

A Stronger Bottom Line



Association of Independent
Kentucky Colleges and Universities

Comparing Costs, Growth Potential of Kentucky's
Independent Colleges & Universities



AIKCU member colleges and universities are complex, nonprofit organizations that are in the business of changing lives and communities. And like the leaders of any business, college leaders need access to accurate, organized, and insight-producing data to make good strategic decisions in an increasingly complex environment.

This need is what led AIKCU leaders to partner with The Higher Education Practice LLC, led by Kenneth L. Hoyt, Ph.D., to conduct the Optimizing Academic Balance (OAB) comparative study. This is the first time that a group of similar institutions has gone through this process together, providing a critical but previously unavailable opportunity for benchmarking academic program costs and productivity.

We are pleased that 13 of 18 AIKCU member institutions were able to complete the process. The participating campus leaders now have access to rich data that helps them understand the true economics of their academic programs and, importantly, how they stack up to similar institutions across the state. Having this information will aid their decision-making as they strive to maximize their limited resources to better serve students and their communities.

We are extremely grateful to the James Graham Brown Foundation for its financial support of this project and its long history of supporting educational initiatives in the Commonwealth. We also want to thank the staff on our participating campuses for the time and energy they dedicated to mining their data systems and cleaning data in preparation for the OAB analysis.

The following report highlights some of the sector-wide findings of this three-year Optimizing Academic Balance project. AIKCU is pleased to help our members access this critically important data in their continuous effort to better serve their students and the Commonwealth.

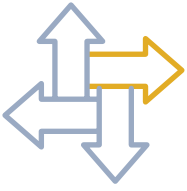
Gary S. Cox, Ph.D.

President

Association of Independent Kentucky Colleges and Universities



The Higher Education Practice LLC uses analytical tools and draws together experienced education practitioners and consultants to help independent college and university presidents better manage scarce resources and implement strategic solutions, especially in turbulent economic times.



Introduction

For the first time, Kentucky's independent colleges and universities can compare their costs and performance with that of other private institutions across the Commonwealth – the result of a groundbreaking analysis that provides data-based tools they can rely on to guide strategic decision-making and the use of scarce resources.

The analysis, "Optimizing Academic Balance (OAB): Mission, Quality, Market Potential, Cost, and Revenue," is giving college leaders critical information as they work to provide quality programs and services for thousands of students in Kentucky. It provides fact-based, college-specific insights the leaders can consider as they address such key questions as:

- How can they be sure they are making the right decisions on programs and majors to attract and retain more students?

- What is their college spending on specific majors, and how does that compare to similar colleges and universities?
- What majors are working well for students leading to graduation?
- What innovations might help make their college more competitive and improve its bottom line while sustaining its values and mission?

For the past three years, 13 of the 18 members of the Association of Independent Kentucky Colleges and Universities have been engaged in compiling existing data, reviewing results and determining what strategic changes could be made to improve the efficiency and productivity of their academic programs.*

The result is an academic cost analysis, never done before on a statewide basis, that gives the participating institutions the ability to

compare the cost of delivering their individual programs with the cost of their peer institutions. It also gives each college specific information on majors that have the potential to grow and attract more students, generating additional revenue; majors with issues affecting students' success; and majors that could be scaled back or eliminated to reduce costs.

54%

"Campus business officers indicate their institution is not highly likely to have the data and other information it needs to make informed decisions about a variety of financial matters. At most, 54 percent strongly agree or agree their college has the necessary information to decide which academic programs should be eliminated or enhanced. ..."

Inside Higher Ed 2019 Survey of College and University Business Officers



*University of the Cumberlands also completed an unrelated academic cost analysis using an alternative methodology.

The combined results from all colleges who took part in the analysis include these **key findings**:

- More than 120 majors at Kentucky's independent colleges and universities have the potential to grow to meet the needs of more students and generate more revenue.
- Many of the challenges the institutions face in ensuring student success can be addressed, resulting in more students graduating and producing more revenue to provide programs, services and financial aid.
- Very few majors need to be reduced or eliminated to cut costs.
- The institutions have the potential to add \$37.9 million to their bottom lines.

Identified nearly \$38 million in potential annual bottom line improvements

Potentially adding \$3 million to the bottom line at a typical institution

(Based on average across 13 institutions)

The following chart shows the bottom-line impact across all participating institutions.

Student Success: \$10.5 million

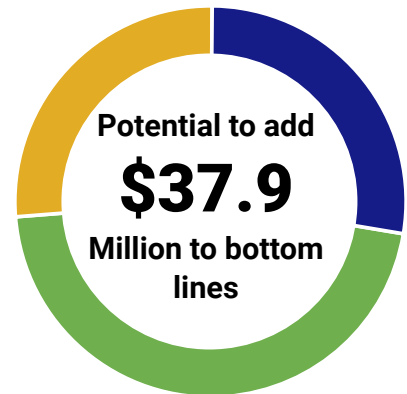
Identified 42 programs with student success issues. Assuming each lost student costs \$25,000 (net tuition revenue + recruitment costs + financial aid provided), retaining an additional 10 students per program could recapture \$10.5 million/yr.

Cost Reductions: \$10 million

33 programs have potential to reduce costs; 4 were recommended dropped. Combined cost reductions could result in savings of \$10 million/yr.

Growth Potential: \$17.4 million

124 programs show potential to grow enrollment. If each of these programs grew by 10 students it could generate an additional \$17.4 million/yr. in net tuition revenue.



All participating schools

Specific institutional results are confidential, provided to the participating colleges for their analysis and use in making academic program decisions. The chart below provides an example of the revenue potential for a typical college, based on the average across the 13 institutions.

Student Success: \$750,000

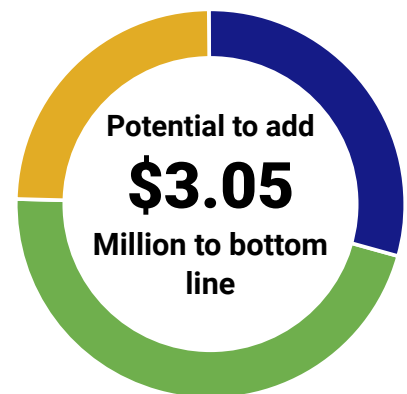
3 programs improve student success & retain 10 more students each = \$750,000 savings/yr.

Cost Reductions: \$900,000

3 programs could reduce costs for \$900,000 in total savings.

Growth Potential: \$1.4 million

10 programs show potential to grow enrollment. If each of these programs grew by 10 students, it could generate an additional \$1.4 million/yr. in net tuition revenue.



A typical institution

Having the Facts to Face the Challenges

Kentucky's independent colleges face the same challenges as others across the nation as they work to control costs and make higher education more affordable while maintaining quality and improving productivity. In many cases, the colleges have a particular interest in pursuing innovations and growth while maintaining the values and missions that have historically guided their work.

Making the best decisions to address those challenges requires more than anecdotal evidence. Reliable data is the key. But that strategic decision-making tool has not been available in a way that could help the colleges

“At the University of Pikeville, the OAB process was extremely helpful in informing our new strategic plan. In conjunction with our Institutional Research efforts, the report provided opportunities for investment in program development and consolidation. We highly recommend a process such as this for someone early in their tenure at a new institution or during the strategic planning phase.”

**Burton Webb, President,
University of Pikeville**

**Lori Werth, Provost,
University of Pikeville**

OAB Process

Giving colleges new tools to reduce their academic costs and increase their enrollments is the focus of Optimizing Academic Balance (OAB), the process that generated the findings detailed in this report.

This groundbreaking work is the only multi-college, statewide project of its type ever conducted to analyze academic costs. It is designed to assist colleges that face tough financial choices and must make crucial decisions about staying competitive in the student market.

The OAB analysis reflects an institution's mission, quality, market potential, cost and revenue. This analysis:

- Examines the cost and long-term viability of each undergraduate academic major and the general education program.
- Identifies opportunities for enrollment growth or expansion in all types of program delivery including online instruction.
- Identifies areas where costs may need to be contained or reduced.
- Provides knowledge colleges can use to redirect scarce resources to increase enrollment, maximize the value of the curriculum and strengthen institutional viability.
- Identifies challenges to student success.

A key element of OAB is its reliance on market-potential data: the number of inquiries a college receives about a particular course of study; the number of applicants for a program and the number who are admitted and enrolled; the number of juniors who remain in a program; and the number of students who graduate with a degree from that program.

The data is used to measure the demand for each of a college's programs using student credit hours generated by a program as an indication of revenue and the faculty and departmental costs for teaching each program.

Most colleges that complete an OAB analysis find that they have academic programs where the level of inquiry is low, but the number of juniors and graduates indicates an opportunity to grow the enrollment. Some majors have high levels of inquiry but low levels of juniors and graduates indicating that the major has student success issues that often can be improved or if necessary, the major can be cut back or eliminated.

For more detailed information, visit aikcu.org.

The bottom line: The OAB analysis provides evidence needed to support tough institutional decisions.

identify, and quantify, their successes and areas that could perform better. The OAB analysis is changing that, helping institutions align their mission, quality, market potential, cost and revenue in support of increased enrollment and improved graduation rates.

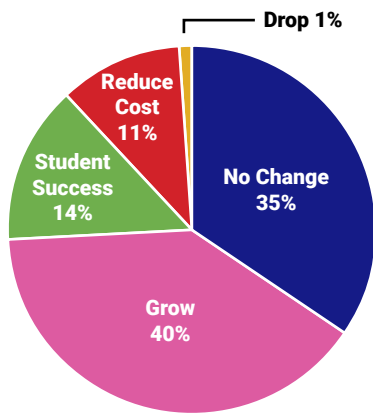
Getting there required extensive work by college leaders, faculty and staff to provide the information that was necessary to ensure an effective and reliable process.

For example, determining demand and market potential by academic major

required five years of performance data on inquiries, applicants, admitted students and enrolled students. The number of juniors and graduates by major was used to measure student success. Detailed course information ranging from credit hours to course numbers to faculty workload was

The analysis evaluated a total of 311 majors at the 13 participating colleges. Some of the key findings are highlighted in the following charts:

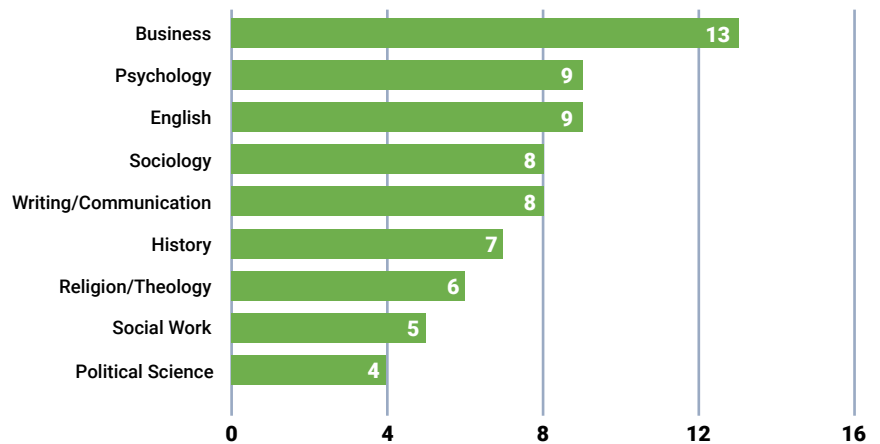
Evaluated 311 total majors



- 35% (108) major working well, no change recommended
- 40% (124) potential to grow
- 14% (42) need to address student success issues
- 11% (33) need to reduce costs
- 1% (4) recommended majors dropped

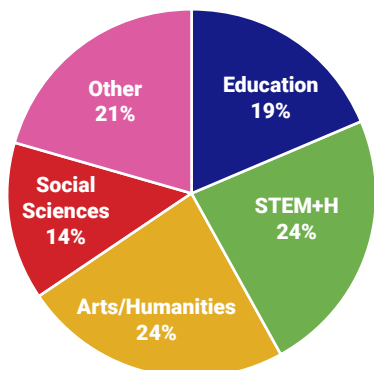
The following graph shows programs with high opportunities for growth. It is notable that traditional liberal arts programs have some of the greatest growth potential.

Programs with high opportunities for growth



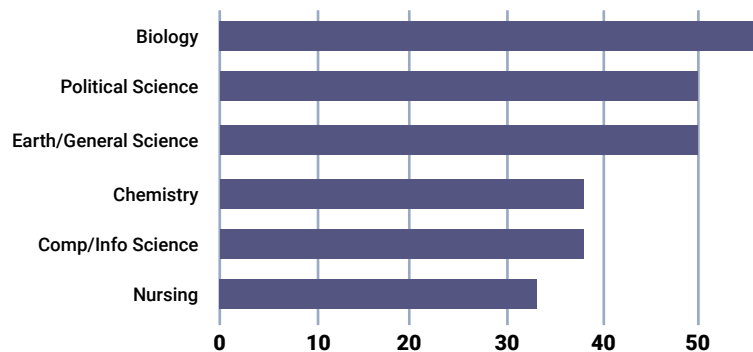
Cost reductions by program type

33 programs identified for cost reduction; 4 recommended dropped



Student success issues prevalent in science, technology, engineering, math and health (STEM+H) majors

(As percentage of total programs assessed in that area)



(Student success is determined by the number of students who enroll in a certain major and continue through their junior year and graduation with that major. Success issues are those that prompt students to change a particular course of study or withdraw from the institution.)

compiled. Costs were determined using faculty salaries and benefits, departmental costs, adjunct faculty stipends and other factors.

This institution-specific information became the basis of an analysis by The Higher Education Practice, LLC, a national academic research and consulting firm specializing in helping independent college and university leaders better manage scarce resources and implement strategic solutions. Kenneth L. Hoyt, Ph.D., the firm's founding principal, led the work.

The finding that costs should be reduced in a relatively small percentage of majors – or that very few majors should be dropped

altogether – is evidence that the colleges are already operating efficiently, the researchers found.

“Our institutions are not for profit, but they’re not for loss, either,” noted Gary Cox, president of the Association of Independent Kentucky Colleges and Universities. “The OAB analysis provides important information that small, resource-limited campuses need to conduct a cost-benefit analysis in conjunction with their mission emphasis. These 13 AIKCU members now have critically important data to utilize in making decisions about how they best serve their students, maximize scarce resources and sustain financial stability.”

Key to a Strategic Approach

Providing detailed, comparative information on demand, costs and student outcomes, the analysis offers reliable data the institutions can use to guide their strategic decision-making and use of resources.

“We are very pleased with the OAB study and plan on using the information several different ways in the future. We believe the data will be very helpful as we move forward under our new strategic plan.”

Bob Zimlich, Vice President
for Administration & Finance,
Bellarmine University

OAB



More specifically, each participating college or university received a customized, confidential report detailing:

- Market demand potential
- Student credit hours generated by major
- Costs and revenue by academic major
- A focused set of recommendations regarding which academic offerings represent growth opportunities based on market potential, which programs are unlikely to attract more students, and possible programs for reduction or elimination
- Major cost comparisons with other independent Kentucky institutions

Estimating Savings, Potential Revenue Growth

The total impact of this entire OAB analysis for the 13 AIKCU participants has the potential to produce \$37.9 million in bottom line improvements.

Across all 13 AIKCU institutions, the average number of programs with potential for growth is 10, the average number of programs with student success issues is three, and the average number of high cost programs is three. Therefore, a typical

institution could potentially realize a growth of 10 additional students in its 10 growth programs to an amount of increased revenue of \$1,400,000, retention of an additional 10 students in each of its three programs identified with student success issues for an additional cost savings of \$750,000, and finally reduce costs in its three high cost program for reductions on average of \$900,000. If all three of these strategies were implemented simultaneously, a typical AIKCU institution could realize a total bottom line impact of \$3,050,000.

Comparing Costs

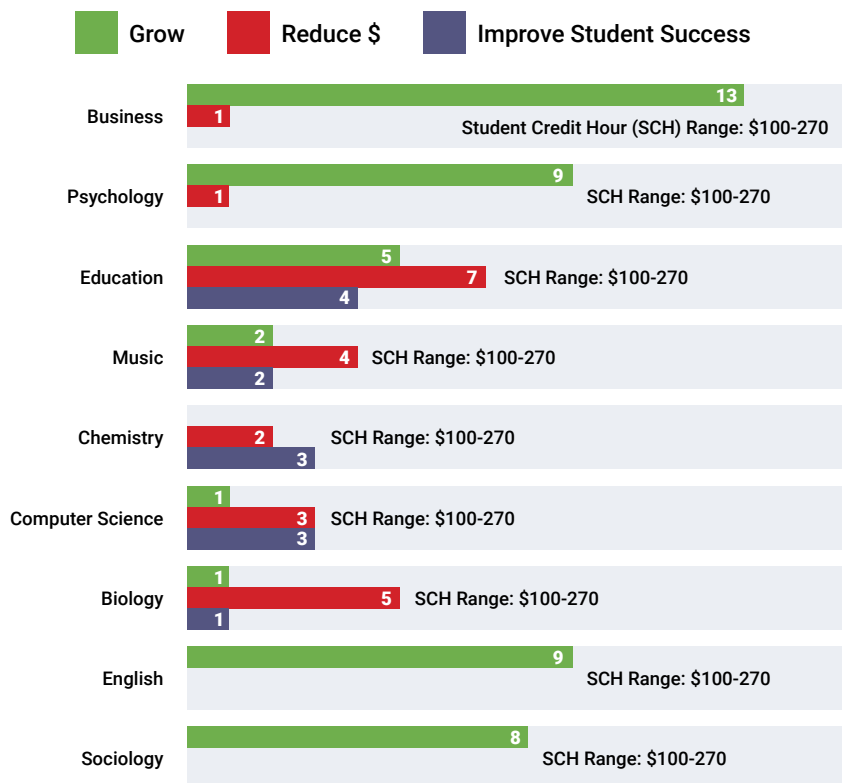
The detailed work, when viewed across the participating institutions as a group, offers a reliable and never before available look at the range of costs and opportunities of different majors the institutions offer.

Participating colleges, for the first time, have a barometer – a way of measuring how their program costs compare to their peers.

A number of factors can contribute to the varying costs. For example, specialized accreditation can increase costs, longer-serving faculty members could have higher salaries, or a program might require more financial support as a center of excellence. But where there is no apparent reason for a particular college's higher costs, the OAB analysis provides the tools enabling the college to conduct a deeper review of possible changes to reduce costs.

The following graph reflects the revenue-generating opportunities of programs offered by participating institutions.

Common programs with recommendations



GREEN BARS indicate a selection of the 124 programs with the potential to grow in enrollment. If each of the 124 majors grew by only 10 students this would produce \$17.4 million additional net tuition revenue.

BLUE BARS indicate a selection of the 42 majors with student success issues. Students may be transferring to another major or leaving the college. For each student lost at a cost of \$25,000, if 10 were retained in each program, it would result in \$10.5 million of opportunity cost regained.

RED BARS indicate a selection of the 33 programs where costs can be reduced and four dropped. Reducing costs similar to comparable programs would result in annual savings of \$10 million.

“We have found the AIKCU project, made possible by the Brown Foundation, to be very useful and helpful in assessing our cost effectiveness across the various majors and programs of the university. This type of analysis is allowing us to make strategic decisions for the future to ensure we use our resources to the fullest extent as we serve our students.”

Dr. Michael V. Carter, President,
Campbellsville University

AIKCU

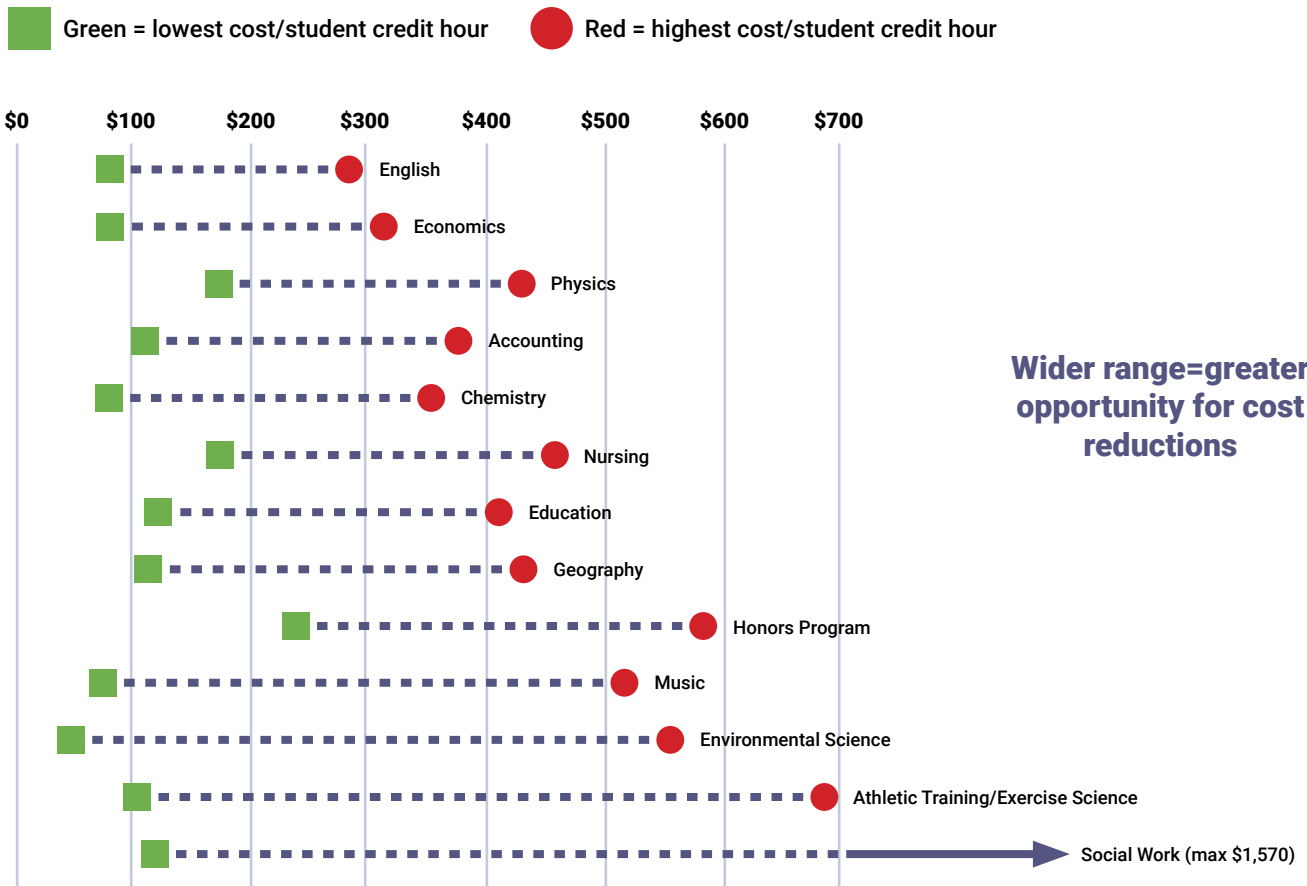
Participating colleges, for the first time, have a barometer – a way of measuring how their program costs compare to their peers.



Range of total cost per student credit hour (SCH)

(A majority of programs have ranges of less than \$150 and are not included here.)

The following chart illustrates the largest range of costs found among the colleges for different majors.



Conclusion

With the detailed, individualized findings of the analysis now available, the colleges are for the first time in a position to use the data as part of their strategic planning. They can identify opportunities for growth, comparative costs with other institutions, programs where changes could produce more revenue and other key elements to improve their competitive position and strengthen their bottom line. The OAB report is given to the institution presidents who decide how to present and use the findings on the individual campuses. The analysis does not make recommendations for specific actions. Rather, it provides the foundation for decision-making that is based on facts and actual results.

Strengthening their bottom line will enable Kentucky's independent colleges and universities to expand the services, financial aid and support they provide to ensure greater opportunities for more students to obtain a quality higher education.

How colleges choose to use this benchmarking data will be unique to each institution and its particular circumstances. They can choose from a range of options based on the analysis that is specific to their institution. These include:

- Continuing a program without changes
- Investigating why their program costs are greater than those of their peer institutions
- Addressing student success issues
- Engaging faculty in decisions about how to address program costs and other issues



"I commend the leadership of AIKCU and the institutions for engaging in data-driven analyses of their academic programs. This important work will guide the development of strategic academic models, while providing a laser focus on offering the highest quality programming for Kentucky students."

**Aaron Thompson, President
Kentucky Council on Postsecondary Education**

The Optimizing Academic Balance project was conducted with the support of the James Graham Brown Foundation, which provided the necessary grant funding to the Association of Independent Kentucky Colleges and Universities.

Participating Kentucky Colleges and Universities*

Asbury University, Wilmore

Alice Lloyd College, Pippa Passes

Bellarmino University, Louisville

Brescia University, Owensboro

Campbellsville University, Campbellsville

Georgetown College, Georgetown

Kentucky Christian University, Grayson

Lindsey Wilson College, Columbia

Spalding University, Louisville

Thomas More University, Crestview Hills

Transylvania University, Lexington

Union College, Barbourville

University of Pikeville, Pikeville

*All 18 AIKCU members were invited to participate, but extenuating circumstances limited participation by some members.



Association of Independent
Kentucky Colleges & Universities

The Association of Independent Kentucky Colleges and Universities serves as the voice of Kentucky's private, nonprofit, four-year colleges and universities. AIKCU's 18 member colleges and universities serve more than 52,000 students and play a critical role in Kentucky's postsecondary education system, awarding more than 9,000 degrees annually.

AIKCU's diverse members include Kentucky's 18 nonprofit, non-tax supported four-year colleges and universities accredited by the Southern Association of Colleges and Schools Commission on Colleges and licensed by the Kentucky Council on Postsecondary Education.



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