey.com/client-service/Social_Sector/our_practices/Education/Knowledge_Highlights/.../media/Reports/SSO/Winning_by_degrees_Report_12Nov2010b.ashx (accessed January 1, 2011).

⁹ Michael E. Porter, "What Is Strategy?" *Harvard Business Review* 74, no. 6 (October 1996): 61-78, http://web.ebscohost.com.adam2.byui.edu/ehost/detail?hid=14&sid=26b06bfa-92fc-46e7-88ab-81f422eed36%40session_mgr14&vid=4&bdata=JnNpdGU9ZWwhvc3QtGlbGZlZQ%3d%3d#db=buh&AN=9611187954

¹⁰ Ernest L. Boyer, *Scholarship Reconsidered: Priorities of the Professoriate* (Princeton: The Carnegie Foundation for the Advancement of Teaching, 1990), page nr., http://classifications.carnegiefoundation.org/descriptions/community_engagement.php?k_ey=1213 (accessed January 1, 2011).

¹¹ Gordon Gee, "A Call for 'Intentional Upheaval,'" *Minding The Campus Reforming Our Universities*, http://www.mindingthecampus.com/originals/2009/03/a_call_for_intentional_upheava.html (accessed January 1, 2011).

¹² Jim Collins, "Good to Great," Jim Collins, http://www.jimcollins.com/article_topics/articles/good-to-great.html (accessed January 1, 2011).

¹³ Michael Crow, "The New American University: Redefining Excellence, Access, and Impact in the American Public Research University" (speech, Sixteenth Annual European Access Network (EAN) Conference National University of Ireland, Galway, Ireland, June 19, 2007), http://president.asu.edu/sites/default/files/2007_0609eanConf.pdf (accessed January 1, 2011).

¹⁴ Samuel Eliot, Morison, *Development of Harvard University, 1869-1929* (Cambridge: Harvard University Press, 1930), 31, 33.

¹⁵ Samuel Eliot, Morison, *Development of Harvard University, 1869-1929* (Cambridge: Harvard University Press, 1930), 30.

¹⁶ Henry Aaron Yeomans, *Abbot Lawrence Lowell, 1856-1943* (Cambridge: Harvard University Press, 1948), 46.

¹⁷ Mary Sue Coleman, "Look to Your Roots, to Discover Your Future" (speech, University of Michigan, Anne Arbor, MI, March 27, 2003), <http://www.umich.edu/pres/inauguration/address.html> (accessed January 1, 2011).

¹⁸ Henry Aaron Yeomans, *Abbot Lawrence Lowell, 1856-1943* (Cambridge: Harvard University Press, 1948), 183.

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Christensen holds a BA with highest honors in economics from Brigham Young University (1975), and an MPhil in applied econometrics from Oxford University (1977), where he studied as a Rhodes Scholar. He received an MBA with high distinction from the Harvard Business School in 1979, graduating as a George F. Baker Scholar. He was awarded his DBA from HBS in 1992.

Christensen has served as a director on the boards of a number of public and private companies. He is currently a board member at Tata Consulting Services, Franklin Covey, W.R. Hambrecht, and Vanu Inc. Christensen also serves on Singapore's Research, Innovation, and Enterprise Council (RIEC), and has advised the executives of many of the world's major corporations. In 1982, Christensen was named a White House Fellow, and served through 1983 as assistant to U.S. Transportation Secretaries Drew Lewis and Elizabeth Dole.

Christensen is an experienced entrepreneur, having started three successful companies. He served as chairman and president of CPS Technologies, a firm he co-founded with several MIT professors in 1984. In 2000, Christensen founded Innosight, a consulting firm that uses his theories of innovation to help companies create new growth businesses. In 2007, he founded Rose Park Advisors, a firm that identifies and invests in disruptive companies. Christensen is also the founder of Innosight Institute, a nonprofit think tank whose mission is to apply his theories to vexing societal problems such as health care and education.

Christensen is the bestselling author of five books, including his seminal work *The Innovator's Dilemma* (1997), which received the Global Business Book Award for the best business book of the year; *The Innovator's Solution* (2003); and *Seeing What's Next* (2004). *Disrupting Class* (2008) looks at the root causes of why schools struggle and offers solutions, while *The Innovator's Prescription* (2009) examines how to fix our health care system. Four of his five books have received awards as the best books in their categories in the years of their publication.

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Eyring is the author of two books, *Mormon Scientist: The Life and Faith of Henry Eyring* (2008) and *Major Decisions: Taking Charge of Your College Education* (2010). He is also the co-author, with Clayton M. Christensen, of a forthcoming book titled *The Innovative University: Changing the DNA of Higher Education from the Inside Out*.

Eyring is married to the former Kelly Ann Child, and they are the parents of five children, three of whom have graduated from or are attending BYU–Idaho.



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Ten Trends for 2013

How Marketplace Conditions Will Influence Private Higher Education Enrollment—And How Colleges Can Respond

The Lawlor Group conducts extensive quantitative and qualitative research for independent college and university clients throughout the United States. Based on our recent findings, along with other primary and secondary research available to the general public, we've identified 10 trends in the higher education marketplace that we predict will have a significant impact on student recruitment and enrollment efforts during the coming year. We've also included several recommendations for how college enrollment and marketing administrators can respond to the market trends.

TREND ONE

Money Woes

Many families are experiencing a diminished ability to pay for a college education. Compared to pre-recession levels, median household income, home equity, and net worth are all down. Meanwhile, college tuition costs have continued to climb steadily, even after financial aid is factored in. The annual net price of tuition, fees, room, and board at a private nonprofit institution (\$23,840) now averages almost half of what the median household earns in a year.

TREND TWO

Penny Pinching

Even more families are reevaluating the price they are willing to pay for a college education. The cost of a college education is bumping up against the ceiling of what families will consider paying. Even students from upper-middle-income families are experiencing higher levels of student debt and factoring in the cost of post-graduate study and the ROI of majoring in certain fields.

TREND THREE

Public Perception

Media coverage and legislative attention are shaping public opinion about the value of a college degree. While an overwhelming majority of the public believes a college education is necessary to get ahead, a "value gap" has opened up in the polling because far fewer people believe going to college at any price will be worth the financial investment. Government funders, as well, are looking to make their appropriations contingent upon institutional performance measures.

TREND FOUR

ROI is King

Families are seeking evidence of successful results to justify their college investment. Higher education has become less an end in itself and increasingly a means to an end—primarily an economically viable career path. In calculating a college's value proposition, families factor in outcomes as well as cost and prestige. They expect proof of high graduation rates and graduate employment at acceptable salary levels.

Financial Quick Stats

- Real median household income for 2011 fell 1.5% to \$50,054, which was 8.1% lower than in 2007. (U.S. Census Bureau)
- The median net worth of middle-income families fell 28% from 2001 to 2010, to \$93,150, erasing two decades of gains. (Pew Research Center)
- Median home equity dropped 42.3% from \$95,300 in 2007 to \$55,000 in 2010. (Federal Reserve)
- 32% of Americans considered themselves to be in the lower or lower-middle class in 2012, up from 25% in 2008. (Pew Research Center)
- 66% of college seniors who graduated in 2011 had student loan debt, with an average of \$26,600 for those with loans, up 5% from the previous year. (Project on Student Debt)
- Upper-middle-income households (80th to 95th percentile) saw the biggest jump from 2007 to 2010 in the percentage with student loan debt, and their average amount of debt also soared. (Federal Reserve)
- The national two-year default rate on student loans rose to 9.1% for the FY2010 cohort (in 2007, it was 4.6% for those who entered repayment in 2005), and the three-year default rate was 13.4% for the FY2009 cohort. (U.S. Department of Education)
- On average, parents plan to pay for 57% of their children's college costs, but the typical family is currently on track to cover just 30%. (Fidelity)
- 69% of families eliminated colleges because of financial considerations at some point in their application process in 2012, up from 56% in 2009. (Sallie Mae)
- 63.9% of first-year students in 2011 agreed (21.5% agreed strongly) that the "current economic situation significantly affected my college choice." (CIRP)
- Half of all full-time students at four-year public and private nonprofit colleges and universities attend an institution with published tuition and fees of \$10,282 or less; only 16.7% attend an institution with tuition and fees of \$30,000 or more. (College Board)
- Published tuition and fees at private nonprofit institutions rose 3.9% for 2012-13, while institutional student aid budgets increased 6.2%. (National Association of Independent Colleges and Universities)
- The average amount that private nonprofit institutions discounted tuition for first-time, full-time undergraduates increased to 42.8% in 2011, up 5 percentage points from 2001. (National Association of College and University Business Officers)
- The yield rate at private nonprofit institutions dropped to 36.4% in 2011. (National Association for College Admission Counseling)
- In 2012, only 57% of adults believed a college education is a worthy investment, compared to 81% in 2008. (COUNTRY Financial)
- 80% of U.S. adults think the education students receive at many colleges is not worth what they pay for it, and 55% think the average debt load for college students who take out loans is too high. (TIME/Carnegie Corporation)
- The most common response of first-year students in 2011 when asked what reasons were very important for going to college was "to be able to get a better job," cited by 85.9%; "to get training for a specific career" was cited by 77.6%. (CIRP)
- "This school's graduates get good jobs" was cited by 54.6% of first-year students in 2011 as a reason for choosing their college, second only to "this college has a very good academic reputation" at 63.7%. (CIRP)

TREND FIVE

Different Demographics

The number of high school graduates is shrinking, but the proportion who are ethnically diverse is growing. The country's changing demographics, combined with a widening gap between the nation's rich and poor, is producing more first-generation students and students from socioeconomic backgrounds that not only make paying for college a challenge, but also leave them underprepared for college-level study.

TREND SIX

Older & Wiser

Non-traditional-age students still represent a largely untapped market. During the economic recession, more people age 25 and older returned to college, but that bump reached its peak in 2010. But non-traditional students are also more likely to drop out in their first year, so they seek convenient course scheduling, assistance in the financial aid process, tutoring and counseling services, and centers for veterans.

TREND SEVEN

Give It a Swirl

More students are attending multiple institutions in their pursuit of a degree. Transferring is increasingly becoming a cost-conscious part of students' long-term plans to affordable degree completion. A plurality of students who transfer from a private nonprofit institution attend two-year public institutions, with four-year public institutions being their second most popular destination.

Demographic Quick Stats

- From 2012 to 2019, the number of white college students is expected to increase 5%, while the number of Hispanic students will increase 27%. (College Board)
- In 2011 the number of 18- to 24-year-old Hispanics enrolled in college reached a record 16.5% share of all college enrollments. (Pew Hispanic Center)
- Compared to a decade ago, 31% more international students were studying at U.S. colleges and universities in 2011-12. (Institute of International Education)
- In 2011, 29% of non-veteran Americans age 25 and older had attained a bachelor's degree, while only 26% of veterans had. (U.S. Census Bureau)
- 45% of women ages 18 to 24 were enrolled in college or graduate programs as of October 2011, compared with just 39% of men in the same age group. (U.S. Census Bureau)
- The number of high school graduates peaked in 2008-09 and will decline through 2014-15, still not recovering its peak through 2020-21. (National Center for Education Statistics)
- College enrollment in Fall 2012 dropped by 1.8% from a year earlier, while enrollment at private nonprofit institutions increased 0.5%. (National Student Clearinghouse Research Center)
- Between 2013 and 2020, college enrollment is projected to increase 5% for 18- to 24-year-olds, 16% for 25- to 34-year-olds, and 17% for students 35 years old and older. (National Center for Education Statistics)
- Students age 25 and older made up 38% of the enrollment at private nonprofit institutions in Fall 2012. (National Student Clearinghouse Research Center)
- 56% of certificate degrees are earned by students age 23 and older.

(Georgetown University Center on Education and the Workforce)

- 23.6% of traditional-age students who began in 2006 and completed a degree did so at an institution other than the one where they started. (National Student Clearinghouse Research Center)
- 33% of all college students who began in 2006 transferred at least once within five years. (National Student Clearinghouse Research Center)
- 14.4% of the first-time students who started at a four-year institution in the fall of 2005 subsequently "reverse transferred," enrolling at a two-year institution outside of summer months. (National Student Clearinghouse Research Center)
- Four-year private nonprofit institutions receive only 13.6% of all incoming transfer students. (National Student Clearinghouse Research Center)

TREND EIGHT

Engaged Consumers

Growth in mobile online access and social media use is allowing people to instantly verify any claims a college makes. "Generation C" (the C is for "connected") is not bound by age brackets, but rather by shared behavior: their use of real-time social, local, mobile (SoLoMo) technology. They find it increasingly easy to investigate institutions' reputations via online networks, word-of-mouth recommendations, and other communication channels beyond the colleges' direct control.

TREND NINE

Wealth of Stealth

The widespread use of data analytics in other industries is leading students to expect

personalized and relevant communications. The digital information that can be captured about even those students who do not explicitly make their interest known to a college has enhanced targeting capabilities. And since private nonprofit institutions are known for providing personal attention, families do note any disconnects in that brand attribute during the admissions process.

TREND TEN

MOOC Mania

The proliferation of massive open online courses (MOOCs) is drawing attention to how college credits are awarded. All types of online and hybrid courses are thriving as the marketplace seeks cost-effective access and convenient delivery, and the American Council on Education is determining whether some MOOCs are similar enough to traditional college courses that they should be eligible for transfer credit.

Technology Quick Stats

- 17% of students enrolled in a fully online degree program did not know what type of institution they were attending. Among those who did, 44% were enrolled at a public, 35% at a for-profit, and 21% at a private nonprofit institution. (Learning House)
- Among Americans with mobile phones, more have smartphones (56%) than feature phones (44%). (Nielsen)
- An estimated 43% of 11- to 17-year-olds will own and use a smartphone in 2013. (eMarketer)
- 51.1% of smartphone and tablet users now check their email using only a mobile device. (Prosper Mobile Insights)

- Among all parents who have a child between the ages of 12-17, 66% now say they use a social networking site, up from 58% in 2011. (Pew Internet)
- 30% of Internet users age 14-17 record and upload video to the Web, compared to 14% of adult Internet users. (Pew Internet)
- 63% of all teens say they exchange text messages every day with people in their lives, while only 39% call by cell phone and 6% email. (Pew Internet)
- 52% of prospective college students say the Web plays an “extremely important” or “significant” role in their college search. (Noel-Levitz)
- 72% of rising high school seniors in 2012 researched their prospective colleges on a social media site. (Inigral)
- 92% of consumers trust recommendations from friends and family above all other forms of advertising, closely followed by online consumer reviews at 70%. (Nielsen)



Opportunities to Respond

These 10 trends have created a marketplace situation where higher education administrators must think differently and evolve in a manner that responds to the needs of individuals, families, and our society. Here are a few recommendations for doing so.

Make Data-Based Decisions

Increase your use of metrics, measurements, and data analytics so you can track key performance indicators and other data. Employ this research to make informed decisions and take calculated risks.

Change the Balance Sheet

With the tuition price ceiling reached, institutions will need to generate funds from other sources, including contribution revenues (fundraising) and ancillary operations. Expense management is also essential, perhaps via collaboration with other institutions.

Translate the Liberal Arts

Communicate the worth of the type of experience that is most common at independent colleges and universities to the many families (especially those of first-generation students)—and sometimes the high school counselors advising them—who have no prior context for understanding the value of a liberal arts education.

Be Distinctive

Design and position your programs to stand out against those of your competitors. Otherwise, you will be perceived as offering a commodity, in which case (as Philip Kotler famously put it) “price is everything and the low-cost producer is the only winner.”

Provide Proof

Ensure that your institution’s entire educational experience is relevant to what the marketplace is seeking, then offer evidence to support its relevance. Demonstrate successful post-graduate outcomes that point to positive return on investment, as well.

Develop a Content Strategy

Aim for a “create once, publish everywhere” (COPE) model in which content is independent of presentation, so that it can adapt fluidly to multiple platforms and channels. Consistent, cohesive, compelling, and shareable content lets you engage in “inbound marketing” that pulls in an audience.

Engage Audiences of Your Audience

Connect with groups of influencers who already have familiarity with and favorability toward your institution—such as alumni, parents, and friends. These satisfied brand evangelists, especially if they are active in online social networks, can share your messages with their own audiences.

Be “Edupreneurial”

Times of change can also present ideal opportunities for innovative thinking. Those who can abandon “we’ve always done it this way” thinking will be able to seize opportunities for creative solutions.

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“The formula for businesses trying to compete in today’s economy is simple:
hire employees with the mental agility, leadership, and passion to navigate constant change—in other words, hire those who are liberally educated.”

— A.G. LAFLEY
HAMILTON COLLEGE GRADUATE,
RETIRED CHAIRMAN OF PROCTER & GAMBLE



Translating the Liberal Arts

The new normal of our nation’s economic climate has brought about the rise of the prudent consumer who is frugal, cautious, and seeks proof of value before making significant investments—including paying for a college education. With the national unemployment rate hovering at its highest level in recent memory, prospective students want to be assured that they’ll gain the career skills they need to land a well-paying job upon graduation. Employers do indeed value the skills that a liberal arts education provides, but too few families in the higher education marketplace seem to understand the value of the liberal arts.

WHAT FAMILIES THINK

- 47% of Americans say the main purpose of college should be to acquire specific skills and knowledge that can be used in the workplace, while 39% say it should be to help an individual grow personally and intellectually. (Pew Research Center)
- The most common response of first-year students in 2010 when asked what reasons were very important for going to college was “to be able to get a better job,” cited by 84.7%; “to get training for a specific career” was cited by 77.6%. (CIRP)
- “This school’s graduates get good jobs” was cited by 53.3% of first-year students in 2010 as a reason for choosing their college, second only to “this college has a very good academic reputation” at 62%. (CIRP)

(79%), complex problem solving and analysis (75%), ethical decision-making (75%), teamwork skills (71%), innovation and creativity (70%), and concepts and developments in science and technology (70%). (AACU)

WHAT ALUMNI EXPERIENCE

- 76% of liberal arts college graduates rated their college experience highly for preparing them for their first job, compared to 66% who attended public flagship universities. (Annapolis Group)
- 60% of liberal arts college graduates said they felt “better prepared for life after college than students who attended other colleges,” while only 34% of graduates who attended public flagship universities said so. (Annapolis Group)
- Of people who majored in humanities and liberal arts, 15% work in education services, 11% in professional services, 10% in financial services, 9% in retail trade, and 9% in health services. (Georgetown University Center on Education and the Workforce)

WHAT EMPLOYERS WANT

- 55% of hiring decision-makers believe most students would be better served by a broad-based education that helps them choose their best career path, while 45% prefer an education that specifically prepares them for the workplace. (ACICS)
- 59% of executives think that graduates who want to pursue advancement and long-term career success at their organizations need both a broad range of skills and knowledge that apply to a range of fields and positions and in-depth knowledge and skills that apply to a specific field or position. (AACU)
- The areas that employers feel colleges need to focus on most include written and oral communication (89%), critical thinking and analytical reasoning (81%), the application of knowledge and skills in real-world settings

WHAT COLLEGES CAN DO

- Communicate via various marketing/brand touchpoints about the value of the liberal arts. Go beyond mastery of subject matter to focus on skills learned.
- Provide a better understanding of what graduates can do with liberal arts majors. Present evidence of post-graduation success and engage alumni in showcasing it.
- Develop an advising program and invest in programming within the career center so that both can cultivate a better understanding of the relevance and outcomes of a liberal arts education.

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Where Are They Now? Revisiting Breneman's Study of Liberal Arts Colleges

By Vicki L. Baker, Roger G. Baldwin, and Sumedha Makker

In 1990, David Breneman asked the provocative question, are we losing our liberal arts colleges? More than twenty years later, it is time to ask Breneman's question again: in 2012, what is the position of liberal arts colleges in the landscape of American higher education?

The liberal arts college, a distinctively American institution, has been a core element of the US higher education system since the colonial era. Historically, its defining attributes have included a curriculum based primarily in arts and science fields; small classes and close student-faculty relationships; full-time study and student residence on campus; and little emphasis on vocational preparation or study in professional fields. At its best, the liberal arts college has provided a distinct and highly valued model of undergraduate education. Pascarella and Terenzini (1991, 596), for example, noted that the "supportive social-psychological context" that promotes institutional impact on students is characteristic of many liberal arts colleges. These attributes include "a strong emphasis on teaching and student development, a common valuing of the life of the mind, small size, a shared intellectual experience, high academic expectations, and frequent interactions inside and outside the classroom between students and faculty" (Pascarella et al. 2005, 12).

Other researchers have identified valuable attributes of liberal arts colleges. Astin (2000) reported that liberal arts college students, as compared to peers in other types of colleges and universities, reported higher satisfaction with teaching and general education programs. Hu and Kuh (2002) learned that students in liberal arts colleges tend to be more engaged in their college experience, as compared to their counterparts in research universities and larger, more comprehensive colleges. Collectively, this research evidence supports the belief that liberal arts colleges provide a distinctive and highly beneficial form of undergraduate education.

However, Breneman's (1990) research showed that many liberal arts colleges were gradually evolving into career-oriented "professional colleges" where a large percentage of students major in professional fields (e.g., business, nursing, allied health) rather than arts and science disciplines (e.g., English, history, chemistry). The consequences of this academic evolution for the mission and intellectual coherence of the liberal arts college were among Breneman's chief concerns.









The challenges for liberal arts colleges

Many powerful threats to the liberal arts college have been active in recent years. These include the cost of residential education; competition from new education providers, including online and for-profit educational programs; and a job market in transition to a knowledge and service based economy. Another threat is need

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in transition to a knowledge and service-based economy. Another threat is posed by vocationally oriented students who are more concerned about being well off financially than with such common liberal arts goals as developing a meaningful philosophy of life or helping promote tolerance and understanding among diverse groups (Liu, Sharkness, and Pryor 2008). Many of these challenges are at work throughout higher education, and responding effectively to them is a concern across all types of colleges and universities. However, Breneman's (1990) research indicated that liberal arts colleges may be disproportionately affected by the changing educational environment, and indeed that the very existence of this educational model may be at stake.

The diversity of US higher education is widely regarded as one of its strengths. At the same time, the hierarchy of institutional prestige and the dominance of the research university model plus growing competitive pressures push higher education institutions to emulate the practices of more prestigious and more vocationally oriented institutions. If liberal arts colleges move more closely to the career-focused mission of comprehensive universities and community colleges or closer to the research mission of elite universities, then the system may lose an important educational option that historically has served many students and the larger society very well. As a consequence, US higher education may become less flexible and less able to meet the educational needs of an increasingly pluralistic society.

Many liberal arts colleges (e.g., Antioch, Reed, Colorado, St. John's) have been sources of innovation in undergraduate education. Due to their small size, emphasis on undergraduate education, and private control, they have been free to experiment with alternative curricula and pedagogies, unencumbered by the influence of powerful practitioner groups or the fixed requirements of professional licensure. If the liberal arts college as an educational alternative dies out or morphs into another type of higher education institution, an influential "test kitchen" for innovation in undergraduate education will disappear or, perhaps, become too peripheral to play a leadership role.

In recent years, many liberal arts colleges have worked to update their educational strategies in order to remain competitive in an aggressive market for new students. While continuing to value the traditional goals of a liberal arts education, such as "breadth of awareness and appreciation, clarity and precision of thought and communication, critical analysis, honing of moral and ethical sensibilities" (Shoenberg 2009, 56), many liberal arts colleges have experimented with ways to adapt their educational model and to connect it more directly with the world beyond campus and with career opportunities. Freeland (2009) described a challenge to the version of liberal education that is based predominantly in arts and sciences fields, which has been the defining version for many educators and college students since the early years of the twentieth century. More recently, many liberal arts colleges have chosen to supplement traditional classroom learning strategies and exclusively arts and sciences-based curricula with more vocationally oriented fields and associated experiential learning opportunities. Examples of these activities include off-campus work placements related to students' career interests, service learning, undergraduate research, and study abroad aimed to broaden the educational experience (Freeland 2009) and connect it more explicitly to life beyond campus.

Our review of relevant literature has revealed a historical trend toward more professional education and less study of traditional liberal arts fields throughout American higher education. Delucchi (1997, 414) reported that "the curricular trend in higher education since about 1970 has been toward studies related to work... Enrollment concerns in recent years have compelled many liberal arts colleges to abandon or sharply scale back their arts and sciences curriculum in order to accommodate student preoccupation with the immediate job market." As Breneman (1990) documented, many traditional liberal arts colleges have added programs in professional fields in order to attract vocationally oriented students. Delucchi argued that many of these colleges may have passed the tipping point at

which they relinquish their liberal arts college roots and become a different type of institution. While these transformed colleges may work to maintain the “liberal arts” college myth, Delucchi contends, “the retention of a liberal arts claim in the academic mission statement of these colleges becomes inconsistent with their professional curriculum” (1997, 414–15). Consistent with the findings of Brint et al. (2005) and Morpew and Hartley (2006), many colleges may seek to maintain legitimacy with key constituents by emphasizing traditional liberal arts education in their mission statements and some curricular offerings. In reality, however, they may gradually be altering their curricular emphasis and institutional purpose.

In a time of transition, it is important to determine whether liberal arts institutions have adapted their academic programs and pedagogies while preserving their core educational mission. Alternatively, are they becoming a different type of higher education institution altogether? Are we witnessing the gradual demise of the liberal arts college? Or, are we merely seeing a normal evolutionary response that may lead to new or perhaps alternative (e.g., hybrid) models of a liberal arts college education?

Are we losing our liberal arts colleges? (2.0)

In order to understand the current state of the liberal arts college and the role it now plays in American higher education, we replicated Breneman’s 1990 study. We employed Breneman’s methodology for classifying liberal arts colleges. We included Liberal Arts I (now Baccalaureate Arts and Sciences, as defined by the Carnegie Foundation) and Liberal Arts II (now Baccalaureate Diverse Fields, as defined by Carnegie) institutions. Liberal Arts I institutions award more than half their undergraduate degrees in the arts and sciences. Liberal Arts II institutions are less selective and award less than half of their degrees in arts and sciences, but are too small to be categorized as comprehensive colleges as defined by the Carnegie classification system that Breneman used. When categorizing institutions as Liberal Arts I institutions, we removed any liberal arts college that was a mini-university or a “liberal arts plus,” as described by Breneman (1990). These institutions offer an array of graduate programs, sometimes including law and even doctoral programs. When classifying Liberal Arts II institutions, we used Breneman’s 60 percent rule, meaning that any institution that awarded 60 percent or more of its degrees in professional fields was removed from the list of liberal arts colleges entirely.

We used data from the Integrated Post-Secondary Educational Survey to calculate the percentage of professional degrees awarded. We used Breneman’s (1990) published results as a baseline to assess changes among liberal arts colleges over the past twenty years. We collected figures from the 2008–9 academic years for comparison with Breneman’s data. For each of the 212 institutions Breneman classified as liberal arts colleges, we collected data on degrees awarded—including first major, total degrees by category (bachelor’s, master’s, and doctoral), and total degrees by discipline—in order to complete an analysis of professional degrees awarded versus degrees awarded in traditional liberal arts disciplines for each of the academic years noted above. Fields considered “traditional liberal arts” include history, psychology, the sciences (natural and social), foreign languages, religion, the arts, and English. Professional fields include business/management, communications, education, engineering, nursing, and computer sciences.

Based on our analysis, 130 institutions remain as “true liberal arts colleges” out of the 212 Breneman identified in 1990. Of those 130 remaining liberal arts colleges, ninety-one (70 percent) can be classified as Liberal Arts I, thirty-nine (30 percent) as Liberal Arts II. Nine institutions were originally Liberal Arts I, but are now classified as Liberal Arts II based on either the 50 percent rule (awarded more than 50 percent, but less than 60 percent, of their degrees in professional fields) or the percentage of graduate degrees awarded.

What is the current status of the liberal arts college?

Our study focused on two primary questions: Have liberal arts colleges continued the trend away from their historical emphasis on arts and science disciplines? Are liberal arts colleges disappearing from the higher education landscape, or are they redefining what it means to be a liberal arts college in the twenty-first century? Our findings enabled us to answer the first question quite definitively. However, the answer to the second key question is less certain.

Based on the classification criteria that Breneman described over twenty years ago, the answer to the first question is yes. As stated previously, Breneman (1990, 1994) found that 212 institutions met the criteria for classification as true liberal arts colleges. Our current findings show that only 130 institutions meet Breneman's classification criteria. Although many one-time liberal arts colleges cling to that historical identity in their mission statements and promotional literature, our findings confirm a continuing drift away from the traditional arts and sciences-based model of a liberal arts college education.

The answer to the second question is less clear. Our research revealed that, while many colleges still meet Breneman's classification criteria, many others are no longer categorized as liberal arts colleges. Moreover, within the latter group of institutions, we saw three patterns that indicate continuing evolution. As expected, we saw a number of institutions increase the number of degrees awarded in professional fields. We also saw a smaller number of institutions experience no change in the percentage of professional degrees awarded. However, our research also revealed that, for a subset of institutions, the percentage of professional degrees awarded actually decreased, which was unexpected.

Of the eighty-two institutions that are no longer classified as liberal arts colleges today, we saw some noteworthy trends. We identified a handful of institutions that were subsumed by other, larger institutions. Hawaii Loa College is now part of Hawaii Pacific University, for example, and Barat College is now part of DePaul University. This type of change was largely due to fiscal challenges and the threat of closure. We also saw thirty-six institutions change their mission dramatically, a phenomenon referred to as mission creep or upward drift, which is defined as "the tendency of institutions to introduce higher-level programs" (Aldersley 1995, 51). For example, Goddard College in Vermont and Mary Baldwin College in Virginia are now classified as Master's Universities. While the reasons for these changes are not easily identified (e.g., via institutional websites), some former liberal arts colleges obviously consider it desirable to move toward the model of a more comprehensive institution offering a broader range of academic programs.

Research on curricular changes among liberal arts colleges has revealed "a significant increase in [curricular] heterogeneity" (Kraatz and Zajac 1996, 83) resulting in adjustments that compete with the "traditional" mission of the liberal arts college. Our research confirms that these changes are still occurring. The challenging conditions that are buffeting liberal arts colleges are leading to varied responses, depending on each institution's context and resource base (Kraatz and Zajac 2001). Although we documented a strong general trend toward more professional program offerings, there is also evidence that colleges are developing ad hoc responses consistent with their unique circumstances.

Many liberal arts institutions are gradually transforming their mission and programs but continue to define themselves as liberal arts colleges. They do this in spite of the fact that the liberal arts label, as Morphew and Hartley (2006) found, is less precise and meaningful than it once was. Given our research findings and the questions concerning the status of liberal arts colleges that remain unanswered, we hypothesize that there may no longer be one dominant model of liberal arts college education. Instead, we may be seeing the emergence of multiple ways to achieve a liberal arts college education that are driven by a variety of factors, both external and internal to this sector of higher education. As this evolution continues, an obscured liberal arts college identity may become problematic for prospective students, recruiters, and educators.

Conclusion

The question of the current condition and future prospects of the liberal arts college is complex and engenders vigorous debate among stakeholders who represent different perspectives. Writing in an issue of *Daedalus* devoted exclusively to the liberal arts college, Neely (1999) painted a worrisome scenario according to which second-tier liberal arts colleges become more like small comprehensive colleges and universities as they continue to add vocational programs. In contrast, he envisioned the well-endowed elite liberal arts colleges as potentially becoming an educational anachronism, centers of economic privilege too few in number and too isolated to influence higher education in general. Neely's picture may be the worst-case scenario, but nonetheless it describes a phenomenon that is well underway. On the other hand, Spellman argues that liberal arts colleges have always adapted to the demands of their time and continue to do so today. In his view, the essence of the liberal arts college "is about small class size, close faculty-student interaction, an innovative and interdisciplinary common core in the arts and sciences, undergraduate research experiences, senior capstone projects, service learning and community engagement, and a rich and diverse co-curricular life" (2009, 1). Spellman, who has little concern about the growth of professional programs at liberal arts colleges, may be describing a new paradigm of liberal arts college education that is broader and more flexible than the old standard.

Throughout the history of American higher education, liberal arts colleges have played an influential role. Breneman's research alerted the higher education community to a major transformation that is underway in the liberal arts college sector. For quite some time, a competitive market, students' growing vocational orientation, and precarious finances have been eroding the clear purpose of liberal arts colleges (Neely 1999). Some liberal arts colleges have transformed themselves into "research colleges" in order to attract students and faculty who value the mission of the research university. Other colleges have become "professional colleges," implementing more academic programs in professional fields in order to compete for students who see higher education primarily as a path to a career and financial success. Some appear to have integrated liberal and professional education intentionally and crafted a new model of liberal arts college education. As this process has unfolded, the focused mission of the liberal arts college has expanded and become more diffuse, which has led to less consensus on what a liberal arts college is or what type of education it delivers.

The trend Breneman first pointed out more than twenty years ago is continuing. Some liberal arts colleges are disappearing, while others are changing their curricular focus and approach to undergraduate education. An increasingly smaller number of these institutions have been able to maintain a dominant arts and sciences emphasis in their curricula. Liberal arts colleges have played an important role in US higher education in spite of their small size and the percentage of students they enroll. The influence of this sector may be diminishing, however, as their numbers decrease and their educational focus becomes less clear.

American higher education will be diminished if the number of liberal arts colleges continues to decline. We urge academic leaders, foundations officials, and public policy makers to take note of the trend David Breneman brought to our attention two decades ago. We encourage these leaders to take steps to renew and reinvigorate these valuable institutions before liberal arts colleges disappear from the higher education landscape or shrink to the status of a minor educational enclave that serves only the academic and socioeconomic elite.

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SPECIAL COMMENT

More US Colleges Face Stagnating Enrollment and Tuition Revenue, According to Moody's Survey

Smaller, Highly Tuition-Dependent Colleges Have Greatest Need for New Revenue Strategies

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Weakened pricing power and enrollment pressure are impeding top line revenue growth for an increasing number of US colleges and universities, according to our fourth annual tuition survey. The cumulative effects of years of depressed family income and net worth, as well as uncertain job prospects for many recent graduates, are combining to soften student market demand at current tuition prices. In addition to these economic challenges, tougher governmental scrutiny of higher education costs and disclosure practices is adding regulatory and political pressure that hinders tuition and revenue from rising at past rates. Federal budget negotiations may result in further pressure on colleges if student aid and loan programs are curtailed to any degree, as a rising share of students are dependent on these funding sources.

For fiscal year (FY) 2013, 18% of private university and 15% of public university respondents project a decline in net tuition revenue. A much larger share—a third of private and public universities—project that net tuition revenue will grow by less than 2% or decline for FY 2013, a level below the average rate of inflation. Such weak revenue growth often means a college cannot afford salary increases or new program investments unless it cuts spending on staff and existing programs. In FY 2008, before the global financial crisis, only 11% of privates and 9% of publics failed to grow net tuition revenue by at least 2%.

The survey also shows that nearly half of all universities are reporting lower enrollment for fall 2012, which for most universities means FY 2013 net tuition revenue will be lower than the previous year. Enrollment declines are concentrated in colleges with smaller enrollment size, high tuition dependence, weak selectivity/yield rates, and soft regional demographics. The survey indicates that market-leading, diversified colleges and universities rated Aaa or Aa continue to fare better than the majority of the sector and are still seeing healthy student demand.¹

¹ See Moody's reports [U.S. Higher Education Outlook Mixed in 2012](#), January 20, 2012, and [U.S. Higher Education 2012 Mid-Year Outlook Remains Mixed](#), July 26, 2012

In the face of persistent challenges to the higher education business model, management teams are exploring myriad ways to diversify and grow revenue as they more aggressively manage expenses. Universities are exploiting long standing strategies to grow enrollment and revenue, such as recruitment of higher-paying out-of-state students in the case of public universities or greater investment in student retention, as well as newer strategies, such as launching new online education classes or degrees.

The key findings from the survey results, which are discussed in more detail in the report, include:

- » **Approximately 18% of private universities and 15% of public universities project net tuition revenue declines for FY 2013**, similar to FY 2012 projections in last year's survey.
- » **A third of universities expect net tuition revenue growth below inflation for FY 2013.** Net tuition revenue growth fails to keep pace with inflation for a growing share of universities in FY 2013, with 33% of privates and 32% publics projecting net tuition revenue to grow less than 2% or decline, up from 11% and 9% of privates and publics in FY 2008.
- » **Smaller, tuition-dependent, lower-rated universities are most vulnerable to revenue and pricing pressures experienced across the sector.** Private universities project a 2.6% increase in net tuition per student from FY 2012 to FY 2013 and public universities project a similar 2.7% increase. This year's increase for publics is much lower than net tuition per student increases over the past five years, which averaged 6.7%, likely in response to families' sensitivity to rising higher education costs.
- » **Rated universities are moderately reliant on federal student loans as a share of operating revenue**, reporting a median of 20% of revenue funded by student loans in FY 2011. Some public and lower-rated private universities, as well as for-profit universities, report higher rates of dependence.
- » **Nearly half of university respondents report enrollment declines for fall 2012**, many weighed down by falling graduate enrollment. Despite these declines, overall median full-time equivalent (FTE) enrollment for the entire survey group in fall 2012 remained relatively flat compared to fall 2011. The survey results show there continues to be a flight to quality, with large, higher-rated universities generally experiencing enrollment growth.
- » **Online course enrollment is beginning to alter the business model of US higher education.** While Aaa and Aa-rated private universities are leading the publicized massive open online courses (MOOCs) movement², public universities and lower-rated private colleges report higher for-credit online class enrollment. Public universities have the highest for-credit online enrollment, with a median 22% of students taking at least one course. For-credit online courses still have low penetration at private universities, with only a median 2% of students taking at least one course online.

Moody's 2012 Survey Respondents

Moody's received 165 responses from not-for-profit private universities, 58% of our rated portfolio, and 127 responses from four-year public universities, 55% of our rated portfolio. The rating categories range from Aaa to B2 for the private university respondents, and Aaa to Baa1 for public university respondents. In several cases, borrowers did not supply responses to all of the questions and, in these instances, we excluded them from the analysis for those particular questions.

² See Moody's report [Shifting Ground: Technology Begins to Alter Centuries Old Business Model for Universities](#), September 11, 2012

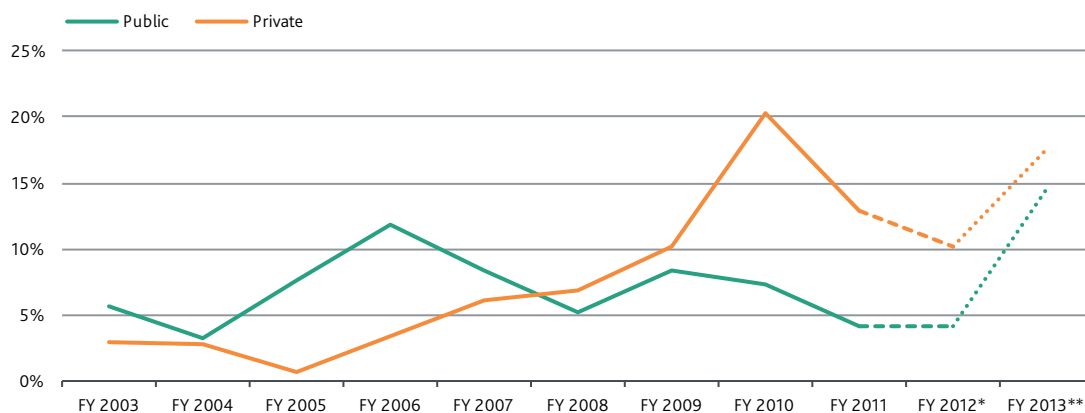
I. Heightened Pressure on Net Tuition Revenue Growth, Particularly for Small, Tuition- Dependent Colleges

Pressure on net tuition revenue continues to mount for both private and public universities as highlighted in Exhibit 1. While a majority of universities expect net tuition revenue growth in FY 2013, 18% of private university survey respondents project net tuition revenue declines in FY 2013, above the 10% of respondents who estimate an actual decline for FY 2012. For public universities, 15% project net tuition revenue declines for FY 2013, up significantly from 4% of survey respondents estimating an actual decline for FY 2012. Respondents in our prior three surveys tended to be pessimistic in their projections compared to actual results, so projections for FY 2013 may also be overly conservative.

EXHIBIT 1

More universities project lower net tuition revenues for FY 2013, with privates approaching FY 2010 peak

% Colleges/universities expecting lower Moody's calculated net tuition revenues



FY 2004 to FY 2011 data are actuals. *FY 2012 estimated; **FY 2013 projected

Source: Moody's MFRA (FY 2003 - FY 2011) and Moody's 2012 Tuition Survey (FY 2012 and FY 2013)

Lack of growth in family income and depressed household net worth continue to drive price sensitivity and demand for student financial aid, resulting in weaker pricing power for colleges. According to the Federal Reserve Bank, from 2007 to 2010, the median value of real (adjusted for inflation) family income before taxes fell 7.7%.³ Income growth in FY 2011 and FY 2012 is also estimated to remain below average. Employment prospects for college graduates appear to be improving slightly in recent months as the US unemployment rate continues to fall below 8%, but job growth remains well below the levels prior to the 2008-09 financial crisis.

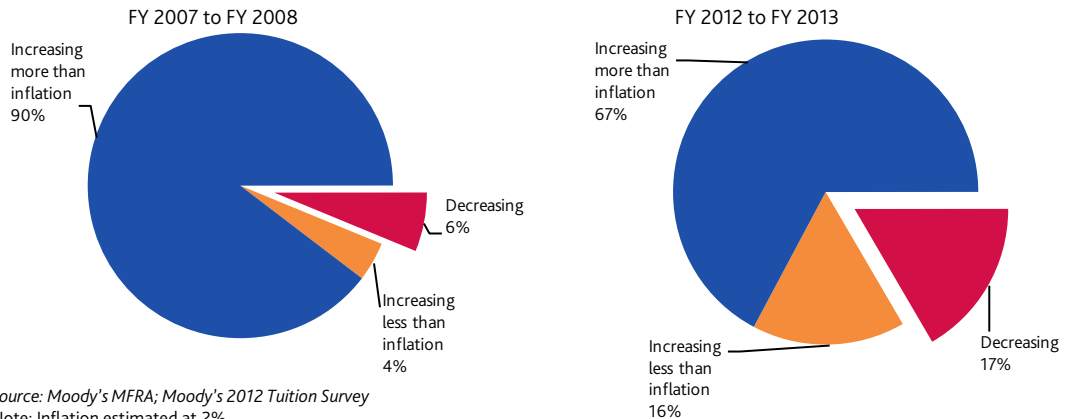
While a majority of universities continue to project net tuition revenue growth, a growing share is not able to keep pace with inflation, as illustrated in Exhibit 2. Before the 2008-09 financial crisis, approximately 90% of universities saw net tuition growth above the rate of inflation (assumed to be 2%), but in FY 2013, the percentage is projected to be significantly lower at 67% for private and public universities. As a result, net revenue growth cannot keep pace with historical rates of expenditure growth at many universities. This growing revenue challenge is forcing college leaders to pursue more aggressive cost cutting measures and introduce innovative revenue strategies, such as those discussed in section five of this publication.

³ Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances, Federal Reserve Bulletin, June 2012

EXHIBIT 2

Fewer universities with net tuition growth above inflation compared to before 2008-2009 financial crisis

% of public and private colleges/universities respondents showing a difference in net tuition revenue



Source: Moody's MFRA; Moody's 2012 Tuition Survey
 Note: Inflation estimated at 2%.

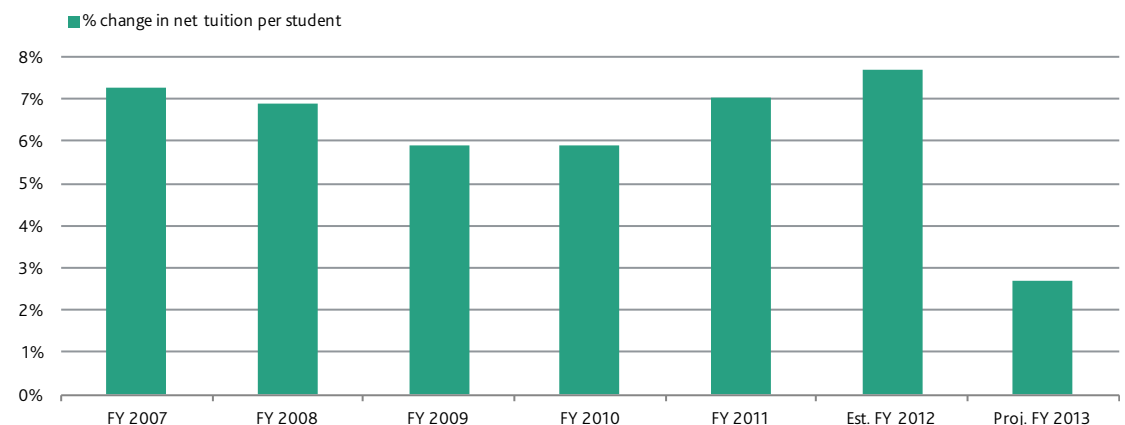
II. Moderate Net Tuition per Student Growth Projected for FY 2013; Publics Expect Slowest Increase in Net Tuition Per Student for at Least Past Decade

Due to their lower price point than privates, public universities were able to grow net tuition per student at a high average median rate of 6.7% over the past five years (FY 2007 to FY 2012) through sticker price increases, most often imposed to offset state funding cuts. Increased recruitment of out-of-state students also helped to grow net tuition per student since out-of-state students generally pay a rate two to three times in-state tuition. However, as Exhibit 3 shows, public universities project a lower 2.7% net tuition per student increase from FY 2012 to FY 2013, a rate similar to privates. This year's lower median increase is the result of reduced sticker price increases as publics become increasingly sensitive to families' ability to pay. Despite past years of strong net tuition per student growth, public universities continue to have more pricing power than privates. Publics remain relatively low cost compared to their private peers, with a median projected net tuition per student of \$8,107, especially when considering cost relative to the maximum Pell Grant of \$5,550.

EXHIBIT 3

Growth in sticker price and net tuition per student projected to decline sharply in FY 2013 for publics

Median % change in undergraduate sticker price, net tuition per student



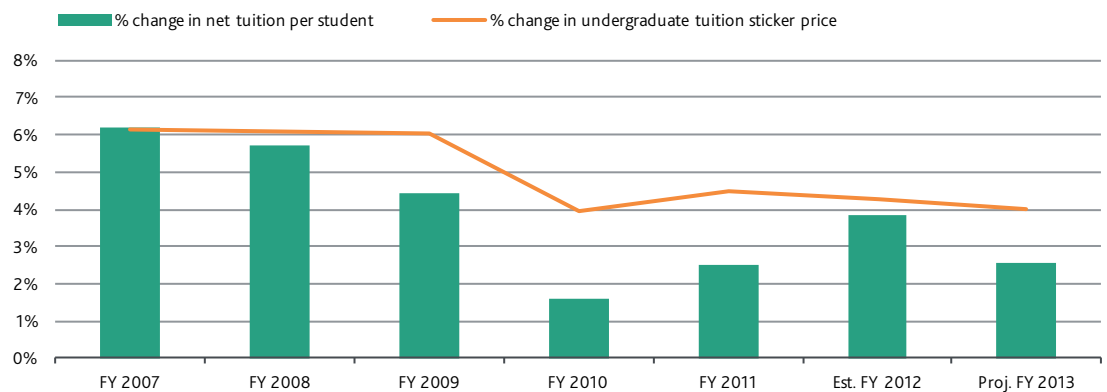
Source: Moody's MFRA, Moody's 2012 Tuition Survey

Private universities, which have a higher sticker price than publics, have experienced slowing net tuition per student growth since the 2008-2009 financial crisis due to lower sticker price increases and financial aid growth in response to declining family incomes. As Exhibit 4 illustrates, increased use of scholarships in FY 2013 means that net tuition per student growth is projected to lag sticker price growth. The projected median increase in net tuition per student from FY 2012 to FY 2013 is 2.6%, with a median projected net tuition per student of \$20,996 in FY 2013. The undergraduate sticker price increase from fall 2011 to fall 2012 was 4%, down from median increases of around 6% before the 2008-2009 financial crisis. Seventy percent of private universities project an increase in the tuition discount rate in FY 2013 compared to 58% before the 2008-2009 financial crisis. Even though more privates increased their discount rate for FY 2013, the median increase was nearly flat at 0.55%, reflecting private universities' struggle to balance the competing interests of remaining affordable with good fiscal stewardship and balanced operating performance.

EXHIBIT 4

Increased use of scholarships pressures net tuition per student growth at private universities

Median % change in undergraduate sticker price, net tuition per student



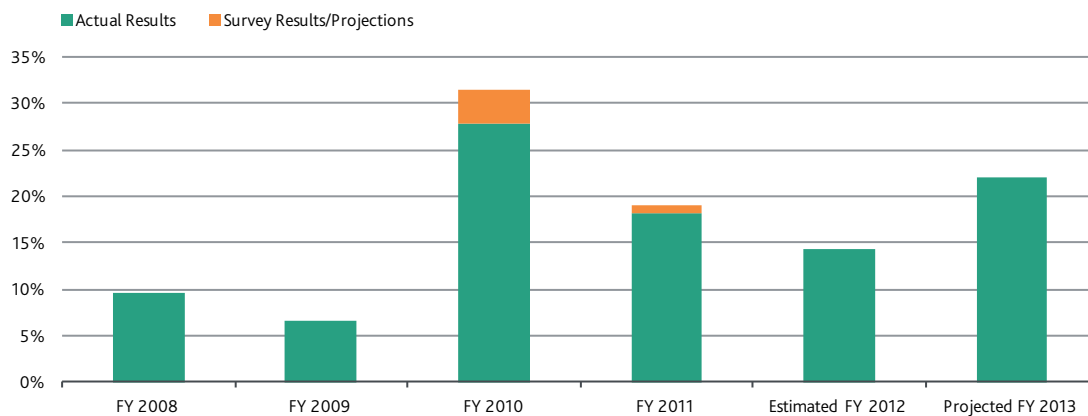
Source: Moody's MFRA, Moody's 2012 Tuition Survey

Tuition-dependent colleges with limited brand recognition (generally rated in the A category or below) are the most vulnerable to market pricing resistance. These universities and colleges typically have smaller enrollments, more regional student draw, thinner endowments supporting financial aid initiatives, and strong competition from lower cost options. Exhibit 5 shows that 22% of private universities rated below Aa project a decline in net tuition per student for FY 2013, up from an estimated 14% in FY 2012. While 31% of private universities rated Aa and above project a decrease in net tuition per student for FY 2013, these highly-rated privates are generally funding much of their discount with endowment earnings so they are generating revenue to cover the costs of their scholarships.

EXHIBIT 5

Continued weak pricing power expected for privates rated below Aa

% Private colleges/universities rated A1 or below experiencing decline in net tuition per student



Source: Moody's MFRA (FY 2008 - FY 2011), survey results/estimates/projections from Moody's 2010, 2011 and 2012 Tuition Surveys

III. Public and Lower-Rated Universities Have Highest Reliance on Federal Loans, and are Most Vulnerable to Potential Program Changes

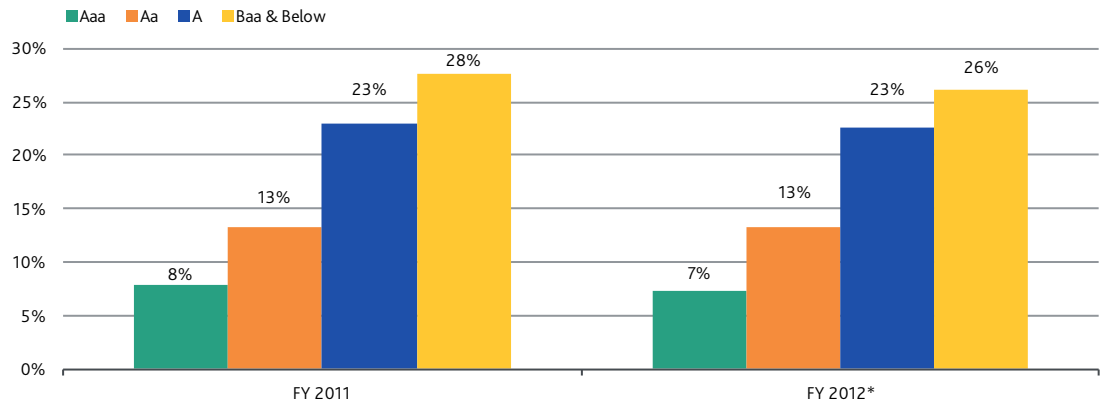
Federal student loans and Pell Grant revenue are an important source of funding for students to cover tuition and auxiliary expenses. Given the existing pressure on tuition revenue, a disruption to this funding could have a significant impact on enrollment levels and associated revenue from student charges, particularly for public universities, graduate programs, and lower-rated universities that are most reliant on federal financial aid. Public and lower-rated colleges and universities are the most reliant on federal loans and grants as a percentage of tuition and auxiliary revenue since these universities tend to serve a lower income population and, in the case of publics, a larger share of tuition can be covered by federal grants and loans because the sticker price is lower.

There are multiple federal loan programs available to undergraduate and graduate students. In our survey we requested that universities include all Title IV federal loans available to students and their families (including subsidized and unsubsidized Stafford loans, Direct Loans, Perkins Loans and PLUS/Grad PLUS loans). Each federal program has its own requirements for eligible expenses, but students generally spend these funds on tuition, room and board (either paid to the university or a private entity), books and, when feasible, other living expenses. Exhibits 6 and 7 show that private and public universities are fairly dependent on federal loans as a percent of gross tuition and auxiliaries, with the highest reliance at public and lower-rated private universities.

EXHIBIT 6

Lower-rated private universities are more dependent on federal loans

Median federal loans (undergraduate and graduate) as a % of gross tuition and auxiliary revenue



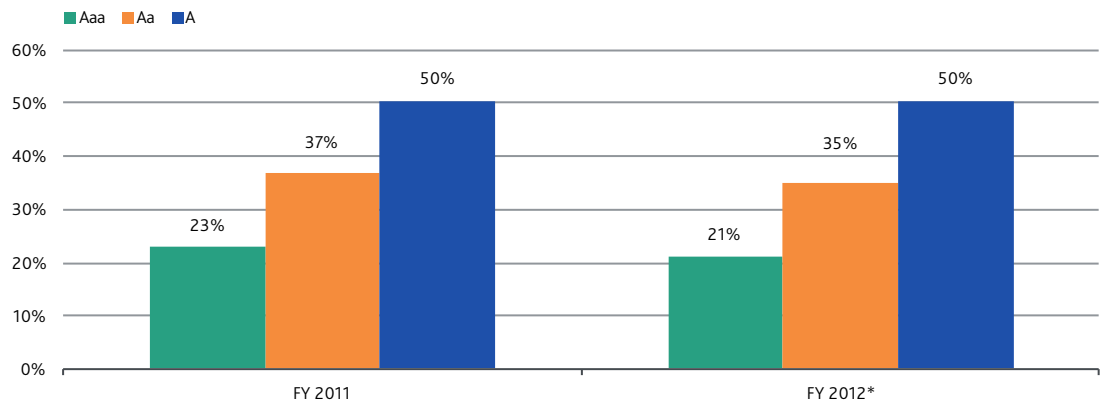
*FY 2012 auxiliary revenue based on audit when available or calculated using inflation-adjusted FY 2011 data.

Source: Moody's 2012 Tuition Survey; includes all Title IV federal student loans for which the student or parent is designated borrower.

EXHIBIT 7

Loans comprise half of gross tuition and auxiliaries at A-rated public universities

Median federal loans (undergraduate and graduate) as a % of gross tuition and auxiliary revenue



*FY 2012 auxiliary revenue based on audit when available or calculated using inflation-adjusted FY 2011 data.

Source: Moody's 2012 Tuition Survey; includes all Title IV federal student loans for which the student or parent is designated borrower.

Federal loans represent a smaller share of total operating revenue, with the highest dependence in FY 2011 at publics rated A, with median at 30%, and privates rated Baa and below, at 31%. Alternatively, federal loans as a share of total operating revenue are lowest at Aaa universities, at a median 3% for privates and 9% for publics in FY 2011.

Since private universities generally have a higher tuition cost than public universities, students at private universities graduate with a higher median average federal loan burden, as illustrated in Exhibit 8. According to the tuition survey, the median average undergraduate student loan debt for a graduating student in FY 2012 (July 2011 to June 2012) was \$22,689 at a public university and \$27,154 at a private university. As a comparison, the national average for undergraduate borrowers who graduated in 2011 published by the Institute for College Access and Success (TICAS) in October 2012 was \$26,600. The TICAS figure also includes private loans, which are a small share (7% in FY 2011 according to the College Board) of total student loans outstanding.⁴

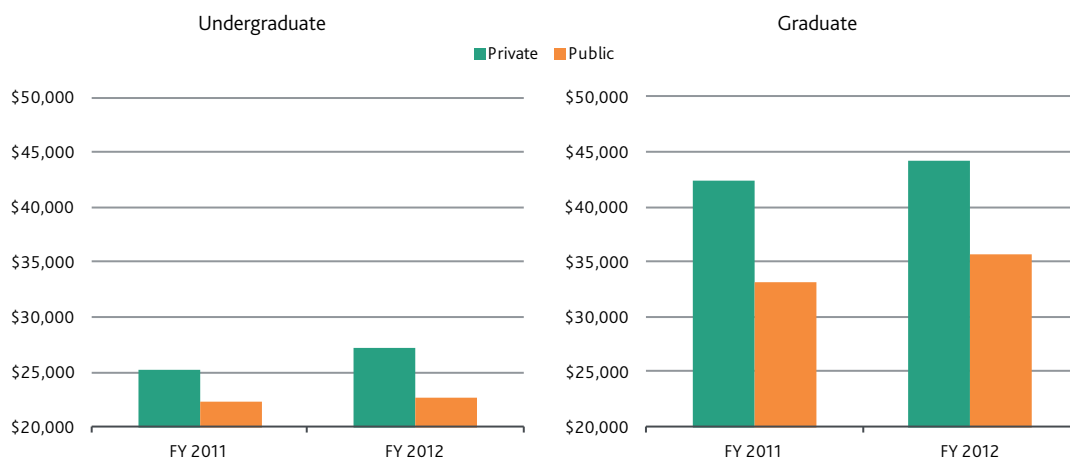
⁴ [Student Debt and the Class of 2011](#), The Institute on College Access and Success, October 2012.

Graduate students have a significantly higher loan burden at graduation than undergraduates because of the higher cost and low tuition discounting for graduate education. For FY 2012, the median average federal loan burden for a graduate student graduating from a private university was \$44,166 and \$35,695 at a public university. The high cost of graduate education and associated loan burden combined with the prolonged period of limited employment prospects are important drivers for recent enrollment declines at graduate programs – discussed in more detail in the next section on enrollment trends - as students question whether the payoff for a graduate education justifies the expense.

EXHIBIT 8

Student loan burden highest for students at private universities and graduate programs

Median average federal loan (\$) burden for undergraduate and graduate borrowers at graduation



Source: Moody's 2012 Tuition Survey; includes all Title IV federal student loans for which the student or parent is designated borrower.

Note: FY's represent students that graduated in that fiscal year.

Given their high reliance on student loans as a percentage of gross tuition and auxiliary revenues, some universities are exposed to risks associated with a potential change to these programs. These risks, which are primarily linked to government regulation, are now elevated due to political and public scrutiny of the cost of higher education and value of a degree combined with federal fiscal challenges. A future decline in federal loan funding could have a significant impact on enrollment levels and associated net tuition revenue, particularly for those most reliant on student loan revenue, such as low-rated institutions and universities with significant graduate programs.

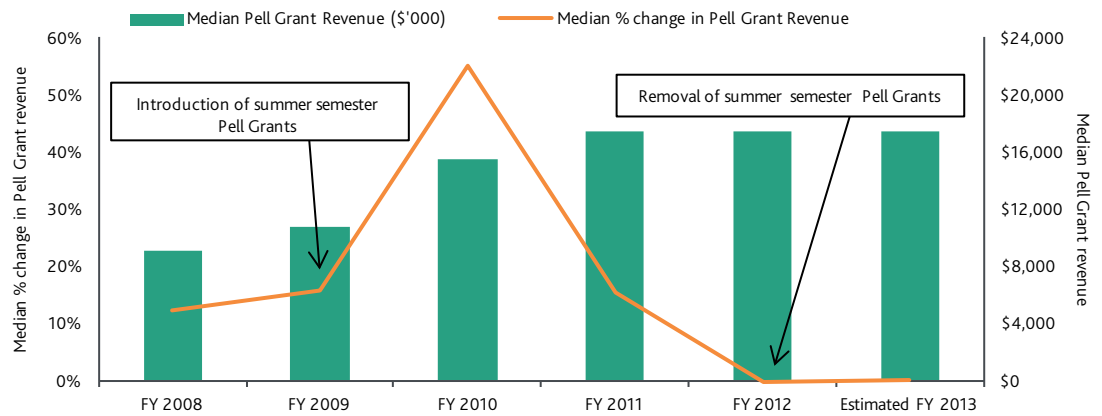
Pell Grant revenue is also an important source of revenue for public universities, though less so than loans for the tuition survey participants, representing a projected 15% of gross tuition and auxiliaries for A-rated publics, 7% for Aa-rated publics and 4.6% for Aaa-rated publics in FY 2012. Pell Grant funding is a federal need-based program whereby low income students – typically undergraduates – are eligible to receive up to \$5,550 per year that does not have to be repaid.

The recent stagnation of Pell Grant funding exemplifies the impact of a federal policy change on tuition revenue. As Exhibit 9 illustrates, Pell Grant revenue has been flat since FY 2011 primarily due to the elimination of the summer semester grant (first introduced in FY 2010). Despite this change, Pell Grant revenue has not declined over the past two years for our public university survey respondents because more students are applying and qualifying for the grant.

EXHIBIT 9

Pell Grant revenue stagnates after elimination of summer grant

Median Pell Grant revenue (left axis); Median % change in Pell Grant revenue (right axis)



Source: National Center for Education Statistics (FY 2008 - FY 2011) and Moody's 2012 Tuition Survey (FY 2012 and FY 2013)

In addition to exposure to federal loan and grant programs, many universities enroll students reliant on state funded grants and loan programs. Any reductions to these programs by state governments would also negatively impact enrollment and tuition revenue.

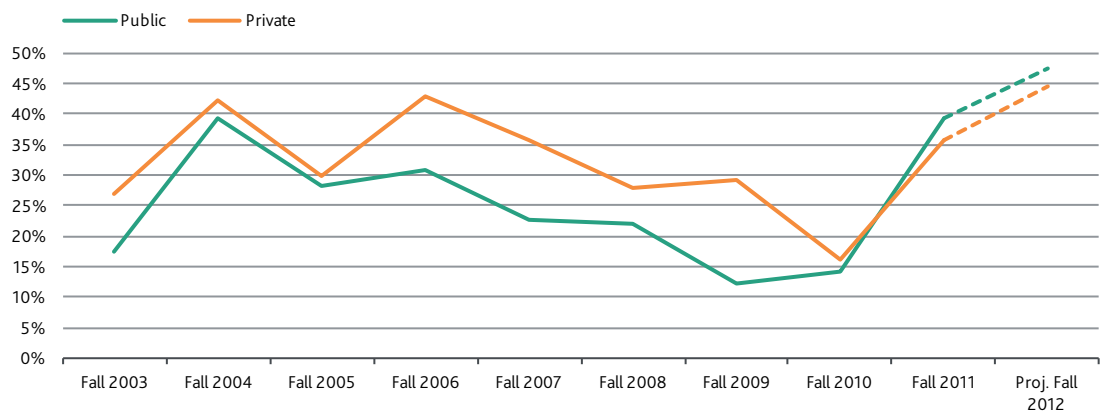
IV. Highest Enrollment Declines for Fall 2012 at Graduate Programs, Small, Lower-Rated Universities, and Publics in the Northeast and Midwest

Nearly half of universities project full-time equivalent (FTE) enrollment declines for fall 2012, as illustrated in Exhibit 10. The greatest pressure is projected for graduate programs, small, lower-rated universities, and public universities located in the Northeast and Midwest where high school demographics are weakest. Even though a rising share of universities predict a decline in enrollment, the median change is minimal and median fall 2012 enrollment is relatively flat compared to the prior year. Undergraduate enrollment increased a median 0.5% from fall 2011 to fall 2012 and graduate enrollment declined a median 0.4% across all universities.

EXHIBIT 10

Nearly half of universities project enrollment declines for fall 2012, a sharp increase since fall 2010

% of public and private colleges/universities respondents showing a decline in total FTE enrollment



Source: Moody's MFRA; Moody's 2012 Tuition Survey

Public universities project weaker median undergraduate and graduate enrollment trends than private universities for fall 2012. For undergraduate FTE enrollment, privates project a 0.6% median increase from fall 2011 to fall 2012 as compared to a 0.19% median increase at public. For graduate FTE enrollment, private universities project flat enrollment from fall 2011 to fall 2012 and publics report a median 0.75% decline.

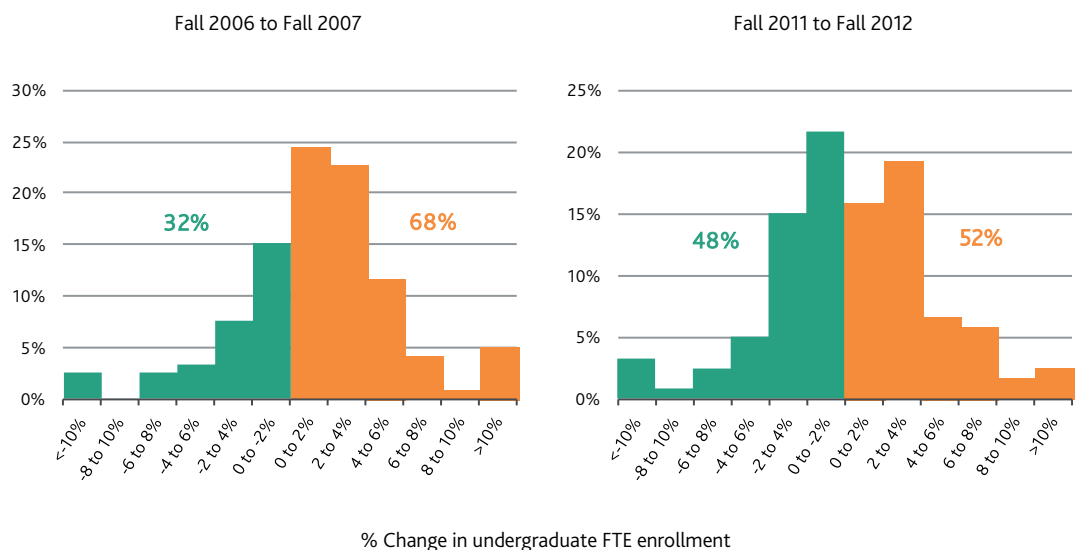
While lower graduate enrollment accounts for the majority of universities projecting a decline in FTE enrollment for fall 2012, Exhibit 11 shows that an increasing share of public universities expect undergraduate FTE declines as compared to before the 2008-2009 financial crisis. About half of public universities project undergraduate enrollment declines from fall 2011 to fall 2012, up significantly from a third of institutions that experienced declines from fall 2006 to fall 2007. By comparison, private universities project a similar level of undergraduate FTE enrollment declines for fall 2012 (at around 40%) as was projected prior to the financial crisis.

We attribute the undergraduate enrollment declines at public universities to middle and lower income students' heightened scrutiny of the value of higher education after years of stagnating family income and decline in net worth, as well as the cumulative tuition price increases at public universities over the last decade. During the financial crisis, enrollment increased at many public four-year institutions since students considered higher education to be a means of securing employment, but now students are increasingly attending more affordable community colleges, studying part-time, or electing to enter the workforce without the benefit of a college education.

EXHIBIT 11

More publics experience undergraduate enrollment declines than before the 2008-2009 financial crisis

% of respondents in each change category



Source: Moody's MFRA; Moody's 2012 Tuition Survey

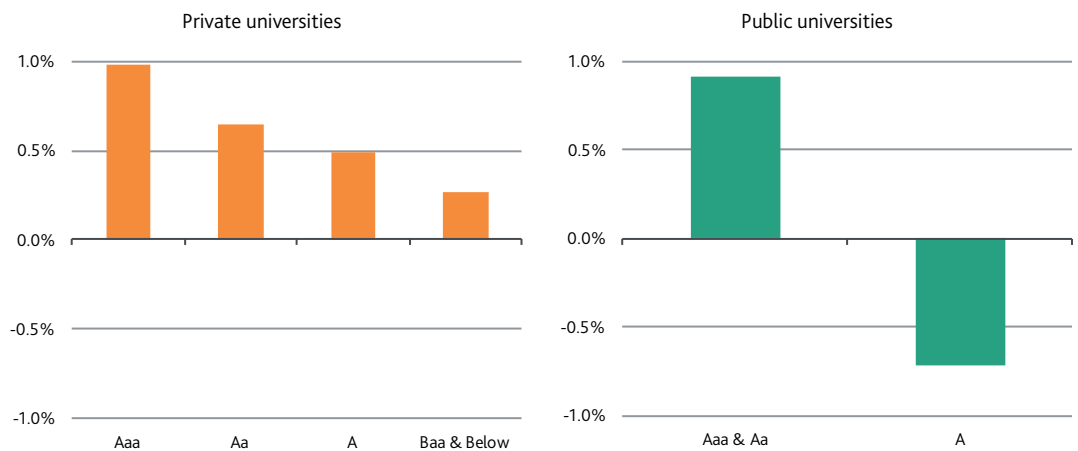
The survey shows that there remains a flight to quality as students seek the highest value education in the face of declining family income and weak job prospects. As a result, small, lower-rated public and private universities, as well as publics with small enrollment size, experienced the most enrollment pressure in fall 2012.

As Exhibits 12 and 13 show, enrollment growth is correlated with a universities' rating category. Private university median undergraduate FTE enrollment grew across all rating categories, but A-rated public universities had a median 0.7% decline. Enrollment declines at graduate programs were more pervasive, with only Aaa and Aa rated universities experiencing median enrollment increases, and a median 3% decline for private universities rated Baa and below. During the 2008-2009 financial crisis, graduate enrollment grew as individuals decided to return to school to retrain or augment their skills in the face of high unemployment. After multiple years of high unemployment and underemployment with limited job prospects, demand for graduate degrees is now lower.

EXHIBIT 12

Flight to quality: undergraduate enrollment growth correlated with ratings

Median percent change in undergraduate FTE, fall 2011 to fall 2012

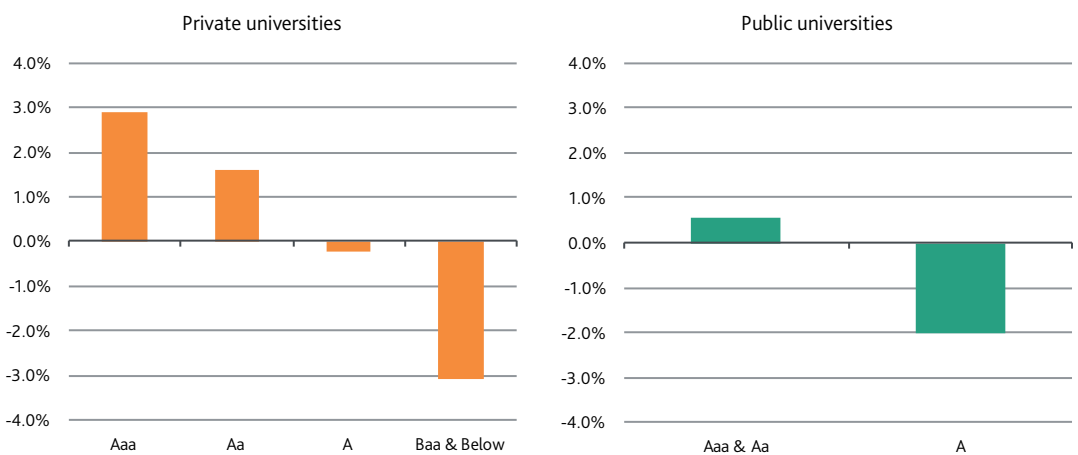


Source: Moody's 2012 Tuition Survey

EXHIBIT 13

Flight to quality: graduate enrollment declines at lower-rated universities

Median percent change in graduate FTE, fall 2011 to fall 2012



Source: Moody's 2012 Tuition Survey

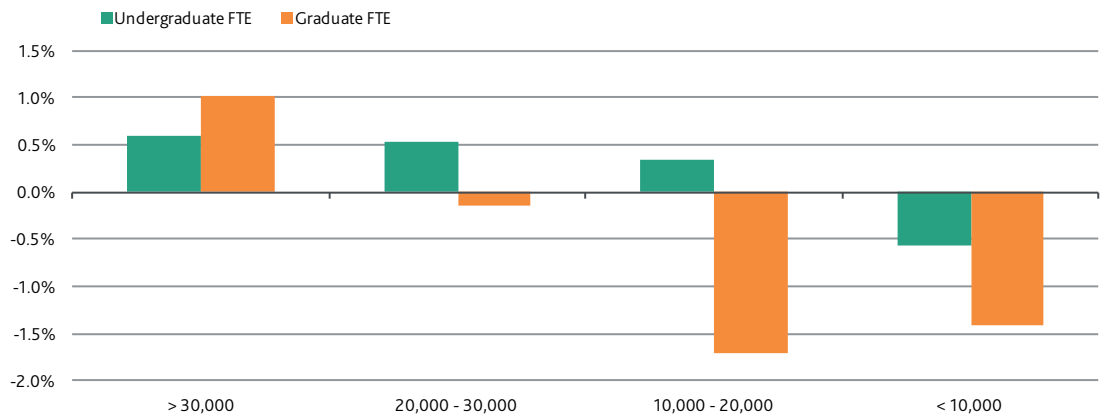
For public universities, there continues to be a correlation between size and enrollment trends, with the highest median enrollment growth experienced at large, programmatically diversified universities, as illustrated in Exhibit 14. We note that size is not as strong of an indicator for private universities

since many maintain their market position by offering a small, residential experience. All but the smallest (fewer than 10,000 FTE enrollment) public universities saw median undergraduate FTE enrollment increases. For graduate programs, which are experiencing broader enrollment pressure, the only universities able to grow enrollment were the largest public universities.

EXHIBIT 14

Small, less programmatically diversified publics see enrollment declines

Median % change in undergraduate and graduate FTE enrollment at publics, fall 2011 to fall 2012



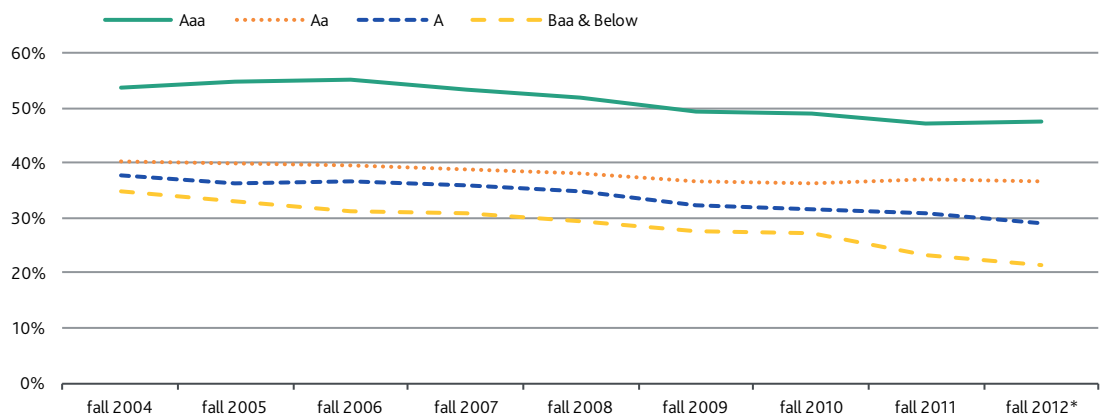
Source: Moody's 2012 Tuition Survey

As applications continue to rise (because students apply to more colleges, not because there are more students), the median yield declined for nearly all rating categories at both public and private universities from fall 2009 to fall 2011, except for Aa universities that remained fairly flat. But as Exhibit 15 shows, in fall 2012 Aaa and Aa rated universities have stable yields while lower-rated universities continue to see declines, with a particularly sharp decline for those rated Baa and below. This continuing decline in yield for lower-rated colleges points to the increased competition for the best students and highlights the ongoing need for universities to differentiate themselves and carefully manage their recruitment and pricing strategies.

EXHIBIT 15

Yield on admitted students continues to decline most sharply for lower-rated universities

Median matriculation rate, by rating category, for public and private colleges and universities



Source: Moody's MFRA (Fall 2004 - 2011) and Moody's 2012 Tuition Survey (Fall 2012); *estimated

Lastly, the survey showed that location is an important variable affecting enrollment. Those universities located in areas with a declining number of high school graduates – specifically publics in

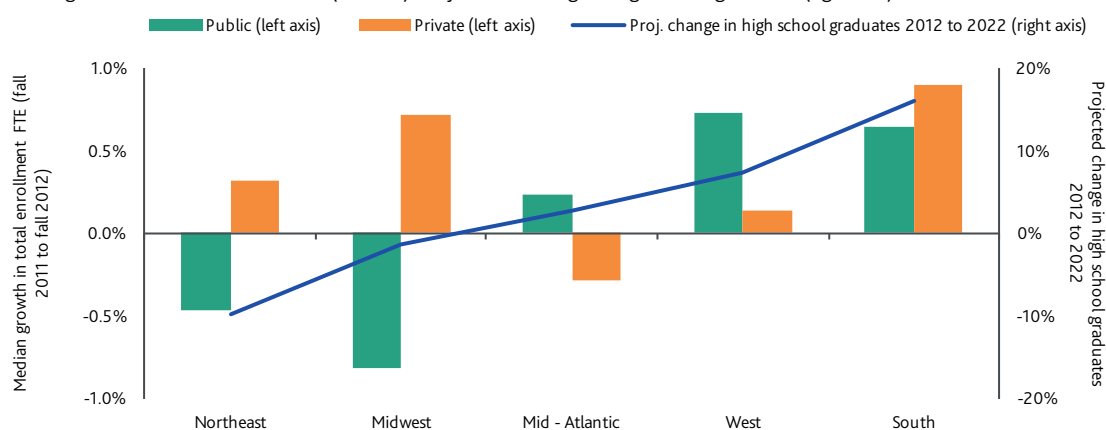
the Northeast and the Midwest of the US – experienced the most enrollment pressure, as illustrated in Exhibit 16. For publics located in states with funding cuts, enrollment declines may also occur if the university decides to limit or cut enrollment because tuition increases are not able to offset state appropriation losses.

Given the strong high school demographics in the South and West, universities located in these areas experienced the highest median FTE enrollment growth from fall 2011 to fall 2012. In addition, many universities across the country recruit high school students from these areas to increase their applicant pool. Large, programmatically diversified, and higher rated universities located in weak demographic areas are typically not as affected by demographic trends because their student enrollment is geographically diverse. In general, higher-rated public and private universities have a higher percentage of out-of-state students, which helps mitigate potential demographic pressure in any one area, diversify the student body, and bolster net tuition revenue. For fall 2012, Aaa private universities project that nearly 90% of first-year students come from out-of-state, significantly higher than the 35% projection for privates rated Baa and below. The comparison is similar for publics, with Aaa and Aa rated universities projecting 23% of first-year students are from out-of-state for fall 2012 as compared to 11% at publics rated below Aa.

EXHIBIT 16

Enrollment growth highest in regions with growing high school graduates

Median growth in total FTE enrollment (left axis); Projected % change in high school graduates (right axis)



Source: Moody's 2012 Tuition Survey; Western Interstate Commission for Higher Education (WICHE)

V. Strategies to Mitigate Enrollment and Tuition Pressure Include Increased Retention and Out-of-State Recruitment, as well as Introduction of Online Classes

In the face of enrollment and net tuition revenue pressure, universities are increasingly focused on maximizing use of existing strategies as well as developing new ones to attract and retain students. Universities use many strategies to mitigate pressure on enrollment and student revenues, such as strategic use of financial aid, new partnerships with other colleges, or expense management. This year's survey highlights three particular initiatives: increasing student retention efforts, recruiting out-of-state students, and introducing online courses.

Median retention (percentage of first-year students returning as second-year students) at public universities has remained stable over the past five years at around 78%, but retention has improved slightly at private universities over the past couple of years, from 87% in fall 2009 to 89% in fall 2012. Improved retention is the easiest method for colleges to stabilize their tuition revenues in the face of

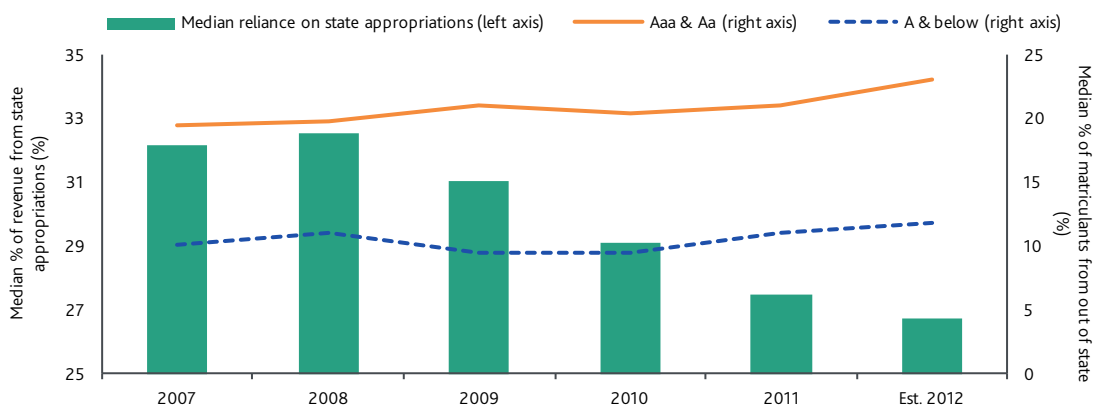
market price pressures as it reduces the cost and need to recruit larger incoming freshmen classes to maintain enrollment. Methods of improving retention include better student services, more scholarships for existing students, and increased academic quality of admitted students, which reduces the number of students who may leave due to poor academic performance.

Another strategy used to maintain enrollment and net tuition revenue is increased recruitment of out-of-state students. Though many universities have long recruited students from diverse geographic regions, they must continually shift their outreach depending on demographic changes in the US and abroad. For public universities facing state appropriation cuts, out-of-state enrollment growth is particularly important as a way to offset revenue losses since these students typically pay two to three times the cost of in-state tuition. Some public universities, however, provide preferential tuition rates to students from nearby states, and so the tuition price can be similar to the in-state rate for these students. Exhibit 17 illustrates that recruitment of out-of-state students has increased over the past few years as median reliance on state appropriations as a percentage of operating revenue has declined.

EXHIBIT 17

Publics enroll more high-paying out-of-state students to offset state appropriation declines

Median % state appropriations as percentage of operating revenue (left axis); Median % of out-of-state students (right axis)



Source: Moody's MFRA; Moody's 2012 Tuition Survey

Note: For percentage of out-of-state matriculants, the year refers to the fall, such that 2011 is fall 2011. For the percentage of revenue from state appropriations, the year refers to the fiscal year, such that 2011 refers to FY2011. In this way, the out-of-state matriculation increases are in response to a decline in state support in the prior fiscal year. FY 2012 state appropriation as a percentage of revenue was estimated as a 1% decrease from FY 2011.

Online technology offers perhaps the most fundamental change in enrollment strategy for higher education. There are a variety of different online course structures – entirely online, hybrid (with some coursework online and some in the classroom) or non-credit courses, such as the recent emergence of massive open online courses (MOOCs). MOOCs are leading the online learning movement, with elite universities offering courses to hundreds of thousands of students across the globe, currently at no cost.⁵ While elite universities with a global brand are more likely to offer MOOCs or hybrid courses, regional public universities and lower-rated universities are most likely to offer for-credit courses entirely online. Our survey only requested information about fully online, for-credit courses.

Though the emergence of online technology in higher education is not new⁶, online enrollment increased 10% from 2002 to 2010 (at both for-profit and not-for-profit institutions) according to the

⁵ See Moody's Reports [Shifting Ground: New Technology Begins to Alter Centuries Old Business Model for Universities](#), September 11, 2012 and US Higher Education 2012 Mid-Year Outlook Remains Mixed, July 26, 2012

⁶ For some universities, online education has long been an important part of their course offerings, such as Liberty University (rated A1/stable), University System of Maryland (rated A1/stable) and Nova Southeastern University (rated Baa2/positive).

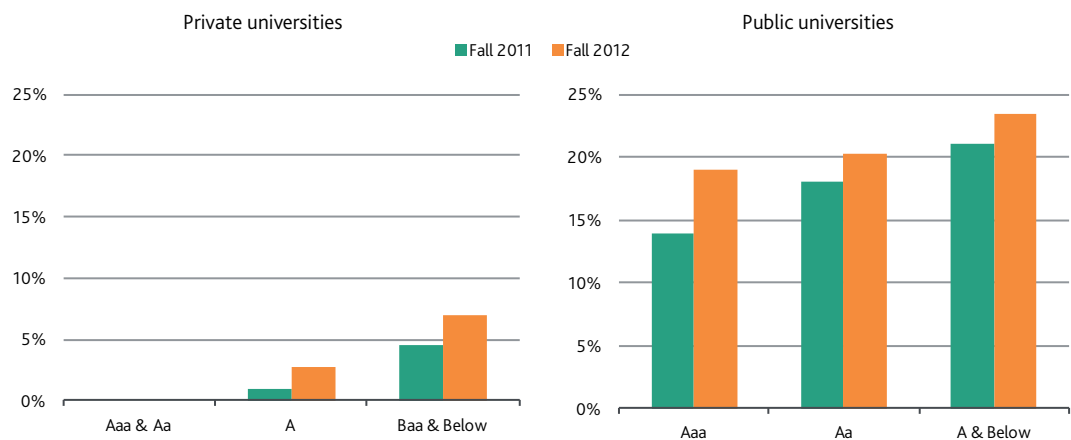
2011 annual survey conducted by Babson Survey Research Group.⁷ Given continued pressure to maintain enrollment levels, offer convenient delivery methods to students, and achieve operating efficiencies, we expect for-credit online offerings will continue to grow. We also expect to see more market-leading universities join MOOC platforms such as Coursera, edX and Udacity to benefit from the global branding and exposure offered by these networks.

Public universities report much higher enrollment in for-credit online courses than their private counterparts because increasing accessibility at a lower cost aligns directly with their mission and they are more likely to serve non-traditional students who would benefit from more flexible class schedules. Lower-rated publics have the highest for-credit online enrollment, likely because they seek to capitalize on operating efficiencies and attract more students by offering a variety of delivery models.

EXHIBIT 18

Higher penetration of for-credit online courses at publics and lower-rated universities

Median % of students (headcount enrollment) taking at least one course online for credit in fall 2012



Source: Moody's 2012 Tuition Survey

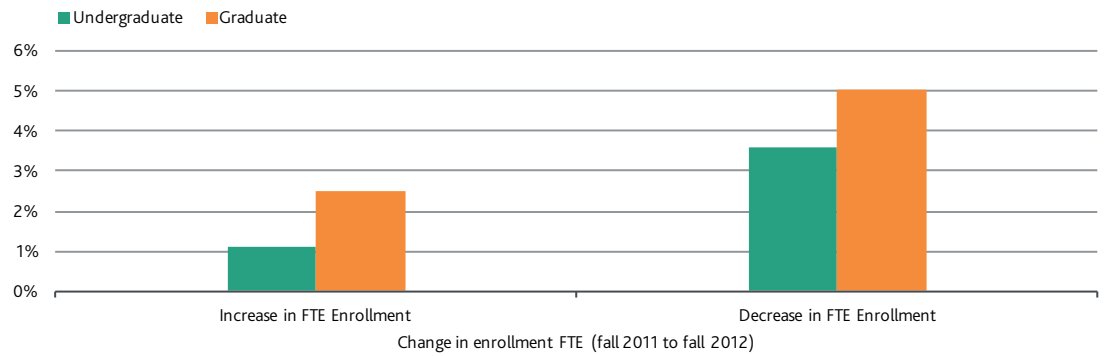
Though many elite private universities are leaders in online MOOCs, far fewer private universities offer for-credit online courses. Private universities, particularly the highest rated, have low penetration in for-credit online courses largely in an effort to protect their brand and residential experience that differentiates them from the competition. Exhibit 19 illustrates that for-credit online enrollment is more prevalent at private universities experiencing enrollment declines, perhaps because these universities hope that the flexible online delivery method will help increase enrollment and improve retention.

⁷ Going the Distance, Online Education in the United States, 2011, Babson Survey Research Group, November 2011

EXHIBIT 19

Private Universities with enrollment declines more likely to offer online courses

Median % of students (headcount enrollment) taking at least one course online for credit, fall 2012

*Source: Moody's 2012 Tuition Survey*

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Industry Outlooks:

- » [US Higher Education 2012 Mid-Year Outlook Remains Mixed, July 2012 \(144084\)](#)
- » [US Higher Education Outlook Mixed in 2012, January 2012 \(139177\)](#)

Special Comment:

- » [Shifting Ground: Technology Begins to Alter Centuries-Old Business Model for Universities, September 2012 \(144483\)](#)

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A Liberal-Arts Consortium Experiments With Course Sharing

April 4, 2012, 4:55 am

By [Jeff Selingo](#)

In discussions about the future of higher education, there's often plenty of hand-wringing over the precarious fate of the hundreds of small, tuition-dependent private colleges scattered throughout the country. With many of them located in out-of-the-way places, their isolation means that merging or even collaborating with other institutions to reduce costs is typically not an option.

But advances in technology can now link together institutions that are separated by thousands of miles. An experiment by a group of [16 liberal-arts colleges and universities](#) in the South might serve as the blueprint for other small institutions looking for ways to maintain a core of academic programs but offer enough variety to attract students.

The concept behind the group's [New Paradigm Initiative](#) is simple: the 16 institutions of the Associated Colleges of the South, which include Davidson College, the University of Richmond, and Rhodes College, join together to offer online and blended courses to students on any of the campuses within the consortium, meaning students at one institution are no longer limited to the courses offered just at their college.

Plenty of colleges these days allow students to take online courses from other institutions, of course. But the system designed by these 16 colleges works more like a traditional consortium: Students don't have to worry about transferring credits between institutions and no money is exchanged between the campuses, making the process seamless for students.

"In the past few years, we have looked for ways that the association could behave collectively to help all members that in separate ways we couldn't," says Lewis Duncan, president of Rollins College. "For some things, having 3,000 faculty, 30,000 students, and 16 campuses is a good idea."

The initiative will get its start in the fall with a half dozen to a dozen courses at four institutions that have committed so far to the classroom technology, which costs upwards of \$250,000. In an effort to maintain the feel of small liberal-arts classes, professors on the home campus of a course will teach in a classroom outfitted with conference capabilities and students on other campuses will take part in real-time, synchronous discussions.

Carol Bresnahan, the provost at Rollins, says she became persuaded of the model last fall when she accompanied a group of faculty members to a Cisco facility in Orlando to try out its [TelePresence](#) conference technology. "Our faculty are not interested in 24/7 online education," she says. "The faculty made clear to us that they like the intimacy of the Rollins classroom. Now the technology is finally available to replicate that in real time from a distance."

The first courses to be offered will be those that are available on only one or two of the association's campuses. Languages are the likeliest candidates, Bresnahan says. For example, only Davidson and Richmond offer Arabic. Other campuses have been closing language departments, such as German, as the popularity of various languages has waned. This program could allow a small college to offer the wide variety of languages typically available only at large research universities or elite liberal-arts colleges.

The colleges in the association already have some experience in collaboration from a distance, having offered classics courses cooperatively for the last decade. A [study](#) of that program, financed by the Mellon Foundation, found that pedagogical practices employed by faculty members spilled over into on-campus teaching and students reported high levels of learning.

Beyond building a collaboration model for other small colleges to follow, the New Paradigm Initiative could also potentially change attitudes about online education at liberal-arts colleges and in other corners of traditional higher ed, where distance education gets very little respect. That's for "other people's children." To some in academe, the only education of quality is face-to-face.

Last year, when the Pew Research Center and *The Chronicle* asked college presidents for their [opinions of online education](#), leaders of

four-year, selective private colleges were much [more likely than anyone else](#) to say it doesn't offer an equal experience to that of a traditional classroom. Those colleges were also the least likely of any type of institution to offer online courses.

As I listened to Duncan, Bresnahan, and Wayne Anderson, president of the Associated Colleges of the South, describe the New Paradigm Initiative, I wondered just how far the model could expand on their campuses in the future. For example, could a student enroll at Rollins but take the majority of his classes at one of the other 16 campuses and still get a Rollins degree? Would all the institutions pare back their departments and course offerings so there would be no overlap between campuses?

Duncan, Bresnahan, and Anderson aren't quite ready to go there yet. For instance, students can't major in something not offered by their home campus. Students can't take courses on other campuses simply for the sake of convenience. And for now, the program will include only upper-level courses.

"We have already have concern that this is more of a bold and ambitious future than some of the more conservative faculty are comfortable with," Duncan says. "But in reality, this might become part of a sustainable business model for small campuses."

Under such a model, each campus in the consortium could put most of its academic resources toward making a few academic programs distinctive and leave the rest to the partner institutions. At a time when lower-level courses on many campuses are quickly becoming commodities, such a strategy allows colleges to differentiate themselves.


It also raises some questions, namely, what's the value of a degree from a specific institution if many of the courses were taken elsewhere? But with [one-third of students transferring colleges](#) before earning a degree these days, that reality already exists on many campuses. With concerns about the rigor of courses and value of credits coming from other places, forming a consortium as these 16 colleges have done might help put some reasonable quality controls on that student swirl.

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 **joelcairo** 9 months ago


Just curious: Are courses capped? That is, if the enrollment cap is 30 and 30 students from the home campus enroll, will the course then be closed to enrollment from other campuses? If not, how does grading work? If the cap increases, won't the professor have more grading to do?

[Like](#)

 **jselingo** ★ 9 months ago in reply to joelcairo

Yes, the courses are capped so they wouldn't be any larger as a group then they would have been on an individual campus.

[Like](#)

 **cbres** 9 months ago in reply to joelcairo

This is Carol Bresnahan - it's essential to cap the courses if we want to retain the small-college feel.

[Like](#)



mark_at_caep 9 months ago

Small colleges also often have solitary faculty members providing service courses, but no major in their discipline. Collaborations like the one described here could allow such individuals to participate with colleagues across a consortium in teaching a wider range of courses, etc.

4 people liked this. [Like](#)



jennoh2 9 months ago

Our liberal arts institution just began talks on offering online courses. Thus far it does not seem to be embraced by faculty members. I think a good solution for small institutions that want to get their "feet wet" in online education is to join a consortium of institutions offering language and upper level classes. I see it more of a safer bet that will experience less resistance.

[Like](#)



cmorrissey 9 months ago

Cost reductions leading to lower tuition?--the shared courses will not solve the resolve "the precarious fate" of these institutions. Current four year programs can be easily delivered in three years as a starter.

[Like](#)



chronanon 9 months ago in reply to cmorrissey

"Current four year programs can be easily delivered in three years"

That's great news! You will, of course, give us the details on *how* we can easily do that, right?

4 people liked this. [Like](#)



chronanon 9 months ago

Rhodes has taught Arabic since at least 1987.

[Like](#)



darccity 9 months ago

The big test is if colleges can succeed in dropping entire programs in favor another consortium member's clearly superior department. Traditionally, good programs heavily subsidize bad ones. That's because programs with weak, arrogant, boring, lazy, or behind-the-times faculty drive away students from their classes.

The low enrollments eventually result via faculty attrition, but that may take decades. In the meantime, incentives from this perverse cross-subsidization business model force the hi-demand and strong teaching programs to carry the tiny classes of weak programs. This phenomenon is akin to a nation with protect import barriers. With the equivalent of free trade, bad faculty will have to clean up their act to compete for students against quality programs elsewhere in the consortium or else be exposed as the freeloaders they are.

[Like](#)



barbarawright 9 months ago

This sounds like a great idea. But rigor and quality control? I was sorry not to see any discussion of cross-institutional learning outcomes, standard setting, and assessment.

Like



kyushumntsphil 9 months ago in reply to barbarawright

Yes, Barbara -- and here's one quality control: the obligation that profs and students quote more.

Students evaluations, once shed of their current consumer-satisfaction conceits, can ask all to cite profs who best model course-content-related references -- to actual students in the course, to parallel examples in other parts of home campuses, and to wider cultural sources.

Students who enthuse most about profs and peers who best model breadth and depth of connection will automatically show this one burgeoning quality: literacy, with all its newly-infused humanity.

Like



mwilson1382 7 months ago

The use of technology is important for the success of a university, however to keep pace with the ever growing demands of technology is also a need. But the bringing together of multiple universities will help to bring about meet these needs and demands.

Like



Aaron W. Dobbs 5 months ago

This sounds a bit like what the Tennessee Board of Regents(1) schools are doing with the Regents Online Degree program(2). TBR has 6 universities and 13 community colleges participating in this collaboration, each student has a home institution and can take any classes they can get into via RODP.

For more information:

(1)<http://en.wikipedia.org/wiki/T...>

(2)<http://www.rodpa.org/>

Like

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Section 2: Alternative Enrollment and Pricing Models

- Concordia U. Saint Paul Will Slash Tuition by One-Third
- Financial Aid Primer
- The Risks of Tuition Freezes and Locks
- Thinking about Reducing Your Institution's Price

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September 12, 2012

Concordia U. Saint Paul Will Slash Tuition by One-Third

The Minnesota university spent years planning the move, which it hopes will increase retention and draw new students

By Beckie Supiano

Concordia University Saint Paul will reduce the sticker price of its tuition and fees by \$10,000, or about 33 percent, for the 2013-14 academic year, the Minnesota university plans to announce on Wednesday. Tuition and fees for all new and returning students in the traditional undergraduate program will drop to \$19,700 next year from \$29,700 this year, while the price of room and board will not change.

The university spent years working toward this announcement, and administrators are excited. "For us," says the Rev. Thomas K. Ries, the president, "it represents one of these once-in-a-generation decisions."

With this move, Concordia joins a small group of institutions that have lowered their prices in recent years, including the [University of the South, known as Sewanee](#), and [Seton Hall University](#). And in some ways, tuition cuts make sense: They respond to the chorus of warnings that higher education's high-price, high-aid model is broken, and to families' concerns about college affordability.

Still, experts often regard tuition cuts skeptically. Sometimes a cut is more about marketing than real change, they say. A college can reduce its price and its aid at the same time and not substantially change the net price, the actual amount each student pays after grant aid.

But Concordia's leaders say they are doing something different. Next year, they expect, all students will pay a lower net price than they would have without the tuition cut. And most of them will pay less than they did the year before, according to university officials.

That's not to say the move has nothing to do with marketing. After all, Concordia, a Lutheran institution, wants to be considered by

more potential students who may be worried about affordability and turned off by the university's current price. "Many people aren't pursuing private because private owns the word 'expensive,'" says John T. Lawlor, whose marketing firm, the Lawlor Group, is working with Concordia to promote the price change.

'Overwhelmingly Good'

A lot of that communication, however, will be with the university's existing community. Concordia is making a big push to let its current students know what the "tuition reset" means for them. "We want to be very transparent and very real about our pricing," says Kristin M. Vogel, director of undergraduate admissions.

This year's freshmen, sophomores, and juniors will each receive a personal letter that shows what they are paying out of pocket right now, what they would have paid next year, and what they will most likely now owe, under the new pricing structure (the precise amount might change if students' financial need does). Seniors will get a letter explaining that although the price cut won't help them financially, administrators hope the attention Concordia gets for the move will heighten the value of its degrees.

Jay Weiler, for one, is happy with the change. "It's overwhelmingly good," says Mr. Weiler, one of three undergraduates who got an early look at the plan so they could serve as "student ambassadors" in explaining it to their peers.

Even though Mr. Weiler is now in his fourth year at Concordia, he stands to benefit from the price cut, as he's taking more than four years to finish a double major in percussion performance and professional writing. But the difference for his bottom line wasn't immediately clear. A tuition cut, he understands, is generally coupled with a decrease in aid. When he saw his letter, it estimated that Mr. Weiler would owe about \$1,400 less next year than he would have with a normal 4-percent tuition increase. The projected total is about \$1,300 less than he's paying this year.

Even before the early look, Mr. Weiler had a sense that a change was coming. As a resident adviser, he sat in on a faculty meeting in which Concordia's president discussed efforts to make the university more affordable. Mr. Weiler thought he might be hinting at a multiple-year tuition freeze.

Private-College Prices

In fact, Concordia had been moving toward a tuition cut even before Mr. Weiler was a student. Back in the 2005-6 academic year, the university asked the enrollment-management consulting firm Noel-

Levitz to study its pricing. That research found a gap between what families in Concordia's market expected a private-college education to cost and what the university was charging. At the time, though, administrators didn't see a way to deal with that discrepancy.

Then, years later, Concordia had Noel-Levitz do another study, in more depth. The study, completed this past spring, found that the gap had grown. And there was a new element, says Scott E. Bodfish, vice president for market research at Noel-Levitz. The study examined the decision making not only of families whose children had been admitted to Concordia, but also of a broader pool of families who may not have considered private colleges.

The report—combined with research commissioned by the Minnesota Private College Council finding that some families in the state were ruling out a private higher education based on sticker prices—changed the equation for Concordia. Top administrators started to plan a substantial tuition cut.

When Mr. Ries took office, in 2011, he was excited about reducing tuition. Mr. Ries had worked at the university earlier in his career and knew the administrators who were advocating the change. After taking a little time to settle in, he approached the Board of Regents—whose members had heard of the idea but hadn't seen a serious proposal—for their approval. The message, Mr. Ries says, was: "This is not a drill anymore. This is going to be real." The board agreed to the cut.

Fairness and Retention

Now Mr. Ries is glad to be at the helm for the drop. Concordia officials hope the tuition cut will encourage families who would have dismissed the university out of hand based on sticker price to take a closer look.

Administrators felt it was equally important that the cut apply to all students, not just new ones. That conclusion was based on fairness, as well as concerns about retention among students who were struggling to pay. Officials expect to see an increase in retention, as well as growth in new students.

Concordia's capacity to expand its undergraduate population—the university enrolls about 1,200 now and would like to go up to 1,500—is one reason the tuition cut seems viable. Colleges that cut their price typically expect to bring in less money per student, but make that up in higher enrollment. According to Concordia's calculations, an additional 20 or so new students and 30 or so more

upperclassmen retained would bring in enough tuition revenue to make up for the reduced price. Any more students would mean a financial gain. (In addition, the university hopes its move will resonate with donors.)

Concordia is a tightly run ship, officials there say, and the university has been carefully preparing for the pricing change for years. Officials think the university is well placed to make, and benefit from, the change. In future years, they plan very small tuition increases. And beyond the traditional undergraduate program, Concordia has already expanded its programs for graduate students and adults, which makes the move a bit less risky.


Still, measuring the effect of a tuition cut may not be as easy as it seems. Even if a college sees enrollment growth after a tuition cut, it doesn't necessarily come from the new price, says David W. Strauss, principal with the Art & Science Group, a consulting firm. Such announcements draw attention, he says, and some students may be attracted just by the buzz.

Officials at Concordia and their consultants are convinced the cut is the right move for the university. Colleges of all stripes may struggle to attract the students they want, for many different reasons, says Mr. Bodfish, of Noel-Levitz. For Concordia, all the research suggested that sticker price was the real hurdle for families. That doesn't mean every college should cut tuition, Mr. Bodfish says: "It's not a one-size-fits-all solution."



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Real-time updating is **paused.** ([Resume](#))

 **happyprof** 3 months ago

Concordia has my profound admiration for this move. My college is a classic high sticker price, high financial aid institution, and it is at risk of running aground. The whole system asks more of alumni to pay for more aid, which does little to actually change the college, and when that is not forthcoming, other program budgets get poached to cover shortfalls. It is disastrous.

I only hope that many others follow suit.

5 people liked this.



betterschool 3 months ago

The headline should have read, "Faith-based college losing enrollments due to outrageously high tuition, lowers tuition to ridiculously high, hoping to avoid disaster."

Annual tuition of \$19,700 is still substantially too high and is necessitated only by deep organic inefficiencies that have no positive impact on quality. While public attention has been forced on for-profits (average tuition \$13,500) and public colleges (average tuition half that of the for-profits), independents have quietly crept above \$20,000, even to \$30,000. In most cases, the benefits do not begin to justify this kind of cost.

Like



arlee 3 months ago

The President of Concordia, interviewed this morning on Minnesota Public Radio, explained that this is little more than a marketing move and that the financial savings for the majority of Concordia's continuing and future students will be minimal. A figure of a \$500 savings was mentioned as the result for many. I don't think we have seen enough yet to know if this is a real policy decision regarding the cost of higher education at Concordia (or can be a model for others) or if it is old wine in new bottles.

Like



robertkase51 3 months ago

Hardly any undergraduates pay the full amount. Even at the \$29,700 price the average undergraduate ends up paying around \$12 - \$14,000, which is comparable to many Minnesota State schools. There has always been talk about eliminating the discounts and publishing the actual tuition, but the question has been, "who's first?" Those that tried it in the past found that it backfired and were perceived as not being as strong academically since they don't cost as much. I know it sounds silly. Those from State schools can't even imagine this game. So they lower their tuition but reduced the discount. Old wine in new bottles. It is all a shell game, but a risky one. Those few that don't get the discount because price doesn't matter may look elsewhere.

Like

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FINANCIAL AID PRIMER

This report is a tutorial on the use of tuition discounting as a pricing mechanism in higher education. It was adapted from a general report prepared by Topher Small of George Dehne & Associates, Inc., as an introduction to tuition discounting he prepared for new college presidents who had not had previous experience in higher education. Permission for content duplicated in this report was granted by Mr. Small.

It is important to point out that financial aid and tuition discounting are the most confusing, misunderstood aspects of enrollment management. This report is not designed to be a comprehensive assessment, nor will it describe a specific plan for the strategic use of aid in the future. Instead, it is an attempt to familiarize readers with the significant issues that must be taken into account when planning an aid strategy, so that all interested stakeholders can be contributing partners in the developing plans for the future.

I have elected to frame the subject around a few basic areas. I apologize in advance for the somewhat curt outline format, but it seems to be the more efficient way to deal with the subject in the time available. The headings are as follows:

1. No one size fits all. One has to understand where one's institution falls in the competitive marketplace in order to understand what aid strategy is appropriate.
2. Definitions are important. There are a lot of apples and oranges in this business, so it is important to have consistent definitions and understand that comparisons among different institutions are always dangerous.
3. Four approaches to budgeting financial aid

1. No one size fits all.

It is important for purposes of this discussion to separate public colleges and universities from private colleges. While public colleges and universities have begun to use financial aid strategically to meet enrollment goals, they are operating in an entirely different price theater, which makes them virtually impossible to compete with based on cost. There are cases where large merit awards offered by a private college might make them cost-competitive with a public institution, and it certainly is a fact that many private colleges do much more for high-need Pell-eligible students than their public counterparts. However, in both of these cases, the amount of these awards is too great for large-scale practice. Therefore it should not be part of a private college's strategy to use or "leverage" financial aid to meet enrollment goals.

Unfortunately, the primary focus of a private college aid strategy is other private competitors. Therefore, it is important to understand how the aid strategies among private colleges differ. Every independent college in the country struggles to one degree or another with the issues of financial aid. The magnitude of the problem, relative to the long-term health of a college, varies considerably depending on the extent to which the institution needs financial aid as a pricing mechanism to influence student choice and achieve enrollment goals. In this regard, colleges fall into four distinct groups.

Group I—The "rare air" includes those colleges and universities that could fill their classes with high-quality students without using any financial aid. More than 50 percent of the applicants to these institutions do not even consider applying for aid, and the vast majority of these "full-payers" are at or above the academic mean of the entire applicant pool. Institutions in this category use financial aid to "finesse" the make-up of their student bodies. Most of the aid resources are used to support diversity and make it possible for some academic superstars without financial means to enroll. Although things are always changing, this group generally does little or nothing with merit scholarships. They do not have to "buy" students from affluent families because these families can afford the steep price tag, and they usually are willing to pay for the prestige.

Historically, these institutions have had a commitment to meet 100 percent of financial need for those who apply for aid. They are often need-blind in admission, and make use of their considerable institutional financial resources to engage in aggressive differential aid packaging within need. In recent years, these colleges have been touted for the elimination of loans from need-based aid awards in an effort to broaden their socio-economic diversity (most have backed off of this strategy as they are wrestling with the issue of generating new revenues). These institutions operate in a sphere and tier above most colleges in the U.S. and are very tough to beat when they want to enroll a strong student with modest family resources.

There are perhaps 50 to 75 of these colleges and universities nationwide. The vast majority are in the Northeast, where there is a higher premium placed on the value of private higher education, and considerably less prestige associated with the flagship public universities. All but a few of them are in or close to larger urban environments.

The average tuition discount rate for Group I institutions typically is somewhere between 30-35 percent, but it is on the increase because of significant tuition increases in a steady-state federal and state aid environment, and because of their loan elimination policies. When a college wants to continue to meet full need and outside resources do not



increase, all of the increased need caused by a tuition increase has to be covered with institutional resources. The discounts at these colleges and universities are rarely pure “tuition” discounts, because a large amount of the financial aid resources comes from endowed funds (funded financial aid) rather than a pure discount of unrestricted tuition revenue (forfeited tuition). Regional examples of these colleges include Washington University, the University of Chicago and Northwestern University.

Group II—“Financially strong, typically well-endowed” is made up of a number of private institutions that use financial aid to help fill out the class. These institutions see need-based aid as a way to expand their available market, and recognize that they would not be able to recruit a class with the numbers, quality and diversity they would like without spending some institutional resources on aid. They must expand the available market because only 10 percent of the families of college-bound students can afford \$30,000 or more for college. Some at the top of Group II could probably come close to filling the class with full-paying students, but it would be at great sacrifice to both quality and diversity. Their applicant pools have a smaller number of top-quality students who can afford the comprehensive fee than Group I institutions, and the aid program is the only way that many of their accepted students can consider a private college.

Many of the full-paying students who apply to these schools are using them as back-ups to Group I colleges. In addition to providing access to a portion of the pool, an increasing number of institutions in this category also use no-need merit scholarships as an ego-stroking mechanism to influence the decisions of those who are able to pay, but would otherwise go to colleges ranked higher. While the majority of their resources are used to meet need, in recent years the balance of need-based and merit-based aid has shifted increasingly toward merit as these colleges look for ways to leverage decisions of upper-middle-class families and increase quality in a very competitive market.

There has been more pressure on colleges to shift back to a focus on need over merit, because of the belief that the merit programs are limiting access to the best colleges due to the decrease in need-based commitments. Some try to do both, and the combined pressure of merit and need are driving up the discount rates at these colleges at a rate much faster than they had been.

It is difficult to estimate exactly how many private colleges and universities fall into Group II, but it is probably no more than 50. Of course, these institutions cover a wide spectrum between the first and third categories. Again many of these colleges are in the northeast, but many colleges perceived to be the best in the Midwest also fall into this category, including colleges like Oberlin, Kenyon, Denison, St. Olaf, Carleton, Macalester and DePauw. Grinnell College certainly is in this category, but has recently discussed abandoning its “need-blind” admissions policy; Macalester College and Carleton College, two excellent liberal arts colleges in Minnesota, have dropped their need-blind policies in recent years.

The discount rate for these institutions is generally between 35 and 45 percent, but among the wealthier schools, much of this investment once again comes from endowed funds (funded financial aid) that are not a true tuition discount (forfeiture of tuition). The institutions with the greatest resources in this category are advancing their competitive academic position among their peers with large no-need merit awards and aggressive need-based financial aid packaging that meets 100 percent of need. This is very expensive and hard to beat.

Group III—“many of the rest of us” is made up of the institutions that use aid to expand the available market and as a discounting mechanism to influence student choice. In short, it would be difficult for these colleges to survive without a sizeable discount in tuition through the strategic use of financial aid—merit-, talent-, and need-based. Typically, these colleges are located outside of major urban areas, have lower visibility and national prestige, and, unfortunately, attract very few students from families who can and choose to pay full cost. The families who can afford them will only choose these colleges if their child is not admitted to a Group I or II college, or because they are motivated by a merit scholarship that compensates for the lack of prestige.

Many institutions in this category get into serious financial trouble by aspiring to a higher level than their market position will support. They have to pay too much to attract the stronger students, which does not leave enough to leverage the rest of the class. As a result, they do not meet bottom line enrollment goals, they fall short in net revenue, and they have to make budget cuts to make ends meet. This further reduces the quality of the experience and the competitiveness of the college, and places it in an even more difficult position for the following year. The apparent discount rate at these places generally covers a wide range, between 30 and 60 percent or more. Often the real discount rate is even greater, because tuition is kept artificially low to maintain any hope of competing in the market.

This category describes most small private liberal arts colleges. In order to compete among themselves, as well as with regional and flagship state universities, the vast majority have to discount more than they can afford with both merit- and need-based awards. Augustana is among this group, as are institutions like Gustavus Adolphus, Luther, Knox, Beloit and Cornell College. Increasingly, institutions like Illinois Wesleyan, Lawrence, Lake Forest, Wooster, Kalamazoo and Earlham also are in this group, as they’ve started to feel the impacts of demographic change and shrinking wealth.

Group IV is a relatively small but diverse group of institutions, located primarily in urban or suburban areas, with large part-time commuting and adult populations, as well as money-making professional schools and graduate programs. These places draw heavily from their immediate geographic areas and have many students who are able to pay for their tuition by working, going to school part-time, and using government loans to supplement their own disposable income. Students who attend these institutions are doing so because they are convenient and/or the academic program of study is directly aligned with their goals. These places are offering more and more online courses and flexible scheduling to keep people coming in the door. The students generally are not liberal arts majors, and do not place a great deal of emphasis on prestige in the selection of their college. Instead, they are choosing a college based on career advancement and convenience.



Typically, the colleges and universities in this group have tuition discounts of 20-30 percent. They can get away with spending at this level because they do not have to compete for high-quality students on the national stage, and they do not have to support a lot of financially needy students living on campus. There are perhaps between 50 and 100 of these colleges/universities nationwide.

Group IV institutions are becoming increasingly problematic for Group III, because of their vocational focus and greater flexibility. More and more middle-class students are staying closer to home, forgoing the four-year residential experience, and saving money by enrolling at them. With the exception of some of the small, urban Catholic women's colleges that fit into this category, I am not aware of many Group IV institutions suffering enrollment problems in the current recession. DePaul, Marquette, Loyola, Butler and Drake are good examples of Group IV colleges in the Midwest. This group also includes institutions like St. Ambrose and Augsburg, which have successfully leveraged graduate programs, continuing education and degree-completion to shore up finances and continue to discount heavily for traditional student enrollment.

It is very important for colleges to understand where they fit in the "pecking order" of this model, and to build their aid strategy with that understanding in mind in order to avoid spending inordinate sums of aid resources with little return.

2. Definitions are important.

Financial aid is loaded with strange-sounding names and difficult-to-remember acronyms, which some believe were created by the aid profession to make itself indispensable. While that may be a stretch, let me outline a few key definitions that need to be understood when developing an aid strategy.

Financial Need: This is determined by a formula developed by the federal government based on data provided on the FAFSA (Free Application for Federal Student Aid). It is the difference between what a family is expected to pay for college (EFC – Expected Family Contribution) from disposable income and personal assets, and the total cost (frequently called "cost of attendance"), which includes tuition, fees, room, board, books, travel and incidentals.

Meeting Need: Need is met with three basic forms of financial aid: 1.) gift aid from federal, state, institutional and private outside sources; 2.) low-interest loans from federal, state and private sources; and 3.) on-campus employment from the Federal Work Study program or institutional operating budgets. The loan and work part of an aid package is called "self-help." The more gift aid there is in a package (and the less self-help), the more attractive and marketable the package.

With the exception of the Group I and II institutions described above, very few colleges are meeting full need. A few more are meeting need based on billable costs as opposed to cost of attendance, but most colleges are "gapping" the majority of their students. In other words, the total aid award plus the EFC does not equal billable costs, much less total costs or cost of attendance.

In addition, most colleges, including Augustana, include loans within the financial aid package in an effort to meet financial need. A college has to have a very strong value proposition if it is going to attract students who are borrowing more than \$6,000 per year. However, debt and debt awareness are becoming more of a concern, because there are an increasing number of other low-cost alternatives, including for-profits.

Many Group III colleges are living off high-need, educationally unsophisticated, first-generation college students who are anxious to attend college but do not fully understand the extent of their loan obligations. When they find out, and/or the value proposition is not equal to their projected debt level, they withdraw. While this is not a great problem for Augustana today, there are signs that this is occurring more frequently. Colleges that do not meet full need and/or have large loans as part of their aid awards tend to have much higher attrition rates.

Gift Aid: As just mentioned, gift aid comes in many forms and from many sources; however, it falls into one of two categories: merit (which includes talent and other automatic discounts based on something other than financial need) or need. For both categories, the common defining characteristic is that it does not have to be paid back. Merit scholarships are used to reward talent—primarily academic, but music, religious affiliation and legacy status frequently are deemed meritorious. One does not have to file the FAFSA to qualify for any of these.

Need-based gift aid typically is called grant aid and also comes from a number of sources, but it is used as part of an aid package put together to meet need. A college may use all the federal, state and private outside grants for which a student may be eligible and then add in some need-based grant of its own, to go along with loan and work-study.

For most Group III institutions, much of the merit-based scholarship aid actually goes toward meeting need as well as rewarding merit, because the majority of the applicants are from middle-class families and have needs as great as or greater than the amount of their merit award. This is the case for Augustana. Typically, up to 80 percent of our merit scholarships go toward meeting financial need that exists. The merit scholarship has provided a "psychological" boost historically, although most would receive the vast majority of the award even if they applied only for need-based aid.

When one looks at all the possible combinations of need- and merit-based awards for which a student may be eligible, it is easy to see how colleges can get carried away with aid spending. To control this, they develop a "gift aid matrix" with an academic-quality axis and a need-level axis, which govern the amount of gift aid for which students in each cell of the matrix may qualify. Augustana has such a matrix, which historically has been effective in controlling aid spending and maximizing net tuition revenue. Our model identifies "proportion of financial need met with gift" as a key component to help us leverage aid to generate revenue and stabilize the discount rate. However, the matrix is beginning to show signs of weakening in maximizing net revenue.



Leveraging Institutional Aid Dollars: Given the small number of potential full payers in virtually all Group III applicant pools, the key to meeting institutional enrollment and tuition revenue goals is to use smaller amounts of institutional gift aid to leverage admissions decisions. Colleges in this category generally understand that because of their position in the pecking order, they have to spend more to attract the brightest students to shape their profile; and, as mentioned earlier, it is easier to attract unsophisticated, less affluent students because they are not familiar with what to expect from their aid package.

The key is to develop an aid matrix that shifts the weight of the gift aid resources to the less expensive, less accomplished students. In other words, it is better to enroll three average students at \$10,000 each than it is to enroll one strong student at \$30,000. Using similar reasoning, it makes sense to meet or even exceed the need of low-need students who cost you much less than trying to meet the need of a student who will cost \$25,000-\$30,000. This is what we've been trying to do since eliminating the full-tuition award and slowing the growth of our largest non-need-based awards. However, within a merit scholarship system, it is difficult to justify larger non-need-based financial awards being awarded to average students, which is becoming increasingly problematic for Augustana as our average institutional award throughout the matrix has compacted.

An important caveat to all of this is that students can only be leveraged if they are in the applicant pool. If there are not enough candidates in the low-cost cells of the matrix, there is no way enrollment goals can be achieved through leveraging. Furthermore, awards need to be generous enough to influence behavior if a college is able to attract a sufficient number of students in these low-cost/high-revenue cells. This is the area where we've struggled most in recent years.

3. Four approaches to budgeting financial aid

Typically, aid spending is the first or second largest "expense" on the overall operating budget of a Group III college. It also is far and away the most difficult to control because it requires that people in positions of authority predict the actions of the hundreds of adolescents in the accepted applicant pool who have dozens of choices. It is both an art and an imperfect science.

Fixed Budget: In this model, the admissions and aid offices are told what they have to spend on aid, and they admit the class with that goal in mind. It is seldom perfectly achieved for the reasons just stated, but the more selective places get close by first admitting all the non-aid applicants and then filling in with those that will fit within the aid parameters. The less selective a college, the more difficult it is to meet enrollment goals using this approach. Colleges in Groups I, II and III have tried to operate with fixed-aid budgets for years, but as costs and competition have increased, it has become harder and harder to remain viable with an inflexible aid budget. This is the checkbook model, which very few colleges are able to support any longer.

Floating Budget Based on Needs: Most Group I and some Group II colleges are need-blind in their admission decisions and meet 100 percent of need so their budgets simply float with the needs of the accepted applicant pool. This is obviously expensive, but they are able to do it because in most cases more than 50 percent of their accepted applicant pools are not applying for aid. As a result, the aid discount is applied to less than half of the class, and they have substantial endowment resources from which to draw. Being need-blind in admission and meeting 100 percent of need would appear to be risky, given the potential for large shifts in the socio-economic make-up of the class, but these colleges' applicant pools are amazingly consistent over time, and they generally have been able to estimate how things will turn out based on past experience. The whole process was quite a gamble during the recent recession and we are beginning to see colleges turn away from being need-blind; the highest profile college is Wesleyan University (CT), and Grinnell is likely to announce abandonment, too. This appears to be unsustainable for all but the most affluent colleges. This is part of the reason so many Group I and II colleges have been experiencing significant financial problems over the past two years, despite their considerable resources.

Fixed Discount: Most Group II and some more selective Group III colleges operate with a fixed tuition discount aid model. This simply says we are going to discount for financial aid at X percent regardless of the impact on enrollment. The discount is set on the basis of estimates that are predicated on past experience.

First, the college estimates what the percentage of students on aid will be; then it determines what discount will be required in order to meet quality, diversity and revenue enrollment goals; then it calculates the average institutional gift aid, and awards to that average. They know that students who receive more gift aid are more likely to enroll than those who receive less, so the average gift goal they award to is less than the discount goal. They track this closely during the aid award process to make sure that spending is not getting out of line.

Fixed discount colleges vary in their use of leveraging based on a combination of the affluence and size of their applicant pools. They are more likely to leverage for quality and diversity than for net tuition revenue. Colleges with large applicant pools are better able to do this because they typically can fill in the class at the end of the cycle with students from a waiting list, and don't have to worry about "buying" students to meet head count goals. As one moves down the selectivity pecking order, it becomes increasingly difficult to do this because there are fewer and fewer no-need and low-need students, or an absence of a real wait list. Further complicating this is the reality that the recession and demographic changes have resulted in more and more high-need students; all of this within an environment of increasing prices to cover costs. The more high-need students a college accepts, which often is done with the intent of managing yield and "making the class," the harder it is to stay at the fixed discount. It does not take long for a few large gift aid awards to inflate an ambitious discount goal.



Net Tuition Revenue: Most Group III colleges use a net tuition revenue aid budgeting model. This approach looks at the amount spent on aid as tuition not collected rather than as a budgeted operational expense. The theory is that as long as there is excess capacity in residence halls and classrooms it is better to attract some revenue by discounting more than it is to get nothing. This approach brings marginal revenue, and it also gives a college a psychological boost by having more students and the feeling of greater prosperity, even if the revenue is not as great as it once was at that enrollment level.

It probably makes more sense to call this a “floating discount” model, to suggest that this kind of spending has to have some controls, but applying too much control can and frequently does result in enrollment fluctuation or declines. Every additional student has a marginal cost attached, and there is nothing to be gained by giving everything away. On the other hand, when there is excess capacity and a lower cost structure to maintain, many colleges with whom Augustana competes have used this strategy very effectively, and thereby eat into our enrollment by offering much steeper discounts than we offer. These colleges recognize it makes no sense to experience shrinking enrollments and revenue while holding to a fixed discount everyone can only wish was possible to maintain.

Enrollment officers keep track of the award process in the same way as described in the previous section, but they are more sensitive to what prospective students are telling them during the recruitment process about the importance of aid in their final decision and, therefore, are more flexible with individual awards. If an additional \$2,000 will make the difference and the amount of the student’s gift aid award is average or less, it makes sense to increase the award. It makes much less sense to do the same thing with a student who is already projected to get a large gift aid award. The approach is a balance of art and science.

Frequently, net tuition revenue colleges push the envelope on discounting to maximize revenue at the expense of quality and diversity. In other words, quality, diversity and other strategy goals are not as important. In the early 1990s, Augustana utilized this model very effectively as the college worked to leverage the MAP grant and focused 90 percent of recruitment efforts on Illinois students. While effective from a business point of view, Augustana did not grow demand, become more selective and increase diversity—as many of its competitors did during the same time period.

This is not to suggest that these important objectives can be thrown to the wind. Rather, in life-threatening financial circumstances, tough decisions have to be made, and it is better to enroll three or four average students than one very bright student; the same is the case for low- versus high-need students. This doesn’t mean you have to open the gates to admit and award aid to anyone who can breathe, or that you don’t give a large aid award to a few special students who will add significantly to the campus environment. It means that the aid award matrix should be designed to attract the greatest number of students for the smallest average cost, and that as long as there is excess capacity, the amount that is awarded in most cells is increased to improve the chances of enrolling the students.

All of these aid budgeting models require a close working relationship between admissions and financial aid, but it is particularly important in the net tuition model. Admissions recruiters have to know their students well enough to understand the importance of aid in their decisions, and they have to communicate this to the aid office. At the same time, they must promote the college based on value, not price. The more the admissions office leads with the great aid opportunities that are available, the greater the pressure placed on the discount. Conversely, the aid office has to recognize the importance of aid as a factor in student choice and be willing to push the aid award envelope when the admissions counselor has good evidence to suggest it will work. The point is that there has to be good communication and understanding between both offices.

I hope this overview provides some needed background to foster a robust conversation about price and cost in the coming years.



The Risks of Tuition Freezes and Locks

A number of public and private institutions have recently implemented or are considering tuition freezes (freezing this

year's price at last year's rates) and locks (securing tuition for new students at a set price for all four years). In the case of many public institutions, state governments impose such freezes and locks.

Based on our extensive research on price sensitivity as well as price packaging and communications, we have found that tuition locks and freezes often carry substantial risks for many institutions, including lost net tuition revenue, negligible enrollment impact, lower bond ratings, and minimal marketing benefit. Here's what institutions need to consider:

- **Most experiments with tuition freezes fail to produce any substantial enrollment, marketing, or political benefit.** Freezes are often implemented in the hope that they will produce favorable public and political attention that will result in higher demand and greater political support. Most often they simply result in lost revenue.
- **An increase of the magnitude required for the first year of a four-year tuition lock may have serious enrollment and retention consequences.** To make the tuition revenue gains from a four-year lock financially rewarding, the increase imposed on new freshmen in a single year may be so large that it can push price over a threshold that will adversely affect enrollment.
- **A lock often does not produce the net tuition revenue effects anticipated.** For example, the increases in financial aid necessary to offset the "sticker-shock" effects of the large first-year increase in a four-year lock can dramatically reduce net tuition revenue. Only the most wildly optimistic budget calculations would assume that most of an increase would be returned in tuition revenue without substantial raises in scholarships and need-based aid.
- **A four-year lock does not diminish campus and market concerns over high tuition.** By placing the full burden of each increase on entering freshmen, a four-year lock only changes the method of the increase by front-loading increases that would have been spread over four years.
- **The bump up in tuition that would occur for students who don't graduate in four years might discourage many from pursuing beneficial educational experiences.** Administrators might hope that a price lock would encourage more students to graduate in four years. However, it is unrealistic for many students today, particularly those who must work significant hours to pay for college, to finish in

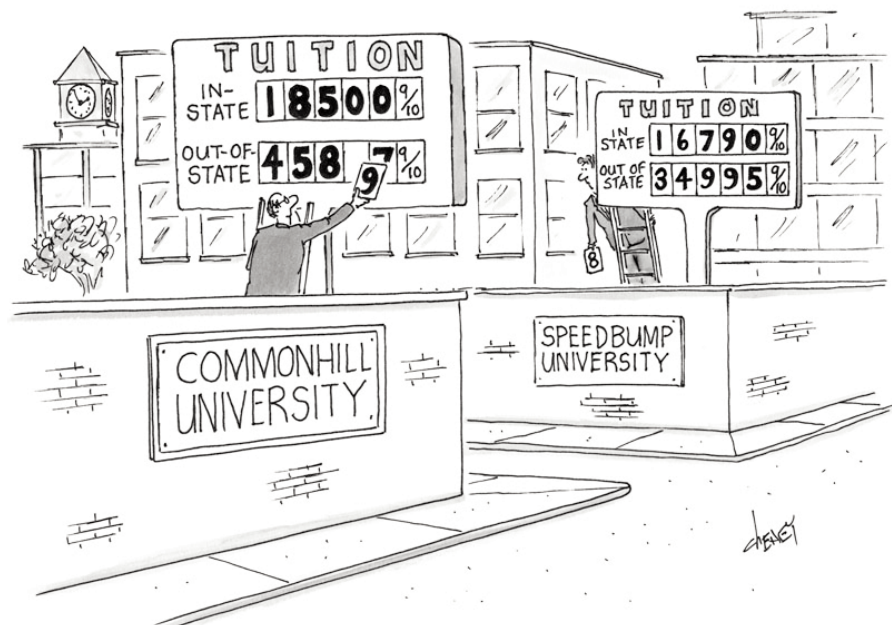
Tuition locks and freezes often carry substantial risks for many institutions, including lost net tuition revenue, negligible enrollment impact, lower bond ratings, and minimal marketing benefit.

We strongly advise against single-year tuition freezes as well as four-year tuition locks, unless a reliable study indicates your institution is one of the few where it could work.

four years. And students who pursue study abroad, double majors, and other educational enrichments often take more than eight semesters to graduate. These students would be unfairly penalized for taking additional time to complete their education.

- **Retention rates might be adversely affected by a four-year lock.** With the cost burdens of college front-loaded in the first several years, retention of lower-income students may fall as they feel increased financial pressures during the most critical, early years of their college experience.
- **A four-year lock would make it far more difficult for an institution to raise tuition in response to unforeseen budget crises.** If, for example, the regional or national economy faced an unexpected downturn and state and/or federal support was reduced, having promised a lock on tuition, an institution would face even greater resistance if it were forced to break the lock (or even greater problems if it were forced to slash budgets).
- **Institutional bond ratings might be hurt, making borrowing more expensive.** For example, Moody's has warned that state-mandated limits on tuition increases would limit the ability of public universities to offset cuts in state funding and philanthropic support, financial constraints that could adversely affect their bond ratings.
- **Other ways to structure tuition increases might be more successful in addressing market and community concerns while lowering the risks of enrollment declines.** For example, if political or other pressures require some sort of limits, the size of annual increases could be capped for the next five years, setting the caps at levels that hopefully will provide the necessary additional tuition revenue but spread the impact over a longer time period and establish predictability for students and their families.

For these reasons, we strongly advise against single-year tuition freezes as well as four-year tuition locks, unless a reliable study indicates your institution is one of the few where it could work. **A&S**



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ORIGINAL: Ingenious approaches to our clients' circumstances and challenges.

We have no canned, cut and paste, off the shelf solutions.

DATA-DRIVEN: A rock-solid empirical basis for each client's most urgent decisions and investments. Art & Science Group has pioneered and steadily advanced research innovations that provide the most reliable evidence possible for the critical marketing decisions and investments facing every institution.

ACTION-ORIENTED: Carefully drawn strategic and tactical roadmaps to achieve our clients' institutional goals. We work very closely with each client to ensure our recommendations are feasible and effective.

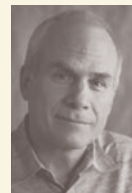
COLLABORATIVE: Our clients' leaders, faculty, staff, and students are partners in our work. The best advice cannot guarantee success unless a campus community is fully invested in research and recommendations.

Our work often leads to transformational results — institutional change of real consequence. We help institutions make the profound and often difficult decisions important to their future.

Visit our web site www.artsci.com for more information on our services, experience, and clients.

Since its first pricing study in 1994, Art & Science Group has led the nation in the development of research and planning tools that can measure and predict the actual enrollment and net tuition revenue consequences of alternative tuition pricing and financial aid strategies. We have helped dozens of public and private institutions across the nation make sound pricing decisions by knowing in advance the precise enrollment and revenue outcomes those decisions will produce.

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Thinking about Reducing Your Institution's Price?

[< Back to the Resource Room](#)

Five Insights for Considering the Possibility

A number of institutional leaders have asked us what they should consider as they (and their boards) debate the merits of significantly reducing their top-line price. The premise seems simple: instead of awarding so much institutionally based aid through scholarships ("discounting"), why not just reduce the institution's overall price? The institutional discount rate would decrease and the revenue would remain constant, right?

The math might make sense on paper; however there is considerable downside risk with this approach. If not managed very, very carefully, an abrupt and significant price reduction could result in millions in lost revenue and a black eye to an institution's reputation. Here, we offer recommendations to college and university leaders who are either considering a reduction in their institutions' top-line price or have already decided to reduce their price for the upcoming year.

#1. Ask the right questions.

What does the University hope to gain from the price reduction? Goodwill? A decrease in discount rate? Increase in enrollment? National press coverage? All of the above? It is of critical importance that decision-makers are all aware of – and agree upon – the motivations behind substantial price reductions and the specific outcomes they expect in doing so.

Why is your institution considering a significant price reduction at this time? Has this issue been on the table for some time, or has it recently come to the forefront because of political pressures, media coverage or a particularly assertive board member? In other words, is this major, far-reaching decision being made for the right long-term, strategic reasons?

How is the reduction in price going to affect the bottom line for the entire institution (undergraduate and graduate) one year out, four years out, and ten years out?

Who is the institution trying to attract through the reduction in price? This is an especially critical question to answer. Is your institution prepared to attract, enroll and *retain* more students who have demonstrated need? Is your institution equipped to handle an increase in enrollment?

#2. Understand the intersection between your institution's price and its perceived value.

For institutions that have a stable cohort of students who pay the full price, a price reduction will be beneficial for them. For example, if an institution reduces its price by 20 percent, the full-payers will get a 20 percent price reduction and the institution will derive 20 percent less revenue from this group of students. For those receiving institutionally funded scholarships, their bottom line remains the same as it was in the simplest model, before the price reduction. They simply receive smaller institutionally funded scholarships. This is generalizable across institutions, both public and private.

This means that for most institutions there could be a meaningful percentage of students that will not be affected by a price reduction. They will continue to pay the same out-of-pocket and/or through loans (after state, federal, and institutionally funded aid is taken into account). In other words, if an institution seeks to increase yield by reducing top-line price, there will be a number of students unaffected by the change no matter how dramatic the price reduction.

At this point, we must also address the issue of perceived institutional value among prospective parents and students. In general, if an institution's relative value is strong when compared with head-to-head

competitors in its market, then a price reduction is less of a risk. Yield is generally stable among well-known, well-regarded colleges and universities. On the other hand, if an institution does not have a very good value proposition relative to competitors, reducing price carries with it significantly more risk in terms of both revenue and reputation.

#3. Research your market.

Do you know how your undergraduate market might respond to a price reduction? Or is everyone around the table just relying on intuition and hoping for the best? We strongly urge institutional leaders to engage in high-quality market research if they are seriously considering a price reduction. At the very least, the following questions should be answered:

- What segments of your market will be most affected by a reduction in price?
- What percentage reduction is insignificant? About right? Too much (will result in a threat to reputation)?
- What percentage reduction will yield more students who were accepted to competitor institutions?
- What are the top concerns among students and parents when they hear that a college or university might be decreasing its price, substantially or marginally?

The dynamics of your specific market should inform all of your decisions. While there is a cost associated with high-quality market research, it pales in comparison to the costs accumulated by an institution that makes an uninformed decision that ultimately backfires.

#4. Accept that it's not just about price anymore.

Our research consistently show that students and families make enrollment decisions for a variety of reasons, not just price. Typically, over half the students we survey tell us that no amount of money could change their mind in either direction once they decide upon the college or university they wish to attend. This is because the college decision is an *investment* and *values* decision, not just a *pricing* decision. Your prospective students and parents consider what your institution will give them in the context of the price they pay. Their enrollment decision is not solely a financial one; it's a practical choice with many variables at play.

Our research has also shown that the "feel-good factor" that results from receiving a larger scholarship to a higher-priced institution is significant. In other words, the \$20,000 scholarship to a \$40,000 institution makes more of an impression than a \$10,000 scholarship to a \$30,000 institution, even though the net cost to the family will be the same. It is imperative that college and university leaders understand the emotive consumer reaction in today's post-recession economy. It's no wonder, therefore, why behavioral economics is becoming central to an understanding of enrollment decisions these days.

A word to the wise: If you are considering a price reduction, do not look back in time and calculate the same yields when your institution's top-line price was lower. We need only look to our clients' admission offices for proof that the higher education market has changed considerably since 2008. How families make decisions has changed significantly in just a few years and consistent yields are not simply a foregone conclusion anymore.

#5. Examine your institution's net cost.

When considering a reduction in price it is easy to forget that students and families make their enrollment decisions based on *net cost*, after all grant aid is taken into account. In other words, families consider how much they will have to pay out of pocket and through loans. How does your institution's net cost compare with competitors for admitted students in various subgroups?

Another way to ask the same question: Is your institutional topline price the real issue, or could it be that your institutionally funded scholarships are not optimized?

Before making a decision to reduce topline price, we urge all institutional leaders to do a thorough review of institutional aid awarding practices. It very well could be that a recalibration of financial aid could accomplish the same goal of making college more affordable without all the risk associated with reducing topline price.

Keep in mind that holding tuition constant for three or four years will accomplish virtually the same goal as

an immediate topline price reduction, albeit incrementally. This approach carries with it much less risk than does a dramatic decrease from one year to the next. Also, don't assume there's a linear relationship between reducing your institution's price and lowering your institution's discount rate. Often the discount rate can go up if an institution wishes to award mostly need-based aid and maintain the same enrollment and quality.

Final Thoughts and Recommendations:

- The decision to reduce price should be a thoughtful, deliberate one driven and governed by your strategic plan. We recommend that institutional leaders think in terms of a two-year timeline for planning a publicized price reduction. In our experience, the proper work cannot be completed and considered if it is undertaken too quickly and without answering the questions raised here.
- If you do decide to decrease your topline price, don't lower your price more than your lowest institutionally funded financial aid award given during the prior year. For example, if your lowest scholarship amount last year was \$5000, you should not plan on discounting your topline price by more than \$5000. This is a way to protect your bottom line.
- Immediately begin to build a marketing and communications plan to address potential market fears. You want your prospective students and parents to understand that reducing your topline price is not an act of desperation that suggests your institution is not doing well. You also want them to get the message that you are not cutting student services, faculty numbers, or the quality of your course offerings. In short, your institution must be prepared to control the message well before your decision to reduce price goes public.
- Take a look at all of your scholarship promises in print and online media and be prepared to adjust the amounts, if necessary.
- We recommend that institutions hold the loan portion of the financial aid package consistent, even when reducing topline institutional price. In other words, if the percentage of loan offered to students significantly increases, yield may well decrease. Beware the temptation to implement linear reductions.

If you are considering reducing your institution's price or want to take a look at your financial aid situation, we are here to help. Just give us a call at (978) 371-1775 or email Sarah Parrott at sparrott@maguireassoc.com.



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Section 3: Developing New Sources of Revenue

- Endowment Planning vs. Fundraising

Augustana College

Endowment Planning vs. Fundraising

July 2012

Like it or not, if charitable, academic, and religious organizations are to be successful in achieving their missions, they need to become skilled fundraisers.

Fundraising is the lifeblood of the nonprofit world. With competition for dollars always fierce—and more intense now than ever before, given the nation's continuing economic doldrums—nonprofits know that they must do everything in their power to give themselves an edge.

Whether it's employing aggressive public relations and social media efforts to raise awareness and interest or hiring savvy fundraising professionals to strategize methodologies for attracting large corporate and foundation gifts, most nonprofit executives know that these tactics can mean the difference between success and failure. Depending solely on the goodwill of others is, for most, no longer an option.

The emphasis on fundraising, however, may mean that many nonprofits are forgetting about the need to also successfully build an endowment. It's easy to understand why. Fundraising, after all, is all about the here and now. Fundraising is tied to balancing the organization's budget, growing the services they offer and the number of people they serve, and accomplishing certain goals set by the board of directors and trustees.

From a more practical standpoint, fundraising also means enabling the organization to keep good employees by offering them pay increases, bonuses, and other perks. Senior executives of these organizations often have their own bonuses tied to annual fundraising objectives. Boards of directors and trustees certainly are sincere in wanting to accomplish specific goals and objectives, but they also feel a personal obligation to donors and constituents to do so.

Add to this the fact that there are various nonprofit certifications and standards, all of which tend to focus on annual fundraising, capital campaigns, board participation, and donor designations. An organization's bylaws may even establish funding expectations.

All of these fundraising goals inevitably conflict with building endowments. Endowments represent a long-term commitment for an organization. Endowments take time to build with donations and earnings. And bottom line, executives, board members, supporters, donors, and other constituents all tend to be impatient. They typically are more interested in seeing tangible results here and now than in slowly building for the future.

This is particularly true in the current economy, as many nonprofits are trying to balance a slowdown in corporate and individual giving with increased demands for services. In such an environment, it's often tempting to use endowment income or principal to meet current operating needs. Doing so, however, clearly inhibits growth and delays the endowment from providing its ultimate goals.

Take, for example, the case of a private high school that wants to create an endowment providing 4 \$2,500 scholarships each year to needy children in each grade. To make that happen, Year One would require \$10,000 per annum, Year Two \$20,000 per annum (8 total scholarships), and so on, until there are \$40,000 per year of scholarships being awarded, 4 for each grade. Assuming that the endowment earns 5 percent a year, the endowment would require \$800,000 to be able to support these 16 scholarships.

That seems fairly clear cut, but every year the school has budget shortfalls. The teacher's 401(k) plan is chronically underfunded. To address this issue, the school's trustees vote to use 1.5 percent of the earnings from the endowment, or \$12,000, to fund the 401(k). That decision, however, leaves the school facing a number of difficult choices—it can make aggressive and risky investment decisions in its endowment portfolio, eliminate the scholarships, or use endowment principal. The last choice impacts future earnings, as there is less principal invested. Besides, these decisions may be contrary to the intent of the donors who funded the endowment.

This example clearly illustrates the dilemma many nonprofit organizations face in trying to build an endowment while keeping up with current economic demands. Quite simply, the long-term nature of endowments is contrary to our collective natures. Directors, trustees, constituents, and donors want to see results. Too often, that means opting to fund a summer camp next year rather than deferring that camp for 10 years so that it can be funded every year thereafter.

Capital campaigns also conflict with endowment building. Capital campaigns have very specific goals—construct a new building, renovate existing facilities, acquire more land. They have very defined beginnings and, if successful, endings. Unfortunately, that specificity sometimes means that when capital campaigns fall a little short of their financial goals, other sources—most prominently, endowments—are

"raided" to make up the deficit.

To get past the inherent conflict that inevitably exists between fundraising and building an endowment, nonprofits should consider adopting the following guidelines:

1. Set specific endowment goals, with particular attention to the amount of principal required before funding programs, the use of income and principal, the investment policy, the protections from operating budget demands, and protections to a donor's intent.
2. Separate endowment fundraising campaigns from annual and capital fundraising efforts, which will help to ensure that endowment gifts do not compromise other gifts from the same donors. (Endowment campaigns, in fact, are often directed to a small sub-set of the overall donor pool.)
3. Understand the basics of estate planning and taxes, and be willing to meet with a donor's financial, legal, and accounting advisors.
4. Study potential donors and understand their charitable motives.

With respect to charitable motives, it's important to recognize that people make donations for a variety of reasons. Some sincerely care about the organization's mission. Sometimes, an individual has suffered from a disease or illness, and his or her family and friends make contributions to organizations that provide support, research, and care to others who have the disease. Some donors wish to thank a nonprofit that has enriched their lives. Still others are motivated by recognition. There are donors (or their families) who take great pride in seeing their family name on a building.

Rare is the donor who cares solely about taxes or recognition. Most endowment decisions are affected by all of these issues. What makes this difficult for the organization is that each endowment donor is unique. As a result, endowment gift planning has to be done in small groups or with individuals, and it has to be personalized. This time commitment is a huge challenge for most nonprofit organizations—but it can be made easier if these guidelines for building an endowment are carefully followed.

James A. List
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James A. List is founding partner of [The Law Offices of James A. List, LLC](#), a Mid-Atlantic law firm that serves business owners and individuals with estate planning, asset protection, and trust needs. He is also president of the Board of Directors of The Arc Baltimore.

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Section 4: Important internal documents

- September 2012 College Dashboard of Indicators
- Progress on Presidential Goals for 2012-2013
- College Outcomes
- Student Learning Outcomes Statement
- Values and Vision-College Outcomes
- Learning Outcomes Venn Diagram
- Advancing our Reputation Marketing Plan
- Performance and Goals of Admissions and Financial Assistance

Augustana College

DASHBOARD OF INDICATORS ACADEMIC YEAR 2012/2013 — FALL

DASHBOARD OF INDICATORS ACADEMIC YEAR 2012/2013 - FALL

Student Body - As of the 10th day of the Fall Term:	2008/09	2009/10	2010/11	2011/12	2012/13
Full-Time FTE	2,531	2,455	2,529	2,506	2,538
1st - 2nd Year Retention Rate	86.9%	82.3%	87.8%	87.6%	84.4%
4-Year Graduation Rate	70.6%	69.8%	73.1%	73.6%	70.0%
Racial Diversity	10.5%	10.9%	* 11.9%	* 13.8%	16.8%
Percent Male	42.9%	43.4%	42.3%	42.6%	42.6%
Percent Illinois	87.6%	87.7%	86.7%	85.6%	83.5%
Countries	11	15	16	18	16
Admissions (First-Year Cohort)					
Applicant Pool	3,412	3,636	4,069	4,609	4,232
Selectivity (Acc. Rate)	68.5%	72.8%	65.9%	61.6%	68.7%
Yield (% Acc. Enrolled)	27.5%	23.3%	28.1%	24.9%	22.7%
Enrolled First-Year	639	616	752	708	658
Mean ACT	25.4	25.6	25.5	25.5	25.4
Top 10%	30.0%	35.4%	30.0%	28.0%	29.5%
Top 20%	53.0%	56.6%	55.0%	49.0%	49.9%
Enrolled New Transfers (overall)	62	31	52	48	54
Estimated					
Student Financial Assistance - End of Fiscal Year:					
Total Discount	39.4%	41.9%	45.7%	47.4%	50.0%
Unfunded Discount Rates	34.3%	37.2%	41.3%	43.5%	46.7%
Average Total Loans for Aided Graduates	17,100	22,230	22,900	24,496	
Gap between <i>Expected</i> & <i>Actual</i> Family Contribution	5,656	6,347	6,542	6,937	7,205
Est. 2012/13 or as of Last Qtr.					
Finance - End of Fiscal Year:					
Plant Reinvestment Rate	7.2%	0.8%	3.5%	1.6%	
Endowment Market Value (000s)	88,245	99,310	118,922	115,912	
Endowment Investment Return	-21.2%	11.7%	22.6%	-2.2%	
Principal Amount of Endowment (000s)	82,285	88,778	91,435	93,454	
Annual Operating Margin	6.5%	8.4%	5.4%	1.8%	
Change in Net Assets	-7.4%	11.5%	24.2%	4.4%	
Total Assets	219,978,301	237,476,104	274,621,519	279,462,251	
Net Assets	143,607,168	160,105,372	198,862,734	207,571,386	
Total Liabilities	76,371,133	77,370,732	75,758,785	71,890,865	
Unrestricted Net Assets	67,477,345	69,054,956	95,613,317	102,002,716	
Unrestricted Net Assets/Total Debt	1.119	1.181	1.690	1.851	
Total Revenue	49,711,097	82,571,886	106,000,981	78,062,318	
Expenditures per Student FTE	27,050	27,054	26,469	27,711	
Moody's Bond Rating	Baa1	Baa1	Baa1	Baa1	Baa1
Tuition Revenue Reliance	90.1%	88.3%	87.5%	89.1%	
Net Tuition Revenue per First Year Student	16,661	16,377	14,771	15,752	15,606
Net Tuition Revenue per All Students (FTE)	16,377	17,329	17,028	17,301	17,011
Net Comp. Fee Revenue per 1st Year Res. Student	24,331	24,327	22,952	24,218	24,390
Total Net Tuition and Fees Revenue	43,858,960	43,063,562	43,152,317	43,781,068	43,340,584
Total Unrestricted Financial Resources	67,477,345	76,418,219	95,603,317	102,002,716	
Faculty Salaries - AAUP IIB Percentile	56	59	57	64 / 54 / 44 *	
Est. 2012/13 or as of Last Qtr.					
Advancement - End of Fiscal Year:					
Total Gifts & Grants	9,125,024	11,239,199	15,698,118	14,625,969	
Unrestricted Gifts & Grants	1,400,218	1,530,096	1,628,896	1,759,718	
Alumni Donors	5,474	4,709	4,881	4,642	
% donating	28.6%	30.4%	32.0%	28.0%	
Instruction and Experience - Academic Year:					
Student/Faculty Ratio	11.4	11.4	10.9	11.5	11.86
% of Classes with < 20 Students	55.0%	60.0%	68.0%	64.0%	60.0%
% of Classes with ≥ 50 Students	1.2%	1.1%	1.9%	0.04%	0.01%
% of Graduates who Studied Abroad	41.8%	37.0%	45.7%	53%	
% of Graduates with an Internship Experience	44.0%	44.0%	51.4%	53%	
% of Graduates who worked on Faculty Research	18.0%	16.0%	23.6%	15%	
% of seniors who would choose Augustana again ^{new}					81%
% of seniors who feel that their post-grad plans are a good fit ^{new}					77%
% of seniors who felt a strong sense of belonging on campus ^{new}					74%
% of seniors who felt faculty helped prepare them to achieve their post grad plans ^{new}					73%
% of seniors said courses we available in the order needed ^{new}					59%
% of seniors said 1-on-1 interactions influenced their intellectual growth ^{new}					91%
US News Ranking	88	97	88	86	96

PRESIDENT'S GOALS FOR 2012 – 2013

Steve Bahls

Augustana College

Strategic Imperative One: Prepare our students to stand out

1. Prepare for the 2015-2016 accreditation review of the Higher Learning Commission. *Dean's Office is underway in working with faculty to prepare.*
2. Work with faculty and the dean's office to strengthen student advising and mentoring, with a report due to the board in January of 2013. *Dean's office working with faculty to improve advising, with assessment of strengths and weakness of first year advising completed. Full report by May board meeting*
3. Explore cross-listing more courses to foster interdisciplinarity. *Cross listing complete in German and Scandinavian languages and in the developing Public Health major.*
4. Facilitate experimentation by faculty with using technology to enhance student learning, within the context of the traditional classroom, within the context of blended learning or with a combination of on-line with live learning. Establish a pool of grants for interested faculty, as well as designating a faculty member to administer and coordinate the grants. Consider a center for appropriate use of technology in the classroom within the Center for Teaching Learning. A report will be prepared by January, 2013. *Grant program established. Discussions underway to repurpose the Center for Teaching and Learning to focus on assisting faculty with the appropriate use of technology.*
5. Share, by January 2013, data concerning student learning outcomes by area and develop plans to improve those areas that are weaker than others. *Faculty have proposed and approved intended student learning outcomes. Departments in the process of mapping their learning outcome.*
6. Address concerns with trimester system, within the trimester system (difficulty in transferring in, awkward start and stop dates, costs of three registrations, "dead campus" during key recruiting periods, possible financial aid ineligibility of students who drop one course, difficulty in sharing classes with other colleges, freshmen having difficulty recovering after a slow start in their courses). *More progress needed.*
7. In preparation for the next strategic planning process, work with faculty to ask what an Augustana education means and what student learning outcomes we expect. *Discussions underway as part of the strategic planning process.*
8. Develop a staffing plan to meet today's student demand for courses and majors (and anticipated demand over next five years). Develop an implementation plan to staff appropriately and move faculty lines, if necessary, when positions come open. Identify, within our means, a targeted student-faculty ratio, in light of the current economic realities. *Progress underway as to next year's budget and discussions underway as part of the strategic planning process*
9. Complete administrative review of the art museum, using external reviewers. *Review completed strategies to address deficiencies underway.*

10. Assess whether we are providing students with the needed range of mental health services. *Increased hours of mental health counseling available to students.*
11. With addition of the new campus co-chaplain, assess our campus ministry programming and how to strengthen the program over the next three years. *Underway, with report expect in May*

Strategic Imperative Two: Innovative recruitment and retention

1. Recruit and enroll a well-credentialed class of 680 for the fall of 2013, together with 60 transfer students, with an increase in net tuition revenue per students of \$400, plus an additional \$300 increase per residential student. *Underway.*
2. Increase the number of degree seeking international students in the first year by 7 to 2.5% of the student body. *International student recruitment efforts increased pursuant to an action plan.*
3. Open a Chicago recruiting office by August 2012. *Completed*
4. Completely revise viewbook by August 2012, with associated revisions in the website by September of 2012. *Completed*
5. Assess the adequacy of student support services for special populations including international students, non-traditional students and transfer students. *Plans underway to better support international students by adding a position within our Student Success Center.*

Strategic Imperative Three: Enhance our campus

1. Complete renovation of Old Main by the end of summer of 2013. *On time and on budget.*
2. Complete renovation of the library and construction of the Center for Student Life by the end of the summer of 2013. *On time, though costs of an additional \$1 million are expected*
3. Complete newly constructed football stadium by September 2013. *On time, with budget revised upward pursuant to an agreement with Knowlton Foundation.*
4. Complete plans to place sprinklers in residence halls as required by state codes. *Completed.*
5. Fully fund depreciation for third year in a row, with a budget surplus (to hedge against contingencies) of 1%. *Budgeted – we expect to meet budget*
6. Develop philosophy of prioritizing resources (financial and human) for reduction of deferred maintenance and enhancement of our campus. *Plan developed awaiting approval from the Cabinet.*
7. Develop a plan for our residential properties by May of 2013 as well as an assessment of investment needed in our residence halls over the next three years. *Consultants selected for interviews.*
8. Assess environmental health and safety issues at Augustana, with a report due by December 31, 2012. *Completed.*
9. Assess whether the college has sufficient policies to protect the safety of minors on campus. *Assessment nearly completed for athletics and starting for non-athletic programs (e.g. one-on-one music lessons).*

Strategic Imperative Four: Optimize, support and diversify our workforce

1. Determine the most efficient size and structure of our workforce (faculty, staff and administration) to balance educational goals with financial resources (including a potential 5% reduction in revenues of the college). Establish a plan to get to optimal size and structure within three years, taking advantage of open positions and retraining opportunities. As needs arise for new positions, determine how to fund those positions in an era. *More progress needed.*
2. Develop a written employee engagement philosophy. *More progress needed.*
3. Implement meaningful employee evaluations for all administrative and staff employees. *Plans adopted, to be implement this Spring*
4. Assess best structure of our benefits, given our resources, in a budget neutral way; with a particular focus on assessing the feasibility of a post-retirement (pre-age 65) health plan and creating incentives for employees to contribute to enhancing their retirement benefits. *Plans developed, awaiting approval from cabinet and the board.*
5. Create larger wellness incentives in conjunction with our health plan. *Plans implemented.*
6. Evaluate and update diversity action plan and support Quad City Diversity Initiative. *More progress need.*
7. Develop and implement a plan to ensure consistent and full compliance with OSHA requirements. *Safety review underway with the hiring of a consultant and a new Safety Director.*

Strategic Imperative Five: Strengthen shared governance, leadership and communication

1. Use the platform of the president's office to emphasize that shared governance means shared responsibility for the quality and sustainability of the academic and student life programs at Augustana. Establish a culture that advances the positive buzz at Augustana. Encourage those in the community to celebrate the accomplishments of others and of the college. Encourage faculty and staff to address difficult issues face-to-face, and not use students or others as their proxies. *Continued discussions of shared governance planned. Created in-house publication to better celebrate our accomplishments. Culture change needed for all to participate in face-to-face conversations.*
2. Utilizing shared governance, establish a list of issues to be considered and explored as part of our next strategic plan. *Underway*
3. Work with the board in assessing best practices for the board and board committees. *More progress need.*
4. Review the governing documents (constitution, by-laws and special charter) of the college, making amendments to reflect current governance realities. *Changes drafted, first reading has taken place with final approval expect in May.*
5. Discuss an assessment of board performance. *Discussions underway.*

6. Assess combining Augienet and website to become more cost efficient and ease in navigation, reduce confusion and eliminate dated materials. Report due to the administration by January 31. *The roles of each of been clarified with plans to reduce confusions and eliminate dated material, as well as more timely updates. The recommendation of not combining the two was accepted by the Cabinet, assuming both can be made timelier.*
7. Review student disciplinary policies against best practices for private colleges. *Review underway by legal counsel*

Strategic Imperative Six: Celebrate and strengthen our surroundings

1. Better celebrate, as a community, the accomplishments of members of the Augustana community. *In house publication developed to do so.*
2. Complete the review of the Strengthening our Community Task Force. *First partnership with Renaissance Rock Island Underway*
3. Solidify Rock Island Business Roundtable. *Completed.*

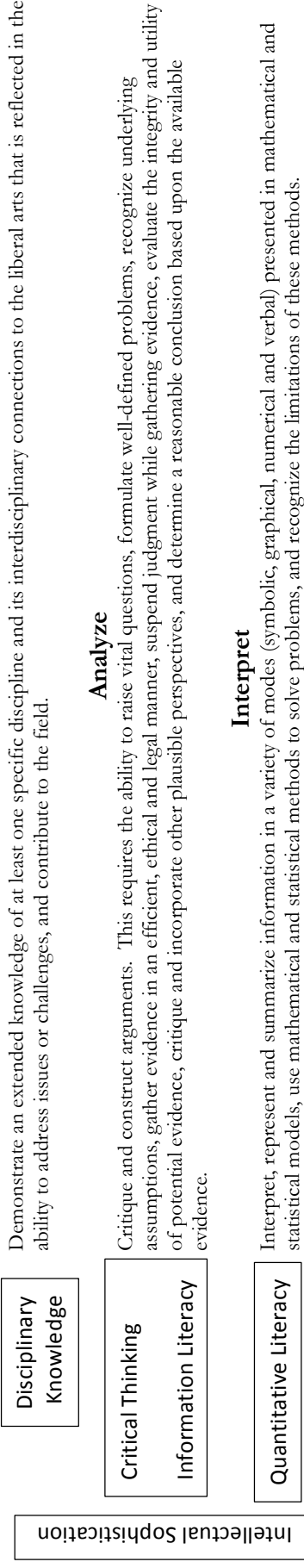
Strategic Imperative Seven: Improve our financial viability

1. Develop contingency plan to respond to possible reductions in revenues at the level of 5% (with a plan to execute in place for the 2013-2014 year, with a contingency plan to reduce by 10%). *Exercise underway.*
2. Orient new CFO. Develop three year plan for offices reporting to the CFO. *Underway*
3. Increase the dollars raised for the annual fund by \$200,000. *Underway*
4. Implement robust internal audit procedures to ensure compliance with college policies. *Underway.*
5. Continue to develop post-campaign major gifts strategies, including strategies to increase our endowment. *Implemented*
6. Achieve break even for WVIK; complete WVIK capital campaign. *Nearly achieved, with great progress being made.*
7. Develop 25 new donors, who have not given a large gift, with a potential of donating \$100,000 or more within 5 years. *Implemented*

Strategic Imperative Eight: Advance Augustana's reputation

1. Develop a comprehensive plan to market Augustana's four strategic differences (Augie Choice, value for cost, Academic All-Americans, location). *Plans developed and underway.*
2. Better market, nationally, the accomplishments of Augustana, its students and our faculty. *More progress needed, but initial steps taken in Chicago.*

COLLEGE OUTCOMES



Understand

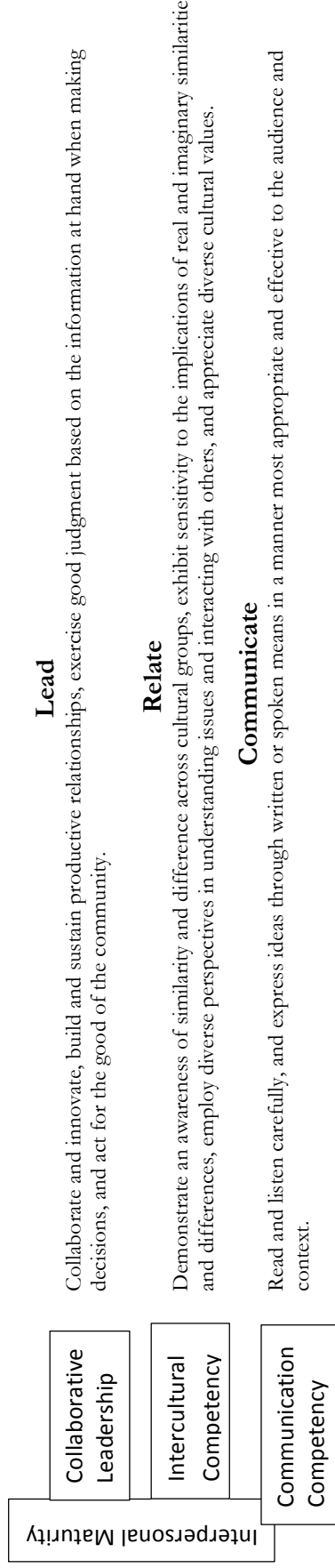
Demonstrate an extended knowledge of at least one specific discipline and its interdisciplinary connections to the liberal arts that is reflected in the ability to address issues or challenges, and contribute to the field.

Analyze

Critique and construct arguments. This requires the ability to raise vital questions, formulate well-defined problems, recognize underlying assumptions, gather evidence in an efficient, ethical and legal manner, suspend judgment while gathering evidence, evaluate the integrity and utility of potential evidence, critique and incorporate other plausible perspectives, and determine a reasonable conclusion based upon the available evidence.

Interpret

Interpret, represent and summarize information in a variety of modes (symbolic, graphical, numerical and verbal) presented in mathematical and statistical models, use mathematical and statistical methods to solve problems, and recognize the limitations of these methods.



Lead

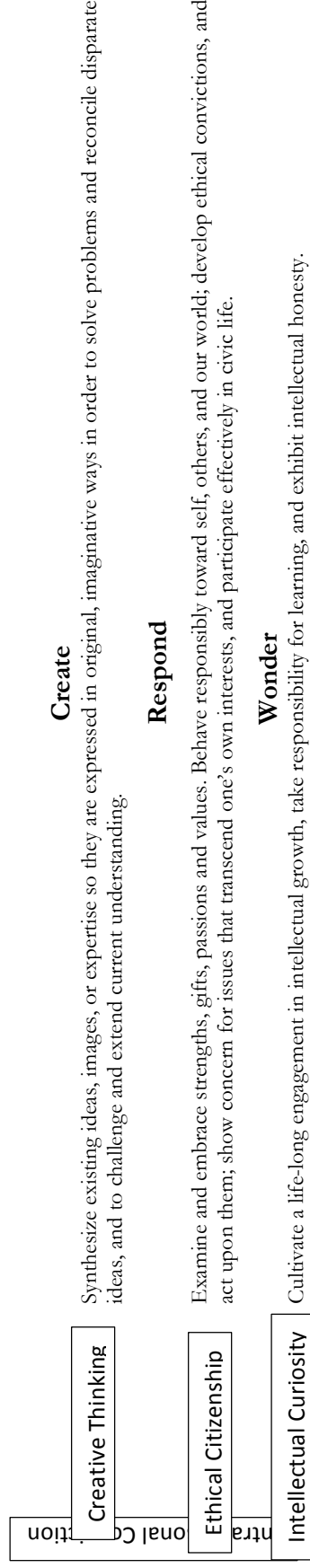
Collaborate and innovate, build and sustain productive relationships, exercise good judgment based on the information at hand when making decisions, and act for the good of the community.

Relate

Demonstrate an awareness of similarity and difference across cultural groups, exhibit sensitivity to the implications of real and imaginary similarities and differences, employ diverse perspectives in understanding issues and interacting with others, and appreciate diverse cultural values.

Communicate

Read and listen carefully, and express ideas through written or spoken means in a manner most appropriate and effective to the audience and context.



Create

Synthesize existing ideas, images, or expertise so they are expressed in original, imaginative ways in order to solve problems and reconcile disparate ideas, and to challenge and extend current understanding.

Respond

Examine and embrace strengths, gifts, passions and values. Behave responsibly toward self, others, and our world; develop ethical convictions, and act upon them; show concern for issues that transcend one's own interests, and participate effectively in civic life.

Wonder

Cultivate a life-long engagement in intellectual growth, take responsibility for learning, and exhibit intellectual honesty.

STUDENT LEARNING OUTCOMES STATEMENT

Student Learning Outcomes clearly articulate the outcomes of an Augustana education. These outcomes should provide us with a common vocabulary for communicating what we intend to accomplish should permeate what we do and how we do it. The determining our Student Learning Outcomes the Assessment Committee drew upon the theory of student development called self-authorship to provide a framework for organizing the outcomes and showing how they overlap with each other and combine to produce graduates with "a sense of personal direction, and the knowledge and abilities to work effectively with others in understanding and resolving complex issues and problems." These outcomes were adopted by Augustana Faculty at their November 12, 2012 full faculty meeting. The outcomes have also been correlated with the statements of values and vision from the faculty retreat as part of our Academic Planning efforts related to the next strategic plan (see Values and Vision document).

VALUES AND VISION–COLLEGE OUTCOMES

To provide an environment that fosters intellectual curiosity, develops critical thinking and intellectual sophistication, and instills an enduring love of learning. Our students are self-aware and socially conscious, engaged in the larger community and can adapt to a changing world without compromising their values.

Values:	Votes
A. Integrity/Ethical	60
B. Reflective/Self-aware	52
C. Socially conscious	45
D. Rigorous	34
E. Open minded/Adaptable	33
F. Student Centered	28
G. Sustainable	24
H. Curious	23
I. Inclusive/ Diverse	23
J. Engaged in the Community	23

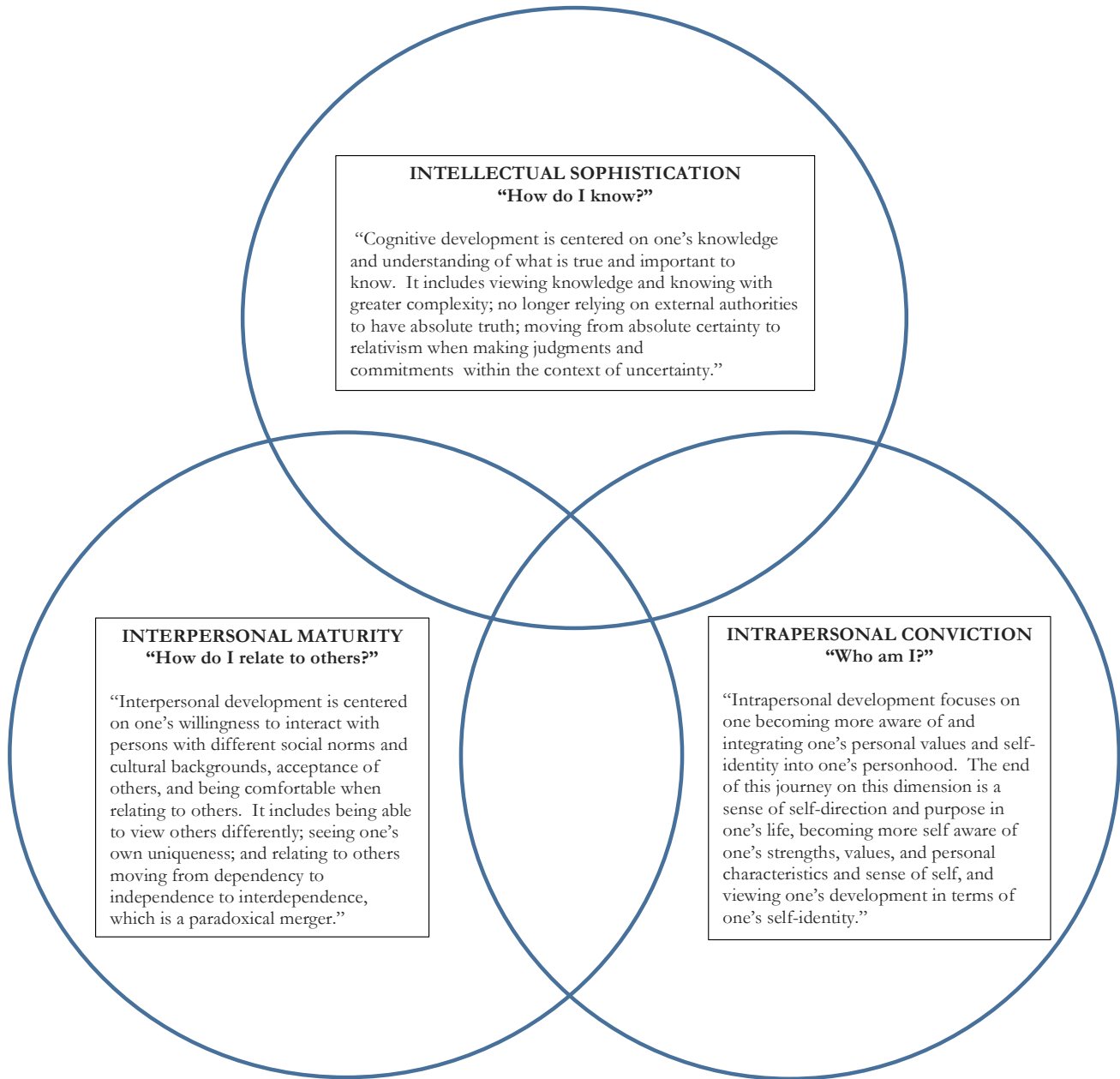
Vision/Goals for Students:

K. Critical Thinkers/Intellectual Sophistication	58
L. Engaged in the Larger Community	53
M. Intellectually Curious	51
N. Life-long Learners	35

Map of Values and Vision/Goals to Learning Outcomes

Understand	D K
Analyze	D K
Interpret	D K
Lead	J L
Relate	E J L
Communicate	
Create	
Act	A B C G
Wonder	H I M N

LEARNING OUTCOMES VENN DIAGRAM



Drawn from :
Baxter Magolda, M.B. (2004). Learning Partnerships Model: A framework promoting self-authorship. In *Learning Partnerships: Theory and models of practice to educate for self-authorship*, eds. M.B. Baxter Magolda and P.M King, 37-62. Sterling, VA: Stylus.
Braskamp, L.A., Braskamp, D.C. & Merrill, K.C. (2008). Interpretative Guide and Institutional Report for Global Perspectives Inventory. www.gpinv.org.

Advancing our Reputation

The 2012-2013 Strategic Marketing Plan

Contents

1. Background
2. Plan Overview
3. Marketing Plan
4. Sample Media

A stylized, light blue archway graphic is positioned on the left side of the page, partially overlapping the dark blue background. It features a central opening with a horizontal bar across it, resembling a doorway or a window.

Augustana College

Augustana's 2011 strategic plan, *Authentically Augustana—Part 2: Affirm our Mission, Assure our Future and Assess our Results*, presents a responsive and realistic direction for the college. It also extends from progress of the college's 2005 strategic plan, *Authentically Augustana: A Strategic Plan for a Premier Liberal Arts College*.

The goals of the 2005 *Authentically Augustana* strategic plan required the college to communicate its distinctive attributes more effectively than ever before. This challenge was led by the Office of Communication and Marketing and addressed through integrated marketing communication, a marketing concept grounded in research and characterized by its emphasis on transmitting strategically important messages through all institutional communications.

The integrated marketing communications plan (IMCP) in support of the 2005 strategic plan provided a base from which college communicators began to tell Augustana's story more effectively and strategically. Successful integrated marketing communication at Augustana continues to rely upon cooperation across all levels of the college—individual, departmental and institutional.

The six goals of the 2005 *Authentically Augustana* strategic plan impacted areas ranging from the academic program to recruitment and retention, student services, campus infrastructure, financial and human resources, and college relations. These areas also relate to the eight goals of the 2011 plan, *Affirm, Assure and Assess*, called "strategic imperatives" for their direct response to explicit contemporary challenges to higher education in general, or to Augustana in particular.

Recruitment and retention are still primary among our strategic goals, as are financial viability, reputation, shared governance and communication. Overall, the driving force behind *Affirm, Assure and Assess* is to advance the excellence of our academic program and prepare our students to stand out as they represent and articulate that excellence.

While the 2005 strategic plan was more traditional, foundational and visionary, the 2011 plan is more streamlined and direct—in part because it extends from the 2005 plan, but also because it responds to new risks. The strategic marketing plan developed by the Office of Communication and Marketing in support of *Affirm, Assure and Assess* continues the success and momentum of the 2005 plan, with a specific focus on *Imperative 8: Advance our reputation as a premier college of the liberal arts and sciences*.

Some accomplishments of the IMCP in support of *Authentically Augustana*, and bridges to the new strategic marketing plan in support of *Affirm, Assure and Assess*

Implementation recommendations of the IMCP in support of the 2005 strategic plan included foundational strategies and tactics, as well as recommendations to support specific strategic goals. Like the strategic plan itself, the IMCP was extensive, layered and detailed.

To provide a useful background for the college's more direct and shorter-term strategic marketing plan in support of *Affirm, Assure and Assess*, here is a summary of some primary accomplishments related to the work of the Office of Communication and Marketing under the 2005 plan, as well as objectives that bridge both plans.

1. DEVELOP A COMPREHENSIVE BRAND SYSTEM FOR THE COLLEGE TO DEPICT ITS ESSENTIAL CHARACTER, MISSION AND VALUE

In 2005, the Augustana College Board of Trustees recognized the need to do what many colleges and universities across the nation already were doing by that time: adopt a distinctive brand system. The board and many college constituencies recognized an institutional brand as a fundamental way to ensure the cohesive, consistent communication through which audiences can assess the quality of an institution.

After conducting the market research that laid the foundation for the 2005 integrated marketing communication plan, the college began to incorporate an institutional brand that included a verbal and visual identity led by the Augustana College brand mark and athletics' AC. Today, the Augustana brand is cohesive and widely recognized in promotional materials and advertising ranging from billboards, banners and brochures to the college website, athletics and arts media, admissions and advancement materials, and bookstore merchandise.

The new athletics identity of the Augustana Viking was created in-house by the Office of Communication and Marketing and was unveiled in September 2011.

2. CREATE A SUSTAINABLE REPOSITORY OF POSITIONING EVIDENCE TO BE USED IN DEVELOPING MARKETING COMMUNICATION MESSAGES AND CONTENT FOR PUBLICATION

The Office of Communication and Marketing began to enlist the broader Augustana community to help provide evidence to be used in developing marketing communication materials and to tell the Augustana story. The office continues to add to its repository of testimonials, stories, data and endorsements, which together exemplify the claims of our positioning and bring the Augustana experience to life.

Advances since 2005 include a "Sharenews" email method of collecting evidence and stories for content; and a group of writers, editors and photographers who meet weekly to discuss stories and placement venues ranging from the *Augustana Magazine* to the website to media releases and national media. Some specific examples of new communications include the web-based *Stats & Stories* that serve to position outstanding elements of the Augustana experience by combining a good story with relevant outcomes data. *More Than I Imagined* is a website feature of faculty and graduating senior students' testimonials. *Augie News* and *Acknowledge* are bi-monthly and monthly electronic newsletters targeted at internal audiences, and in the case of the former, alumni, friends and trustee subscribers. Print pieces, including the annual president's report and the points of pride brochure, are used for strategic outreach.

New ideas for positioning Augustana messages include regular video features on student life and "Augie Minute," with faculty providing short clips relating to their areas of expertise. Primary messaging currently focuses on Augustana's four distinctions to clearly position the college in a complex landscape: Augie Choice: \$2,000 to support study abroad, research with a professor or an internship; the college's strong tradition of Academic All-Americans; the Quad Cities location as an advantage for students seeking internships, employment, field studies, cultural events, research and service-learning opportunities; and our new four-year graduation agreement.

3. EMPHASIZE POSITIONING-BASED MESSAGES AND COMMUNICATION STYLE BASED ON STAGES IN THE ENROLLMENT FUNNEL

Communication and marketing has worked closely with admissions representatives over the past several years, with liaisons versed in writing, design and web meeting regularly with admissions representatives to craft communications essential to students at specific stages in the enrollment funnel. As communication media and even the funnel stages change over time, the admissions/communication team has watched for trends and engaged new ideas.

In February 2011, communication and marketing launched a new admissions media production initiative by conducting focus group research with college-bound juniors and seniors in Chicago and Denver. This research, combined with survey research conducted by admissions, led to the creation of a new suite of admissions media and a revised communication flow strategy that launched in August 2012.

In response to the changing and more immediate challenges of the current higher education landscape, Augustana's primary messaging has shifted from a focus on the mission and positioning to the college's four distinctions. The "foundational" messages of one-on-one attention and a balance of challenge and support, from the first-year liberal studies sequence to Senior Inquiry, still are important to recruitment communications.

As a thought leader in enrollment management, Kent Barnds has worked and continues to work closely with the Office of Communication and Marketing to contribute to professional journals, blogs and feature articles.

4. DEVELOP A PROMOTION PLAN TO SUPPORT THE *AUTHENTICALLY AUGUSTANA* CAMPAIGN

Communication and marketing produced multiple layers of campaign promotions, ranging from a "quiet phase" booklet to a high-impact brochure to video testimonials to a campaign newsletter series. The office continued to support the work of the Office of Advancement as our colleagues held events and met with donors during the ensuing years. The layers and levels of communication and relationship building eventually led to a successful capital campaign that far surpassed its original goal of \$100 million, ending in 2012 at \$152 million.

5. DEVELOP PUBLICITY MODELS TO PROMOTE AUGUSTANA'S COMMUNITY CITIZENSHIP

Augustana's value as an institutional citizen regularly has been highlighted through stories of faculty and student engagement, and through events such as: the Guinness Record-Breaking and Whitey's ice cream event that drew 2,694 people to Ericson Field in 2010; the hometown celebration for the sesquicentennial anniversary; and community-building events such as the recent Augustana Day at Modern Woodmen Park.

Aside from the specific promotion plan to support the *Authentically Augustana* capital campaign, these goals will continue into the future, with new milestones set and reached. By nature they also connect to the 2011 *Affirm, Assure and Assess* plan, viewed as a "bridge" plan to focus the college during the next couple of years.

Other strategies and goals that overlap both plans include ongoing efforts to: increase national visibility and reputation commensurate with Augustana's quality; champion faculty expertise; recognize student achievement; update and innovate recruitment messaging; and develop a communication plan to support an athletics strategic plan.

The 2012-13 strategic marketing plan for the Office of Communication and Marketing

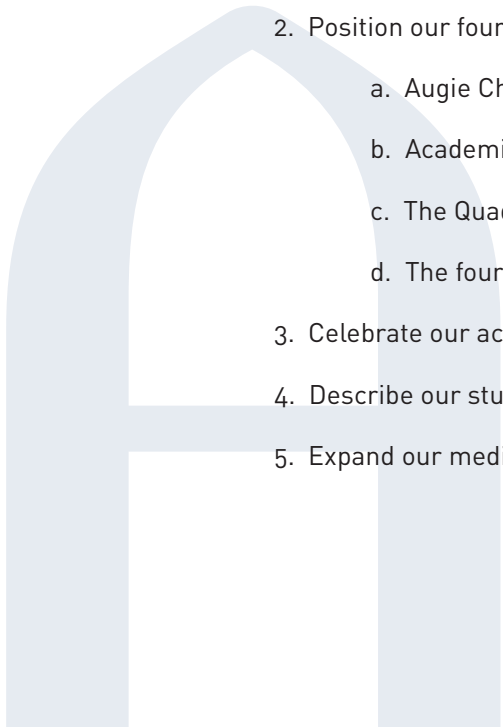
In the fall of 2010, Augustana College President Steven Bahls challenged the strategic planning task force with developing a new and contemporary strategic plan—specifically a plan that shed the lexicon of the typical strategic plan. This new plan, *Affirm, Assure and Assess*, is designed to address real risks the college faces following a tumultuous first decade of the 21st century.

The charge to the task force was to develop a plan that affirms our mission, assures our future and assesses our results. The plan is built around eight identified “strategic imperatives” deemed critical to ensuring the future of Augustana College. Augustana College will:

1. Prepare students to stand out
2. Adopt innovative practices for recruitment and retention
3. Enhance our college campus
4. Diversify, optimize and better support our employee base
5. Strengthen leadership and improve communication through more effective shared governance
6. Enhance and celebrate our ties to the area around the college
7. Improve the college’s financial viability
8. Advance our reputation as a premier college of liberal arts and sciences

This 2012-2013 strategic marketing plan contains five initiatives intended to affirm, assure and assess the advancement of the college’s reputation.

1. Market our expertise
2. Position our four distinctions
 - a. Augie Choice
 - b. Academic All-Americans
 - c. The Quad Cities location advantage
 - d. The four-year graduation agreement
3. Celebrate our achievements
4. Describe our student experience
5. Expand our media and marketplace presence



GOAL # 1 | MARKET OUR EXPERTISE

	2012												2013											
	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC		
REVAMP FACULTY PROFILES ON THE WEB (Add areas of specialization, video, new photos, links to stories, published works)																								
Secure Academic Affairs partnership	✓																							
Establish key elements we want in all profiles		✓																						
Create profile template and programming to allow for search and tagged content		■	■	■	■	■	✓																	
C&M staff work with department heads to expand profiles as necessary						•	•	■	Z	Z														
Secure new photos and profile info						•	•	■	Z	Z														
Share with faculty progress towards completion							•	•	•	•	•	■												
Launch online profiles/experts web feature					•	•	■	•	•	•														
Post bi-weekly Augie Minute videos featuring faculty, staff and administrator commentaries							✓	✓	✓	✓	■	■	■	■	■									
EMPLOY FACULTY PROFILES/EXPERTS LIST IN MEDIA OUTREACH																								
Deliver links to profiles and profile groupings as part of media outreach efforts							•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•		
DEVELOP AT LEAST ONE NEW FACULTY-LED OUTREACH PROGRAM PER YEAR																								
Create list of up to five possible faculty program leads							•	✓																
Cultivate faculty commitment							•	•	•	•	•	•	•	•	■									
Create program and event plans in collaboration with faculty leads							•	•	•	•	■													
Announce first new program/event*							•	•	•	•	■	•	•	■										

- TARGET FOR COMPLETION
- IN PROGRESS
- PROGRESS DELAYED
- ✓ COMPLETED
- ✗ CANCELLED

*NOTE: Plan to promote both January Symposium and April Undergraduate Research Conference



GOAL # 2 | POSITION OUR FOUR AUGUSTANA DISTINCTIONS

	2012					2013						
	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL
AUGIE CHOICE (AC)												
Advertising-Promote AC via print and display advertising on and off campus	✓	✓	✓	✓	✓	•	•	•	•	•	•	•
Advertising-Radio spots on public radio stations to position our distinctions						■	■	■				
Web-Develop AC web presentation for new Augustana Distinctions web page parallel to new viewbook		•	■	X								
Web-Launch new AC web feature that offers at least one new AC student profile bi-monthly			✓	✓	✓	■	■	■	■	■	■	■
Web-Include AC stories on revamped majors pages		•	■	Ž	Ž							
Direct-Revamp and employ AC brochure, AC website in admissions mailings	✓											
Direct-Create AC feature as element in new viewbook and mini viewbook	✓											
PR-Create AC student speakers bureau (ACSSB)			•	•	•	■						
Recruit students to serve who can speak about study abroad, internship or research experiences			•	•	■	Ž						
Provide media relations training for speakers bureau students			•	•	•	■	Ž					
Position ACSSB students as media contacts as appropriate			•	•	•	•	■					
Integrate ACSSB students in recruiting events, trips and interviews as appropriate			•	•	•	•	■	■	■	■	■	■
Position ACSSB students as ambassadors to help underclassmen craft their AC experience			•	•	•	•	•	■				
PR-Pitch at least one AC-related story each term to local, regional and/or national media		■	■	■	■	■	■	■	■	■	■	■
PR-Generate at least one hometown news release per term in support of AC stories	•	•	✓	✓	✓	■	■	■	■	■	■	■
PR/Event-Promote undergraduate research-focused high-impact learning conference led by Ellen Hay and CEC (possibly merge with Celebration of Learning)							•	•	•	■		
ACADEMIC ALL-AMERICANS (AAA)												
Advertising-Post display/billboard ads on and off campus	✓	✓										
Direct-Employ AAA messaging in athletics recruiting materials	✓											
Direct-Create AAA feature as element in new viewbook and mini viewbook	✓											
Web-Develop AAA web presentation for new Augustana Distinctions web page parallel to new viewbook		•	•	•	X							
PR-Generate hometown news releases in support of AAA achievements				•	■					•	■	
PR/Event-Pitch media coverage of AAA recruitment dinner					X							
QUAD CITIES ADVANTAGE												
Web-Develop QC advantage web presentation for new Augustana Distinctions web page parallel to new viewbook		•	■		X							
Direct-Create AC advantage feature as element in new viewbook and mini viewbook	✓											
PR/Event-Promote the announcement of a new Upper Mississippi River Studies Center (UMRSC) and first director		■	✓									
PR/Event-Promote first UMSC event					•	■			■	■		
FOUR-YEAR GUARANTEE (FYG)												
Web-Develop FYG web presentation for new Augustana Distinctions web page parallel to new viewbook		•	■		X							
Direct-Create FYG feature as element in new viewbook and mini viewbook	✓											

- TARGET FOR COMPLETION
- IN PROGRESS
- PROGRESS DELAYED
- ✓ COMPLETED
- X CANCELLED

GOAL # 3 | CELEBRATE OUR ACHIEVEMENTS

	2012					2013						
	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL
CELEBRATE ALUMNI ACHIEVEMENT												
PR-Establish C&M staff beats with divisions/departments to identify achievement-related story opportunities	✓											
PR-Include at least one alumni success story per month in Augie News	•	•	•	•	•	•	•	•	•	•	•	•
PR-Include at least one alumni success story in each bi-monthly alumni newsletter	•	•	•	•	•	•	•	•	•	•	•	•
Web-Develop new alumni and parents web presence as part of new alumni & friends website	•	✓	✓									
CELEBRATE STUDENT & FACULTY ACHIEVEMENT												
PR-Establish C&M staff beats with divisions/departments to identify achievement-related story opportunities	✓											
Web-Produce Augie Minute videos in support of student and faculty achievements	✓	✓	✓	✓	✓	•	•	•	•	•	•	•
PR-Publicize progress on the Fulbright initiative through first cycle (Oct, Dec, Jan, May-Jun)	•	•	■	•	■	■	•	•	•	■		
Web-Post abstracts and links to stories on faculty achievement to faculty profile pages	•	■	Z	Z	Z							

- TARGET FOR COMPLETION
- IN PROGRESS
- PROGRESS DELAYED
- ✓ COMPLETED
- x CANCELLED



GOAL # 4 | DESCRIBE OUR STUDENT EXPERIENCE

	2012					2013						
	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL
BUILD BUZZ FOR THE CSL												
Web-Create CSL landing page as one-stop shop for construction news, updates, photo and video galleries, and user guides		•	✓									
PR-Promote October Homecoming beam-signing ceremony			✓									
PR-Promote Winter 2013 placement of time capsule							■					
Direct-Distribute CSL and OM-centered special edition of <i>Augustana Magazine</i> in August 2013								•	•	•	•	■
PROMOTE THE RESIDENTIAL STUDENT EXPERIENCE												
Web-Produce bi-weekly student life videos	✓	✓	✓	✓	✓	■	■	■	■	■	■	
Direct-Create and distribute new residential life brochure as part of admissions communication flow	✓											

- TARGET FOR COMPLETION
- IN PROGRESS
- PROGRESS DELAYED
- ✓ COMPLETED
- ✗ CANCELLED



GOAL #5 | EXPAND OUR MEDIA AND MARKETPLACE PRESENCE

	2012					2013						
	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL
IMPROVE LOCAL, REGIONAL AND NATIONAL EARNED MEDIA PLACEMENT RATE BY 25% OVER LAST YEAR												
PR-Develop and employ a new one-year Augustana events and milestones calendar	✓											
PR-Identify four new media outlets and develop at least one professional relationship at each outlet		•	•	•	■							
PR-Employ our new experts list in our media pitch enterprise (start with release announcing its availability)		■	Ž	Ž	Ž							
PR-Invest in training and networking to advance the effectiveness of pitch-writing					•	•	•	•	•	•	■	
DEVELOP A MEDIA PLACEMENT IMPACT/RETURN ON INVESTMENT MEASUREMENT SYSTEM												
Establish conversion metrics to evaluate number of pitches, releases and news tips necessary to secure a placement		•	•	•	■							

- TARGET FOR COMPLETION
- IN PROGRESS
- PROGRESS DELAYED
- ✓ COMPLETED
- ✗ CANCELLED



These three designs celebrate two of our key distinctions, and these will be on billboards in the Quad Cities and on campus signage this academic year in support of Goal #3 of this plan.



\$2,000
to support your internship,
research or study abroad.
This is **AUGIE CHOICE**

Augustana College
Rock Island, Illinois

Augustana College

ACADEMIC ALL-AMERICANS



#1 IN OUR CONFERENCE **#2** IN DIVISION III **#6** IN THE NCAA

Augustana College

Newest **ACADEMIC ALL-AMERICANS**



Erik Westerberg, Elmhurst, IL and Maggie Hoscheit, St. Charles, IL



#1 IN THE CCIW **#2** IN DIVISION III **#6** IN THE NCAA

PERFORMANCE AND GOALS OF ADMISSIONS AND FINANCIAL ASSISTANCE

For your information, I would like to take time to offer some analysis of this past year related to the benchmarks/dashboard indicators set by the Augustana College Board of Trustees. I hope this information will provide you with a greater understanding of the performance and goals of the Offices of Admissions and Financial Assistance.

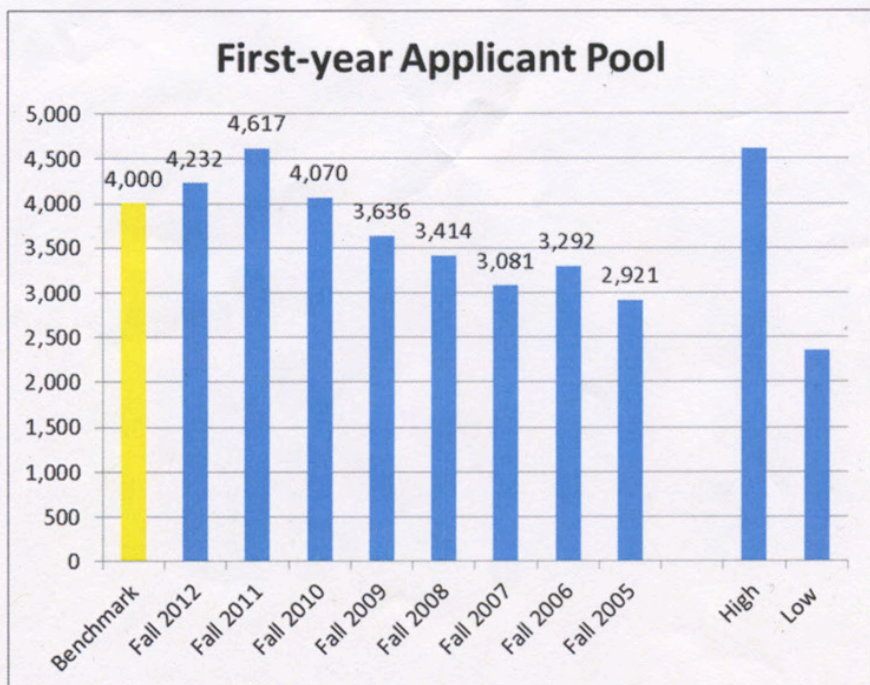
Dashboard Indicators Analysis

The Board of Trustees has established several “dashboard indicators” by which we are measured annually, as well as benchmark targets. I have included, where applicable, previous historic high and low data points. I also have included the benchmarks set by the board, when available. You may notice in several areas we have some progress to make in meeting those benchmarks. This year I also have added some information related to test-optional applicants.

Below you will find a graph for each of these areas along with a brief explanation where necessary. I hope you will find this information useful.

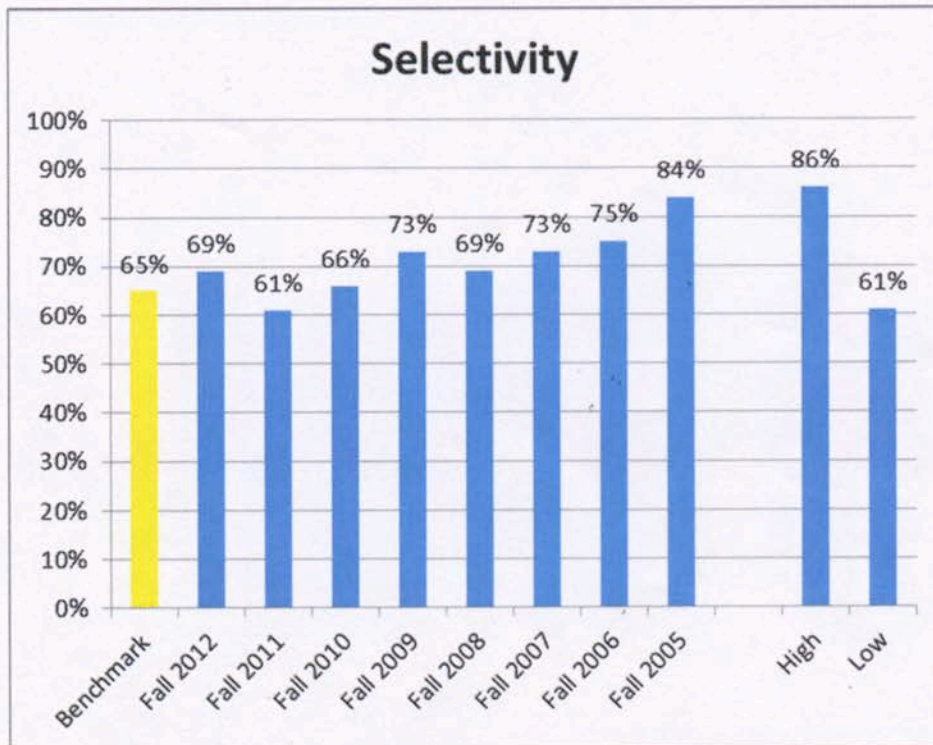
Dashboard 1: First-year Student Applicant Pool

The size of the applicant pool is a very important indicator in measuring our “demand” within the marketplace. This indicator is important not only to the board and to us in admissions, but also is a useful measure for the college’s bond raters. For the fall of 2012 we attracted the second largest applicant pool in the college’s history and exceeded 4,200 applicants. Below is a chart measuring our performance in this area.



Dashboard 2: Selectivity

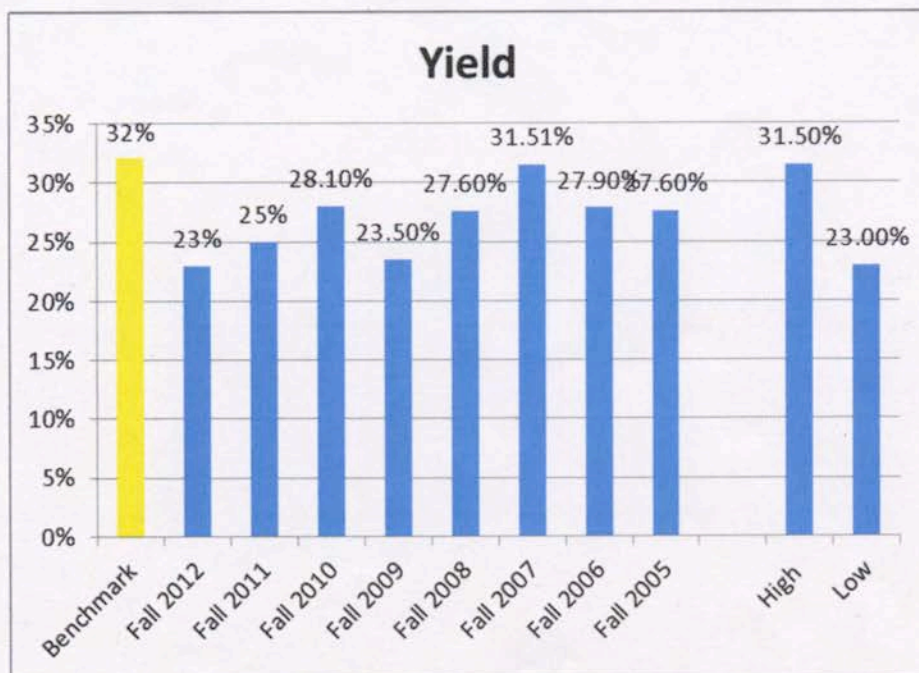
Selectivity is measured by the percentage of applicants to whom we offer admission. Lower is better.



Dashboard 3: Yield

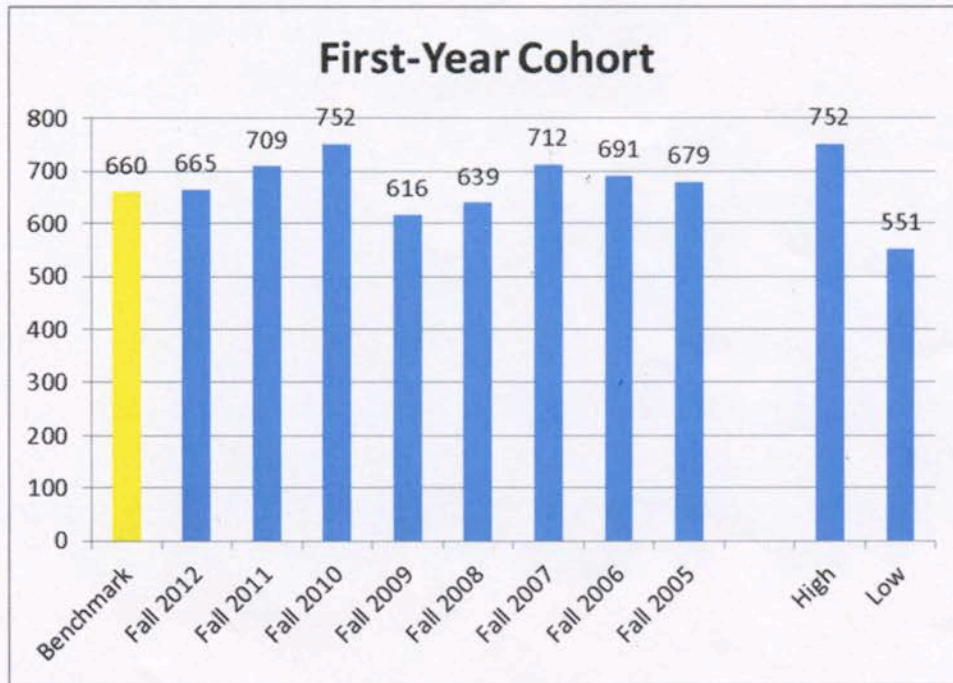
Our yield dipped once again, which signals that what once was a very good predictor of enrollment no longer is. We've increased the events and activities focused on conversion, but have struggled to increase this measure.

Yield is the percentage of students admitted who ultimately choose to attend the college—many think of this as a measure of conversion. Higher conversion is better in this area.

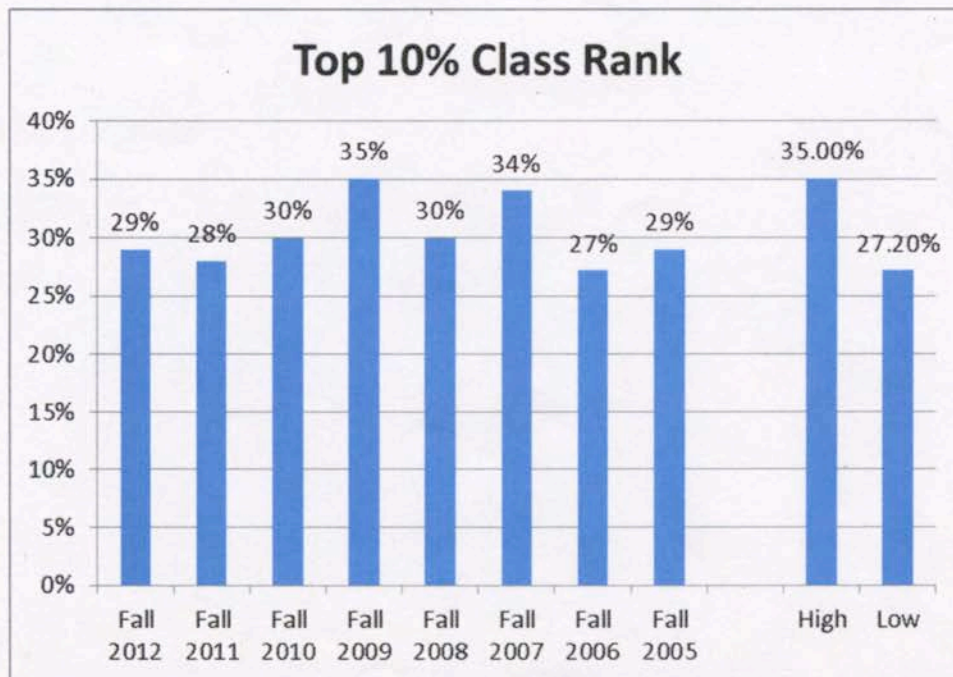


Dashboard 4: Enrolled First-Year Students

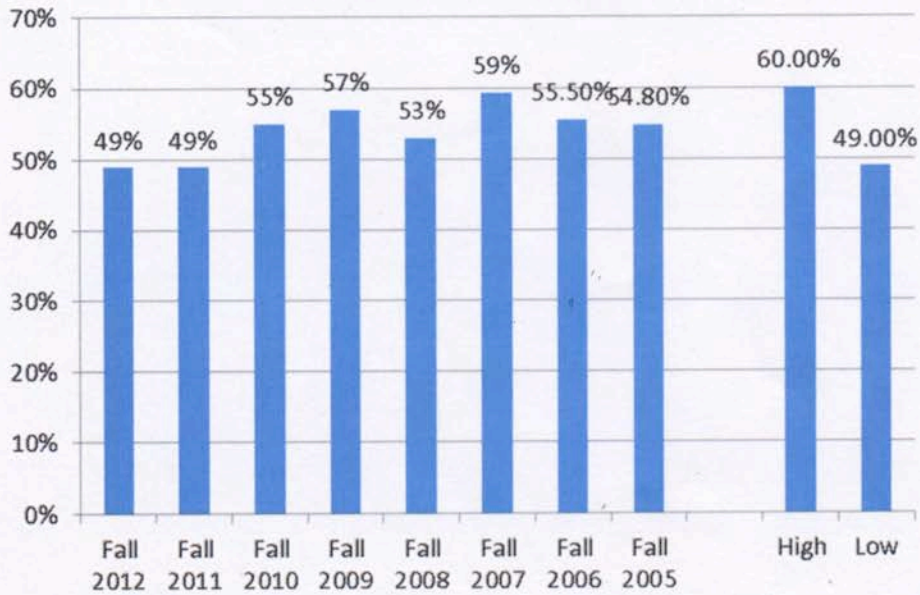
First-year student enrollment represents nearly 30% of our total enrollment in most years and drives many of our financial and staffing decisions. The size of the first-year class is critical to the overall enrollment picture and is a significant measure of admissions and financial assistance success. It is this benchmark that becomes the focal point of Augustana during the spring months.



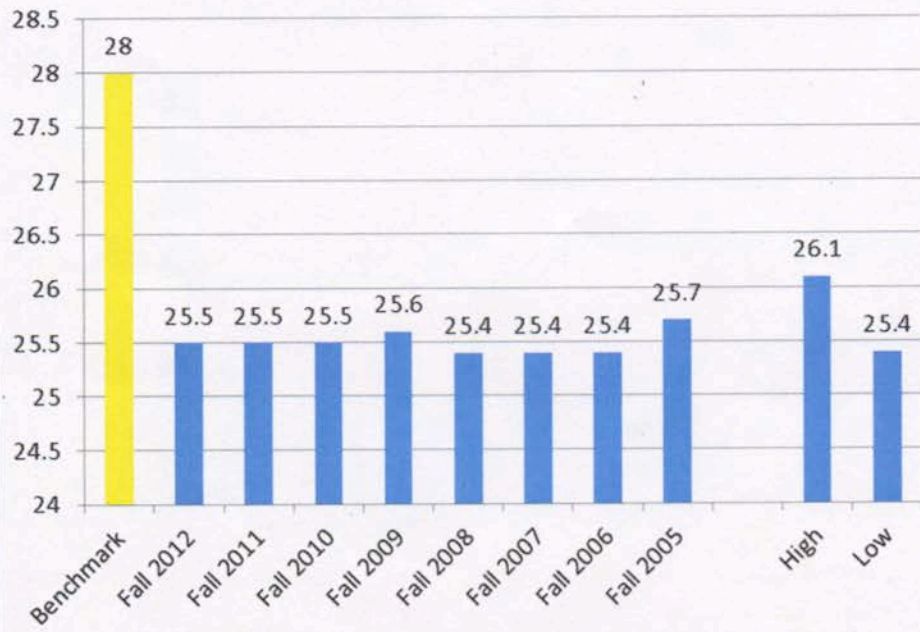
Dashboard 5: Quality Indicators (Top 10% RIC, Top 20% RIC and mean ACT)



Top 20% Class Rank

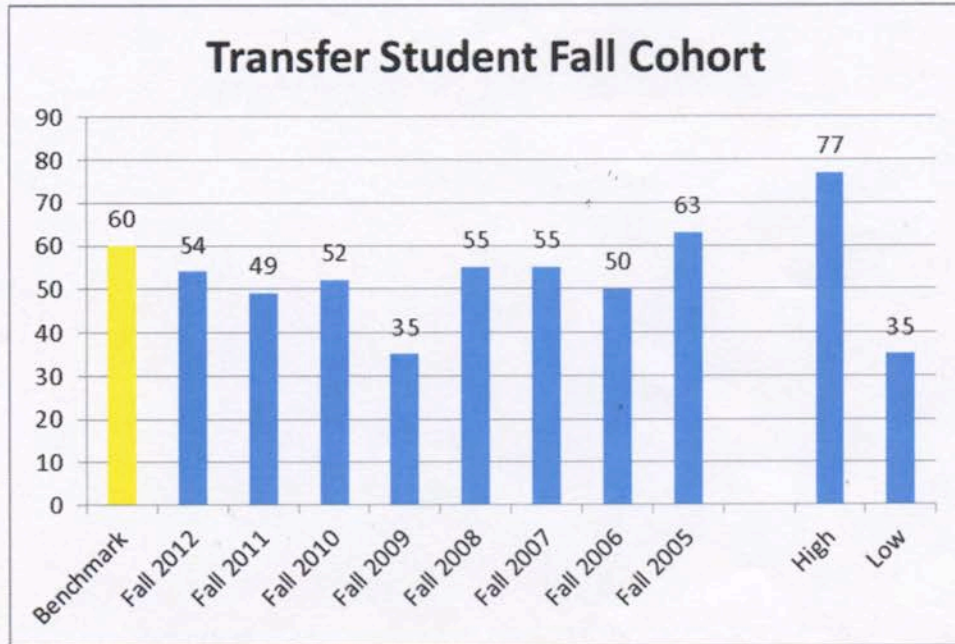


ACT Mean



Dashboard 6: Enrolled Transfer Students

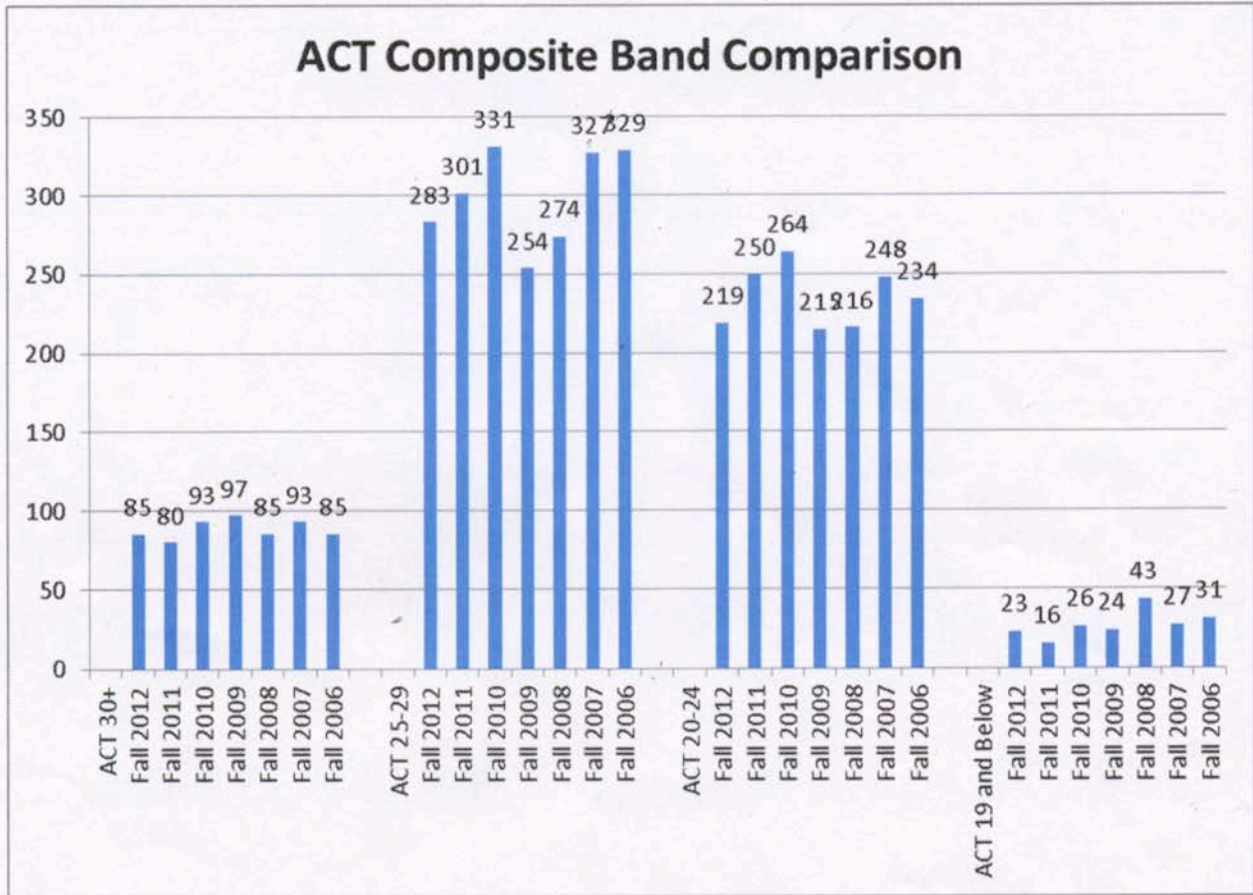
A benchmark of 85 transfer students was established several years ago. Since the introduction of AGES and the LS sequence we have not had as much success with transfer student enrollment, and as a result the Board of Trustees has adopted instead a benchmark of 50 to 60 transfer students.



Other Measures of Significance:

ACT Range Comparisons

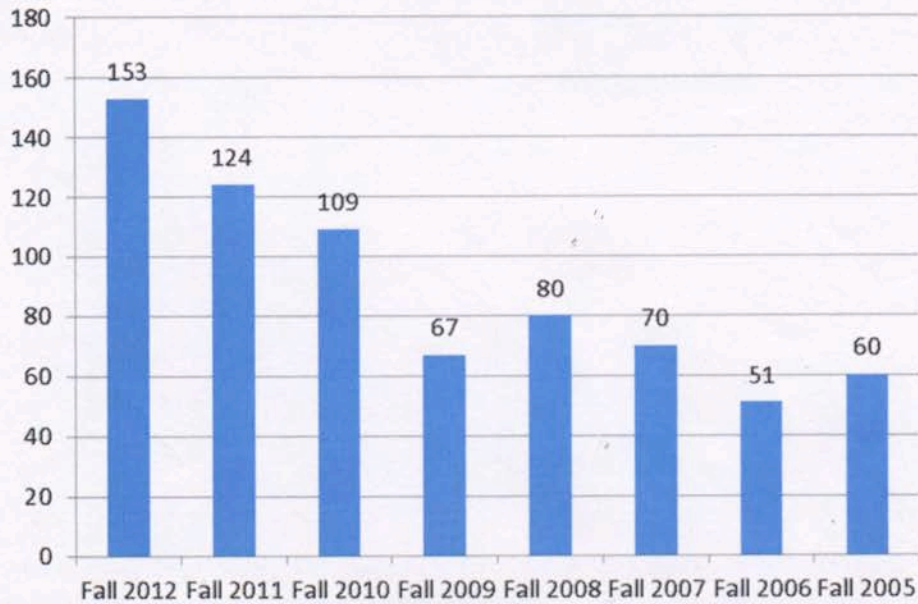
I also thought it might be interesting to share some comparative data related to ACT test scores in specific ranges. Below you will find a comparative graph of the number of students in each range. In 2008 we introduced test-optional admissions, accounting for loss in volume in some bands.



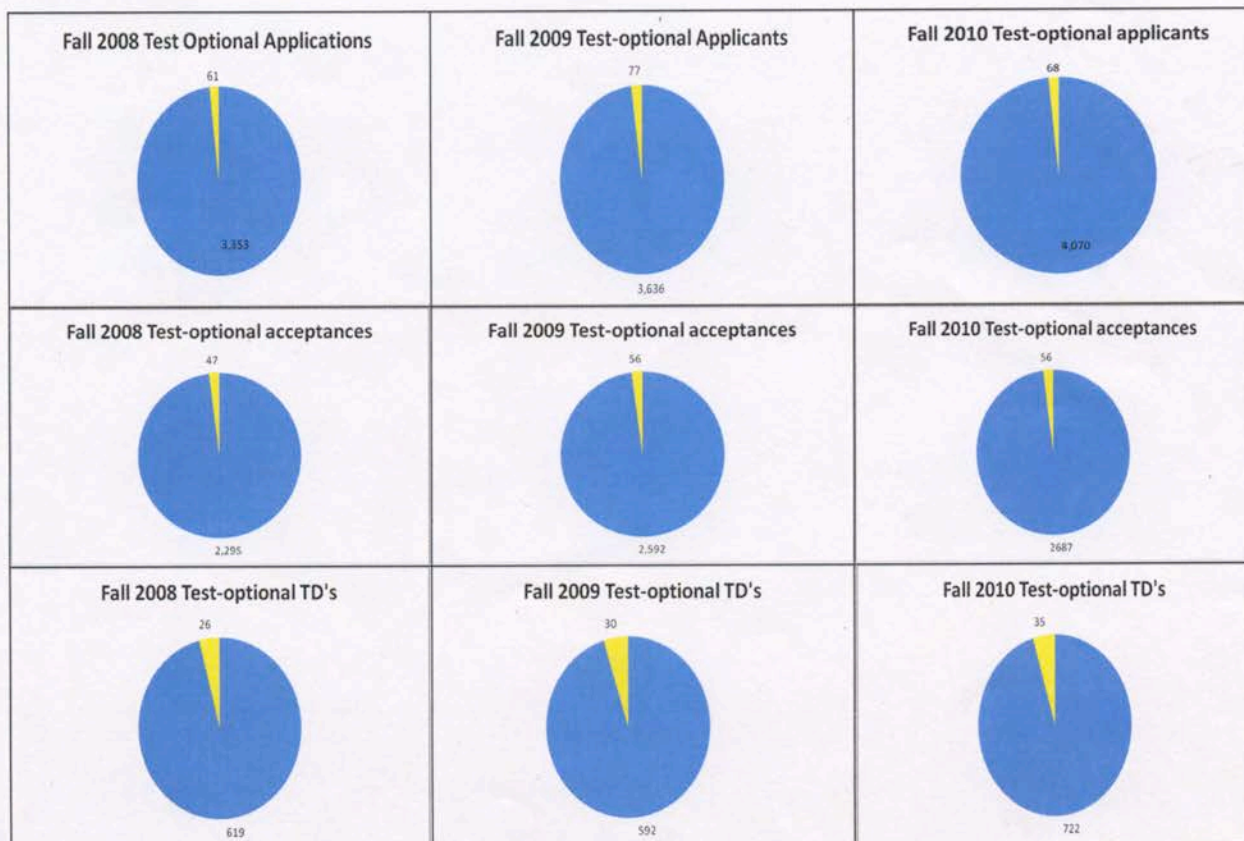
First-year students of color

We had a very good year this year in the area of multicultural recruitment. The chart below represents the number of first-year students of color (data for 2011, 2010, 2009, 2008, 2007, 2006 and 2005 is for 10th day of the fall term).

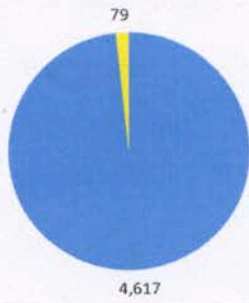
Full-time, first-year Multicultural Students



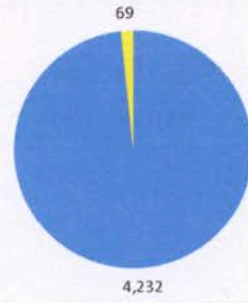
Test-optional applicants



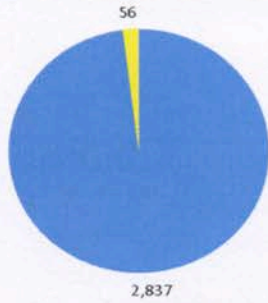
Fall 2011 Test-optional applicants



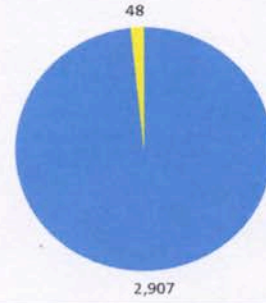
Fall 2012 Test-optional applicants



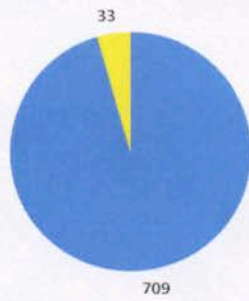
Fall 2011 Test-optional acceptances



Fall 2012 Test-optional acceptances



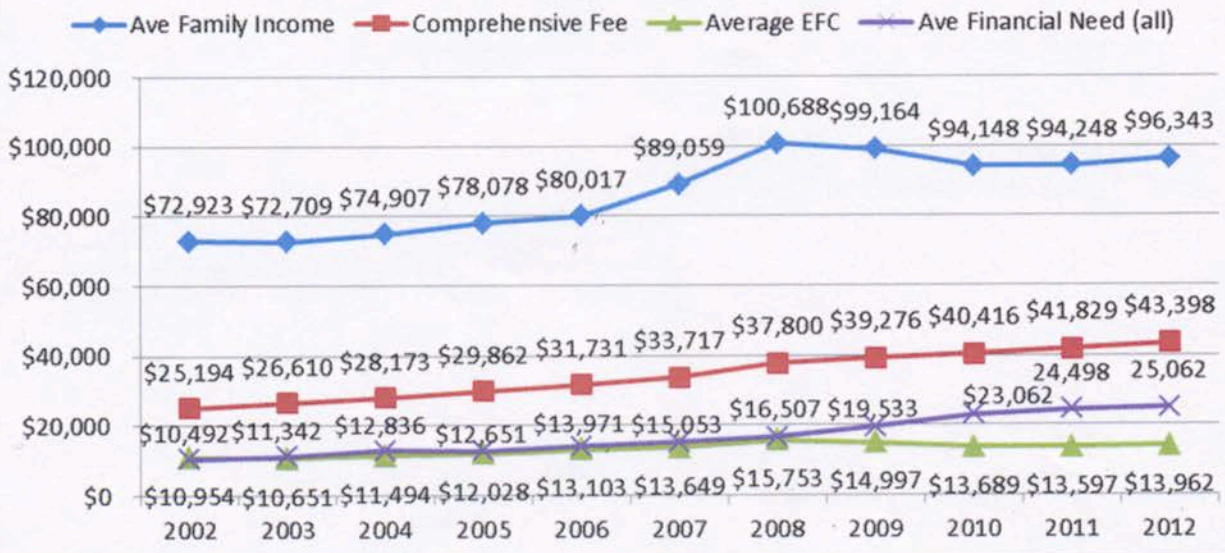
Fall 2011 Test-optional TD's



Fall 2012 Test-optional TD's



Family Income, Comp Fee, EFC and Ave Financial Need 2002-2012



On-campus campus visit program for 2012-2013

- September 29, 2012 Fall Visit Day
- October 20, 2012 Fall Visit Day
- January 25, 2013 Academic All American Event
- January 26, 2013 Departmental Open House and Scholarship Competition
- March 10, 2013 Scholarship Reception
- March 24 - 25, 2013 Experience Augustana
- March 26, 2013 Spring Preview Day
- March 28, 2013 Spring Preview Day
- April 11 - 12, 2013 Experience Augustana
- April 16, 2013 Spring Preview Day

If you would like more information about these events, please contact me and I can provide in-depth descriptions of each of these opportunities to inform and engage prospective students.

Finally, I encourage you to view the Class of 2016 Profile (the other attachment). This profile was developed using data available in early August, so some data will be slightly different from that discussed in this memorandum.

I would like to offer my thanks to the Augustana community. We do our best and experience our best success when we work as a team. This team includes so many in our community including: the members of the enrollment team (admissions and financial assistance) for their continued belief in the strategic and recruitment plans, extraordinary work ethic and exceptional service to our prospective students; the faculty who generously give of their time to write, call and meet with prospective students, host them in classes and participate in on-campus visit programs; the dining and catering staff who scoop Whitey's ice cream and ensure that all of our events run seamlessly; the facilities and grounds crews who, through their day-to-day care for our campus, make sure every visitor enjoys the stunning beauty of Augustana College; each member of the athletic department who spends countless hours encouraging student-athletes to consider our programs; those who highlight the benefits of involvement in our music, theatre and debate programs; and the many members of our community—students, staff and alumni—who go to the special effort of introducing the college in their high schools, hometowns, churches and places of work. I also would like thank ITS for their technology support and support of on-campus programming. Finally, thanks to communication and marketing and web services for their support and innovative approach to telling Augustana's story to the rest of the world.

Everyone in our community is part of a successful recruitment program, and I hope you continue to take pride in the role you play in Augustana's success.