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DIAGNOSTIC
APRIL 2014

ACADEMIC IMPRESSIONS

FROM ENROLLMENT TO NET TUITION REVENUE: WHERE CEMs AND CFOs NEED TO FOCUS

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Amit co-founded Academic Impressions in 2002 to provide a variety of educational products and services that help higher education administrators tackle key, strategic challenges. Since 2002, AI has designed and directed hundreds of conferences and has served representatives from over 3,500 higher education institutions. Besides designing and leading events for cabinet-level officers focused on strategic planning, budgeting, and leadership development, Amit leads Academic Impressions' ongoing research into the five- and 10-year challenges facing higher education and plays a lead role in outlining each issue of Higher Ed Impact: Monthly Diagnostic to highlight how college and university leaders can take an institution-wide approach to answering those challenges.

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At Academic Impressions, Daniel provides strategic direction and content for AI's electronic publication Higher Ed Impact, including market research and interviews with leading subject matter experts on critical issues. Since the publication's launch in 2009, Daniel has written more than 250 articles on strategic issues ranging from student recruitment and retention to development and capital planning. Daniel previously served as a conference director for Academic Impressions, developing training programs focused on issues related to campus sustainability, capital planning, and facilities management. Prior to joining Academic Impressions, Daniel served as adjunct faculty for the University of Denver. Daniel holds a Ph.D. in English.

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Patrick specializes in designing professional development offerings in finance, facilities, and enrollment management for Academic Impressions. He has partnered with many innovative leaders in the higher education sector to design practical programs on such challenging and timely issues as public/private partnerships, 21st century academic and residential facilities, shared services models, and finance and enrollment management partnerships.

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Jon has worked at Mount Mercy and Grinnell Colleges in Iowa, the University of Dallas in Texas, Communicorp (a marketing consulting firm working with not-for-profits) in Atlanta, and St. Bonaventure University in New York, where he spent seven years as dean and then vice president of enrollment management. He earned his master's degree in management and marketing from the University of Maryland University College.

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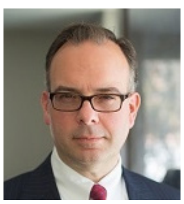
A frequent speaker on enrollment management related issues, Barbara is active in numerous professional and civic organizations.



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Lucie is an economist who consults, writes, and speaks widely on issues related to higher education leadership, governance, finance, strategy, and enrollment management. In addition, she does searches for CFOs. Much of her recent work has been with boards of trustees on issues of leadership and effectiveness. Lucie previously served as president of Mercy College, a diverse, multi-campus college of 10,000 undergraduate and graduate students with New York City, Westchester, and online campuses. She serves on a number of boards and advisory committees, including the boards of HERS, the American Public University System, Cedar Crest College, The KnowledgeWorks Foundation, the Tuition Exchange and the National Council for Research on Women. Lucie is a contributor to Forbes and the editor of three books and the author of more than 200 chapters and articles.

CONTENTS

A CHALLENGING OUTLOOK FOR COLLEGE ENROLLMENTS

Across the country, both public and private institutions are experiencing enrollment declines. Unfortunately, we are likely to see this trend continue in the foreseeable future for many institutions and sectors. According to a recent Academic Impressions survey of almost 200 public and private institutions, approximately 47% of institutions did not meet their target enrollments last year. In some cases, institutions missed their targets significantly—of the respondents who fell short of their targets, 22% missed their class size goal by 6-10%. 44% missed their target by 3-5%

> According to the National Student Clearinghouse Research Center, overall enrollment dropped 1.5% in Fall of 2013, compared to the same time the year before. This drop follows a 1.8% drop in enrollment in the Fall 2012 (comparing to Fall 2011 data).
>
> The trend of declining enrollment is even more pronounced in the Northeast, where WICHE expects high school graduates to decline by 10%, or 65,000 students over the next 20 years.

These statistics, while they add additional insight, are not new. Countless stories have chronicled enrollment shortfalls and their impact on institutions across the country. But it's that impact to the institution—to its net revenue—that is the more important measure to monitor. To date, far less attention has been paid to net tuition revenue.

At a time when institutions are increasingly tuition dependent, even modest declines in enrollment can have a significant impact on the budget. Primarily as a result of enrollment-driven revenue declines, faculty and staff layoffs have occurred or been threatened across a wide variety of institutions and geographic locations including: California University of Pennsylvania, Midway College, Mitchell College, St. Mary's College of Maryland, Wittenberg University, Carroll University, and Felician College, among others.

Given the increase in tuition discounting over recent years, it's imperative that institutions manage the critical metric of net revenue and not just enrollment numbers.

SHIFTING TO A FOCUS ON NET REVENUE

According to a recent report by Moody's, net revenue is projected to grow slower than inflation at more than 40% of the institutions that they studied.

Institutions that are not managing their enrollment holistically—balancing class profile and size—are at risk of seeing declining revenue. In fact, in the same report, nearly a fifth of private institutions reported such declines.

At many institutions, enrollment managers are the ones that make the critical decisions to balance competing objectives that ultimately impact net revenue: class size, access and diversity, and quality. Without support and input from others on campus—primarily senior finance and academic leaders—enrollment managers may be making decisions based on incentives or goals that may not fully capture the institution's needs.

The more unified and methodical approach a campus takes to maximizing its net tuition revenue in ways that are consistent with its values and role and mission, the more successful that institution will be and the more resources it will have available to help accomplish its goals.

ENROLLMENT MANAGEMENT IS A LARGER CONVERSATION

by Jon Boeckenstedt

After several years of falling family incomes, financial assets that have essentially evaporated along with access to capital, and against tuition charges that have continued to escalate leading to unprecedented growth in unfunded financial aid, it is more critical than ever for key administrators at universities to grasp a common understanding of what enrollment management is; to participate fully in the important discussions about the internal and external environments; and to respond united in a strategic way.

This is almost certainly a lofty goal, and definitely harder than it sounds. The "Discipline Goggles" of different functions (accounting, finance, marketing, management) in business are well documented: accountants see business problems as issues of balance sheets and costs, while finance professionals focus on cash flow and net revenue generation, and marketing professionals focus outside, on the exchange between parties, attempting to shore up weak spots.

Challenges in higher education administration have never been one-dimensional, but in 2014 they clearly assume a complexity and demand a nuanced approach previously not seen. Thus, key university administrators must share in both an understanding of what Enrollment Management is (and what it is not); and staff inside and outside the Enrollment Management area must understand that articulating tradeoffs that lead to obtainable, reasonable outcomes is not just the best, but may be the only, path to success.

Too often, strategic planning at the university is the last place to codify, let alone acknowledge, the inherent tension between seemingly independent objectives. Many plans call for increased revenue, rising academic profile, gains in diversity (however measured), or targeted growth in areas important to the institution.

While technically, of course, it is possible to generate more average net revenue from, while raising the academic profile of, an entering class, it is also true that the best students in any admit pool are generally willing to pay less. Similarly, growing enrollment to increase total revenue seems to be a reasonable assumption until the principles of diminishing returns come into play. These and all the difficult decisions about optimized outcomes do not happen at a tactical or operational level: They must be strategic.

THE CFO & CHIEF ENROLLMENT MANAGER RELATIONSHIP

Net revenue declines are usually the result of several compounding factors, not just fewer students enrolled. Class size and quality targets, financial aid packaging, and the strategic use of data are all key factors that can either enable or prevent institutions from meeting both financial and mission goals.

Meeting net tuition revenue goals requires the close cooperation and collaboration of two key parties: the Chief Financial Officer (CFO) and Chief Enrollment Manager (CEM). Yet, while the key outcomes that these leaders are striving for are highly interconnected, they may not be mutually supportive. Without goals that are closely aligned, information isn't shared across siloes and decisions are made independently. This greatly increases the risk of the institution missing both enrollment and net revenue targets.

Additionally, when the CFO and CEM have a shared understanding of the institution's competitive market position and its impact on current and future enrollment, the CFO is in a better position to help guide smarter investments in areas such as academic programs, new sports, changing athletic conferences, building new facilities, etc.

In this paper, we have outlined four key dimensions to an effective partnership; collaborations in these four areas can help an institution reverse enrollment declines and create a more sustainable path forward:

- Setting goals
- Managing tradeoffs
- Leveraging aid
- Ensuring academic and enrollment policies support net revenue goals

SETTING GOALS MORE STRATEGICALLY

Revisiting how enrollment targets are set is critical.

> Perhaps not surprisingly, 30% of the enrollment managers who responded to our survey believe their enrollment goals aren't even realistic in the first place.

The CEM and the CFO need to work closely together to arrive at enrollment and net revenue goals that balance both institutional and market realities – and then to successfully persuade the president, cabinet, and governing board to embrace these goals.

Many of these realities, however, are often ignored or not well understood in the goal setting process. Most of the 200 institutions that responded to our survey set enrollment goals, and subsequently their recruitment strategies, based on an internal set of criteria: financial needs, historical enrollments, or growth aspirations (often defined in a strategic plan).

While internal factors certainly have to be an important part of the equation, senior leaders must be actively engaged in balancing their institution's needs with market realities. Unfortunately, only 7% of respondents indicated that either market demand or an external scan of the competition influenced enrollment goals.

A HOLISTIC OUTLOOK TO INFORM ENROLLMENT TARGETS

An External Review of Market Realities

Externally, a complete view of the topography of the competitive landscape includes head-to-head comparisons of an institution's market demand, pricing strategy, operating performance, and financial strength against those institutions within its competitive set. The competitive landscape analysis is also informed by a thorough understanding of broader trends in target market demographics, the economic environment, and consumer behavior.

An Internal Review of Institutional Realities

Internally, prioritization of resource allocations to programmatic budgets, student support and auxiliary services, and facility renewal and additions must all be viewed through the lens of maintaining demand. At the same time, maximizing net tuition per student requires an in-depth understanding of an institution's level of tuition dependence, price elasticity, and demand drivers.

CRITICAL QUESTIONS TO ASK

- Do internal needs dominate our goal setting?
- What market realities have we not discussed when setting enrollment targets?
- Have we budgeted based on overly optimistic enrollment goals?

MANAGING TRADEOFFS

Setting realistic goals that align mission, market, and financial realities is about managing tradeoffs.

The CEM and CFO need to work together to model what is possible. This means understanding:

- Tradeoffs between the mix of students—transfers, continuing education students, graduate students—and the quality of students.
- How different discount rates will affect enrollment outcomes in terms of both the quality and quantity of entering students.

The CFO and CEM must work together to develop a realistic revenue estimate for the budget and must work together throughout the enrollment cycle to monitor the discount rate and make adjustments where needed.

RETHINKING THE ENROLLMENT MANAGEMENT COMMITTEE

Making decisions holistically requires a more inclusive approach and establishing an effective enrollment management committee with broad representation can be very helpful. The committee should meet throughout the year and include the CFO and CEM as well as other key stakeholders – both because these others can add input to the decision making and because they need to understand why certain decisions have been made.

Include on your EM committee:

The CFO

He/she needs to have a good understanding of what is a reasonable net revenue number to include in the budget – as well as what contributes to accomplishing this number. That way, the CFO can be an effective partner in making and revising the revenue estimate if enrollment is not coming in as anticipated.

Admissions and Financial Aid

You need them at the table for two reasons: (a) they implement the policy, and (b) they have a lot of “on-the-ground” experience and they are likely to understand best what is going on throughout the admissions cycle, as well as many of the trade-offs that need to be made.

Institutional Research

The IR person can “run the numbers” to predict various outcomes and can help develop the discounting or strategic packaging mix. It is possible for some other person—perhaps someone on the EM team or an outside consultant—to fill this role. The bottom line is that you need someone on the team who can explain how proposed policy changes can lead to different results in the composition of the class and in net revenue.

Chief Academic Officer and VP of Student Affairs

These individuals need to attend committee meetings periodically so that they can understand the trade-offs that are being made in shaping the class to attain the required net revenue goals. There may be trade-offs in terms of the academic quality of new students, diversity, or the percentage of new students with various learning issues. These key officers need to be able to explain to their faculty and staff why the entering class looks the way it does.

CRITICAL QUESTIONS TO ASK

- Who have we left out of enrollment planning?
- What data do we need that we don’t currently have at our fingertips, to better understand the tradeoffs we’re making?
- In what ways are we measuring the academic and financial impact of the tradeoffs?

LEVERAGING AID

Because financial aid is typically one of the largest single expenditures in the institutional budget (often second only to salary costs), it is critical to have the CEM and CFO on the same page regarding the deployment of these funds. No matter where the financial aid office reports, leadership in both enrollment and finance should be involved in strategic financial aid decisions and should review both the data used to make those decisions and the reports generated throughout the recruitment and packaging cycle, to track results against targets.

Institutions need to understand the price sensitivity of their current admit pool and know how to translate those findings into specific packaging approaches. For example, certain populations may be highly responsive to small increases in financial aid and yet others may still enroll even if aid were reduced.

Once price sensitivity is understood, then alternative packaging approaches (e.g. front loading grant; capping institutional grant; meeting a percent of need with grant; gapping; differentiating by academic program, quality, and other attributes; etc.) can be *targeted to specific populations*, resulting in a more effective use of limited financial aid dollars.

Without effective collaboration between these two key stakeholders, the chief enrollment officer often remains completely focused on meeting class size and composition targets, while the chief financial officer remains completely focused on staying within the financial aid budget. In this scenario, neither is paying attention to what really matters—net tuition revenue.

CRITICAL QUESTIONS TO ASK

- Do the CFO and CEM have shared goals that align to help maximize net revenue?
- Do we measure price sensitivity across specific student populations or take a more generalized approach?
- Do our aid packaging strategies stem from this more granular analysis?

ENSURING ACADEMIC AND ENROLLMENT POLICIES SUPPORT NET REVENUE GOALS

Often, institutional policies may be at odds with net revenue goals. These legacy policies may have been responsive to institutional needs at the time they were formed, but without a thorough review and update, they may further compound today's challenges.

Academic and enrollment policies—those that affect things like minimum academic standards, scholarship guidelines, and payment requirements—need to be examined to ensure they are serving students and the institution. Examining these changes could result in improved student success and institutional revenue.

EXAMPLES OF POLICIES TO REVIEW

There are several questions that can help guide the data you should be tracking and reviewing on a regular basis. For example:

- Do you not invite back students for their second term freshman year if their GPA is below a certain number or do you wait until the end of the freshmen year?
- Do you let a student keep a merit scholarship even though their GPA falls below the required GPA for a term or a year?
- How high a GPA do you require for renewing merit scholarships? Stringent requirements lead to more students losing their scholarships and often leaving the school. In addition, schools that place high GPA requirements on merit scholarship renewal often find that these students do not fully participate in campus life because they are studying all the time to maintain their scholarships.
- In terms of payment requirements, will you let a student start or continue if they have a balance? How much of a balance will you let them carry? There is a trade-off between good fiscal policies and maintaining your students. It is important for the business office and the financial aid office to work together to manage past accounts. This is one of the reasons that many schools have gone to the one-stop shop.

CRITICAL QUESTIONS TO ASK

- When was the last time we reviewed our policies related to academic standards and enrollment?
- Do we have certain policies that no longer serve either the student or institution effectively?
- What would be the impact to changing these policies?

NAVIGATING DIFFICULT WATERS AHEAD

As student enrollment patterns become less linear and increasingly complex, and against a backdrop of an improving economy and employment rate, institutions will need to think critically about how they are managing enrollments—in terms of class size, composition, and net revenue.

This challenge is made even more pressing in light of demographic data. Even in those states that are fortunate enough to project stable or even slightly rising populations of high school graduates in the next ten years, the socio-economic and the ethnic mix of students suggest lower rates of college enrollment and attainment ahead for the country. Continued interest by state legislators in performance-based funding models further raises the stakes for public institutions.

Key to navigating these changing conditions is alignment among the critical stakeholders, particularly the CEM and CFO. We recommend using this paper as a guide to assess current efforts and discuss ways to improve cooperation.

To jumpstart the conversation, consider the following questions:

- Are we setting budgets based on overly optimistic enrollment goals?
- Would the President, Provost, CFO, and CEM make the same decisions when prioritizing the competing goals of student class size, quality, diversity, and net revenue?
- Are our decisions rooted in strong data and an understanding of past successes and failures, or do we make quick decisions based largely on anecdotes and opinions?

- Do the CEM's class size and composition goals align with the CFO's budget goals?
- If we continue to approach enrollment management in the same way, will we be in a worse, similar, or better position five years from now?

If you were to ask these questions at your own institution, what would the answers be? What would need to change? And can you, proactively, reach out to your enrollment and finance counterpart to take the first steps in ensuring that your institution will be able to achieve and sustain enrollment success in the long term?

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