WHITE PAPER

Connecting Enrollment and Fiscal Management

Taking the Financial Pulse of Your Campus With the Fiscal Indicators Inventory

Is your institution using its fiscal resources to greatest advantage to fulfill its mission and meet expectations within and beyond the campus?

In an era of escalating costs and reduced resources, it's a question that every institution of higher education should be asking. Yet leaders at many institutions fail to understand the critical relationship between enrollment policy and fiscal management in ensuring long-term institutional success. While institutions have become increasingly sophisticated and proactive in managing their enrollment outcomes, campus administrators in different departments often continue to set goals and pursue objectives without reference to a broader strategy that acknowledges their underlying interconnectedness.

At the heart of this issue are questions such as:

- Are you certain that your tuition, fee, and financial aid structures are providing the strongest enrollment and revenue results possible?
- Are you investing in the most cost-effective marketing and recruitment strategies in order to achieve your enrollment goals while maximizing the return on your marketing and recruiting dollars?
- Are you certain that you are offering the optimal number and variety of academic courses and programs in order to meet enrollment needs and address fiscal realities?
- Do you have an operational plan to optimize your auxiliary income based on your enrollment strategy?
- Do you know what metrics you should track in order to harmonize your enrollment and revenue goals?

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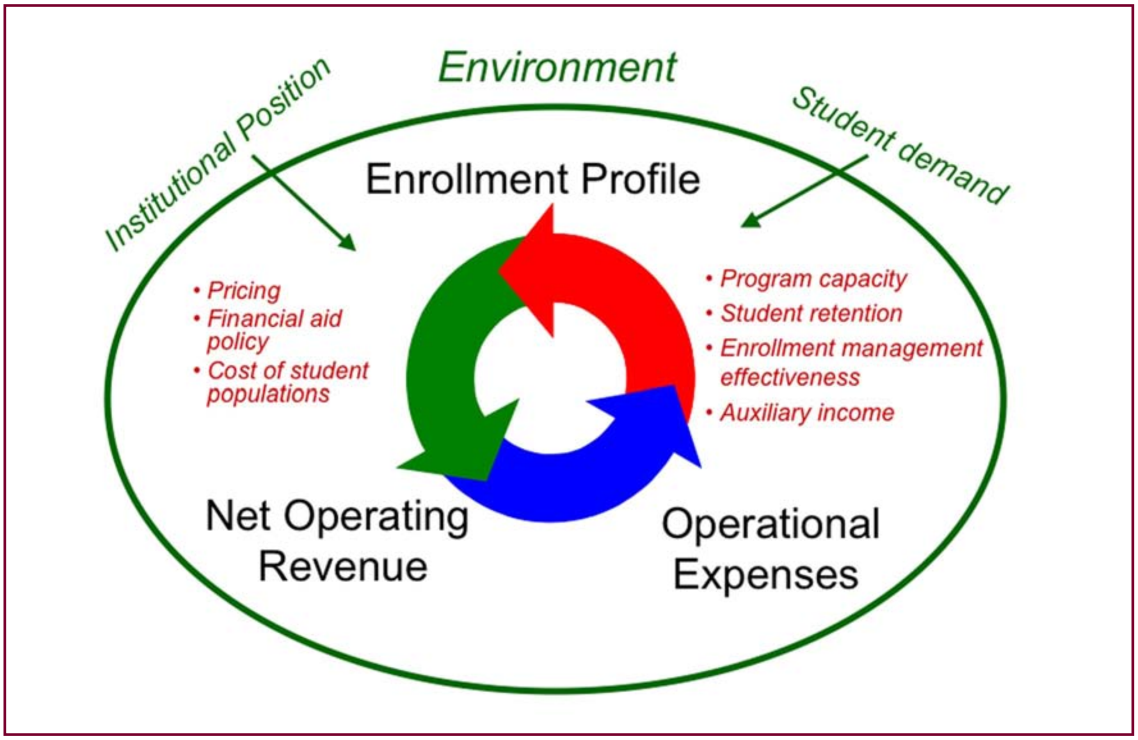
This paper is intended to help you think more strategically about the vital connection between fiscal planning and enrollment management suggested by these questions. It offers a framework called the **Fiscal Indicators Inventory** to help you examine this important relationship and make reasoned decisions in an era of limited resources. Ideally, these metrics and strategies can help you balance your enrollment, revenue, and expenses, maximizing the efficiency of your campus.



In light of these eight key revenue-related enrollment issues, the Fiscal Indicators Inventory identifies the data points your institution should be tracking and questions you should be asking in each area, with examples of approaches taken by campuses that are successfully meeting their enrollment and revenue goals. If you are not able to achieve a firm grasp of these issues and the related metrics for your campus, you may need to invest in additional research and analysis in order to obtain the information necessary to guide your decision-making—an area addressed in the concluding section of this paper.

Aided by the perspective and tools presented here, today's enrollment professionals may be expected to play a significant new role on their campuses—one that completes their decades-long evolution from the role of gatekeeper to that of counselor, recruiter, marketer, enrollment manager and, finally, at this critical juncture in the history of higher education, to fiscal leaders for their institutions.

I. Institutional Positioning

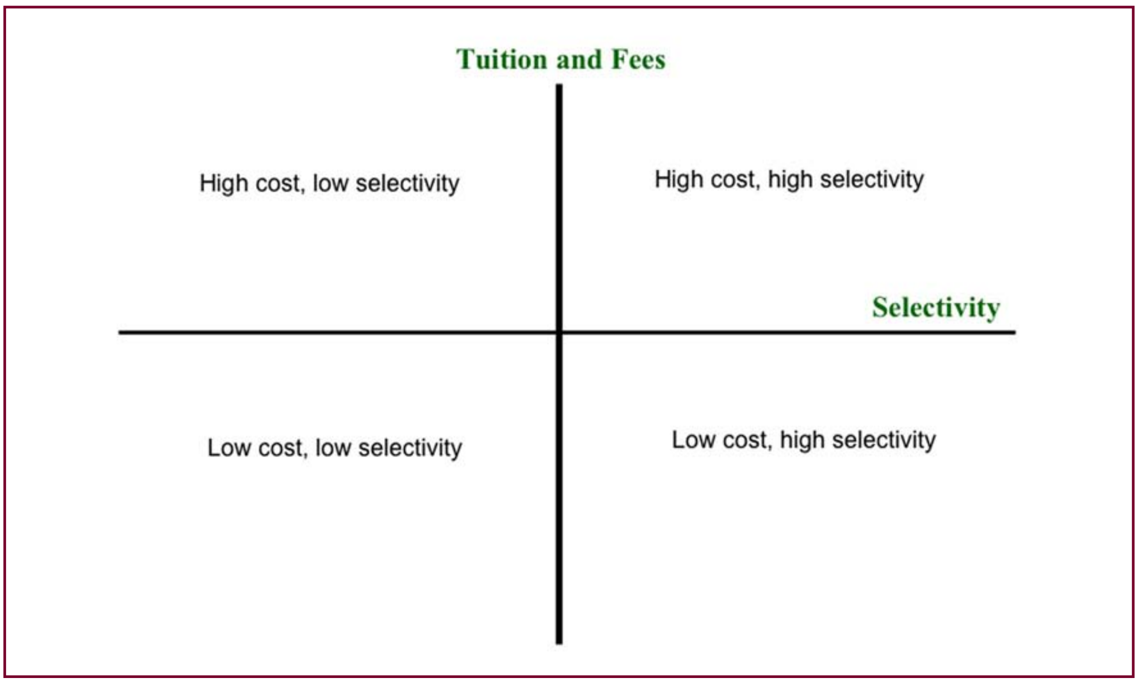
Do you "know yourself"? This ancient injunction is as important for institutions operating in the dynamic environment of higher education as it is for individuals.

Before you can fully assess the relationship between enrollment management and fiscal reality, you must first have an unambiguous sense of your institution's current and desired market position. Where do you stand relative to your key competitors? Do you have a clear fix on your top 10 to 15 *real* competitors? Where are you in terms of your *desired* position? Have you tracked your share of the available student market over time? The answers to these questions ultimately drive many of the fiscal issues and decisions that follow.

To accurately identify your main competitors, use resources such as ACT/SAT overlap reports and data from the National Student Clearinghouse. Formal market research can yield even more precise information about the competition your institution faces at various stages of the college selection process. Since your most important competitors may vary at each stage, it's essential to collect this information throughout the enrollment funnel.

"Formal market research can yield even more precise information about the competition your institution faces at various stages of the college selection process."

Once you have determined your list of key competitors, the selectivity-cost matrix (*below*) offers a simple, yet revealing tool to help you analyze your current and desired institutional position. The x-axis represents selectivity (usually measured by acceptance rates and/or the academic credentials of new students). The y-axis represents cost (either tuition and fees, or estimated average net cost of attendance after institutionally funded financial aid).



Place your institution and your top competitors on the chart according their position on each axis. This will give you a quick snapshot of your market position relative to that of your current or potential competitors, as well as how far your campus will need to move in order to reposition itself:

Upper right

High selectivity, high-cost: typically top-tier private colleges and universities with large endowments and highly competitive admissions.

Lower right

High-selectivity, low-cost: usually flagship public colleges and universities, as well as state-supported liberal arts and sciences institutions with more selective admission standards.

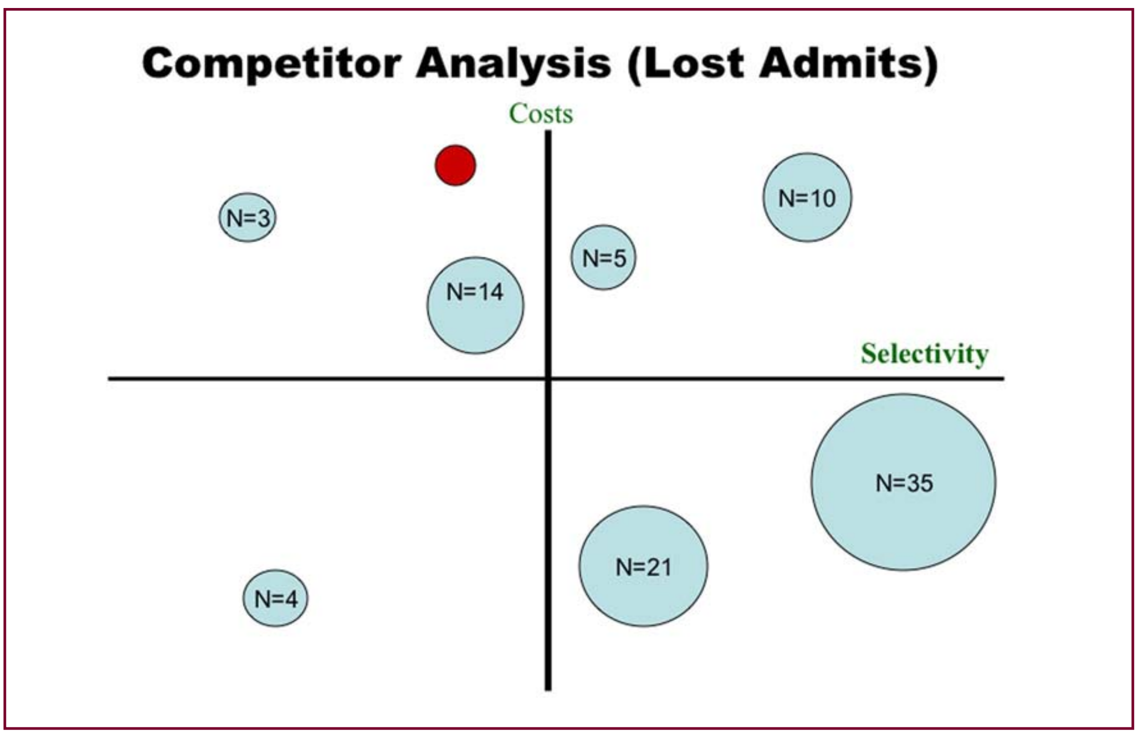
Upper left

Low-selectivity, high-cost: regional liberal arts colleges and less-selective national liberal arts colleges. This group tends to have smaller endowments and higher tuition discount rates.

Lower left

Low-selectivity, low-cost: publicly supported two-year and four-year institutions as well as a handful of very low-cost independent colleges.

If you expand the information in the matrix to include the number of admissions lost to each competitor, you can gain an even more accurate sense of your most important competitive challenges:



For many campuses, this analysis provides an initial reality check, clarifying an institution's competitive position and the level of resources necessary to significantly change its situation.

Key Questions: Institutional Positioning

- What is your position now? Where do you wish to position yourself in the years ahead?
- What will it cost to reposition your institution?
- How do your resources—for marketing/ recruitment, student retention, financial aid, academic quality—stack up against competitors?
- Who will you compete against if you attempt to reposition?

Key Metrics: Institutional Positioning

- Competitor characteristics and matrix analysis (annually):
  - Tuition and fees
  - Room and board costs
  - Discount rate
  - Academic profile of entering students (ACT/SAT scores, average rank in class, and average high school grade point average)
  - College rankings
  - Endowment per student
  - E&G (education and general) spending per student
  - Annual gift income
  - Retention rate
  - Selectivity

II. Pricing

What is your current pricing model? Is it the correct one for your institution?

Needless to say, pricing has a major impact on revenue. However, the relationship between price and revenue is not always a direct one. Price increases can lower revenue, while price decreases can raise it under certain circumstances. In the last decade, institutions of higher education have manipulated their pricing models in countless ways to try to improve their fiscal results, with varying degrees of success. Here are four possible approaches for using pricing to meet enrollment goals without sacrificing fiscal objectives:

"Price increases can lower revenue, while price decreases can raise it under certain circumstances."

1) **Tuition reductions:** In recent years a growing number of institutions have adopted tuition reduction strategies. Enrollment growth usually drives this decision, which can significantly alter your position on the Selectivity/Cost Matrix. A price reduction coupled with enrollment growth can help to raise needed revenue while reducing your discount rate. Before you consider lowering your institution's tuition, make sure to examine your capacity and the incremental costs associated with handling the additional enrollment necessary to achieve the net revenue you desire.

2) **Tuition increases:** This obvious way to raise net operating revenue can be especially useful if your institution's price is as at the low end of your competitors', or if you have a substantial number of low- and no-need students with the capacity to absorb planned increases. Absent these conditions, a sharp tuition increase is generally inadvisable. Research from

a number of institutions indicates that aggressive price increases frequently have a negative impact on both recruitment and retention, while gradual tuition increases may accomplish the desired bottom-line revenue improvement.

3) **Differential pricing:** This strategy is typically employed by adding fees (e.g. lab fees, computer fees) to more costly educational programs, or through true variation in tuition by program or student academic level. Done systematically, it can make a significant impact on revenue. (See Section VI, Cost of Educational Capacity and Demand.)

4) **Competitive pricing:** This approach involves setting prices solely based on your competitors' costs. Before considering this option, you must not only analyze your competition, but also research the perceptions prospective students and their families have of your educational value. They may not see you and your competition as equally valuable.

The importance of researching your competitive position before applying any particular pricing policy can hardly be overstated. Make sure you are not simply relying on *your own* perceptions of your reputation, competition, market and target audiences when you set your prices.

Key Questions: Pricing

- Do you want to increase enrollment? Do you have the capacity to serve increased enrollments?
- Will potential revenue gains from tuition increases be offset by increased discount rates?
- Do you know what your cost per student is and how it varies by area or level of study?
- Where do you rank in terms of price vis-à-vis your competitors?

Key Metrics: Pricing

- Available capacity to handle enrollment growth due to pricing changes (*annually*)
- Projected changes to operating and fixed costs with enrollment changes (*annually*)
- Top 10 competitors and their gross and net price points (*annually*)
- Educational costs on a student-by-student basis (*annually*)
- Changes in distribution of admitted and enrolled students by income and/or need level
- Tuition discounting models which measure the extent to which increased price and net revenue is offset by the need to increase aid from institutional sources
- Student demand as measured through yield rates on accepted students (*annually*)
- Competitive price elasticity study to understand the institutional attributes that prospective students are likely to value and pay a premium for *(every three years)*

III. Financial Aid Policies

Does your tuition discount rate further your institution's objectives in terms of positioning, enrollment size, and revenue growth?

Along with pricing, financial aid—specifically institutional aid—has a major impact on both enrollment and fiscal condition. Do you know the impact of unmet need or the role of merit awards in the enrollment behavior of specific subpopulations at your institution? Have you determined how your tuition discount rate and overall discount rate compare with national averages and with those of your competitors? (NACUBO tracks average discount rates for various types of institutions.) Is your net revenue (per student and aggregate) growing, remaining stable or shrinking? As you consider these issues, here are four suggestions to help you optimize your aid dollars and boost revenue:

"A student's willingness to pay is the most important factor in determining the size of an aid package."

1) **Examine how much aid you are awarding to enroll your students.** A student's willingness to pay is the most important factor in determining the size of an aid package. Regular, systematic analysis of willingness to pay across student cohorts will help you set the proper aid levels—and determine how much the students you want are costing your campus. Develop a price-sensitivity index showing the enrollment rate for various need-based or merit-award-only students based on the percentage of need met or amount of aid awarded. Is there a point below which the majority of prospective students will cease to enroll?

2) **Coordinate the development of financial aid distribution policies with a broad group of campus officials** to achieve overall institutional enrollment and net revenue goals. The lack of a coordinated, inclusive awarding process typically leads to overawarding, especially when multiple offices or departments on campus control funds.

3) **Monitor *aid gaps***—instances when federal, state and institutional aid do not keep pace with cost increases, forcing your campus to offer aid packages that meet an ever-increasing amount of student need. Systematic underawarding will eventually result in excessive student borrowing, failure to achieve new student enrollment goals, and attrition.

4) **Create aid packages that consider the career of the student and future earnings.** Avoid front-end loading awards; this tactic may improve recruitment but often hinders retention. (See Section VII, Student Retention.)

Key Questions: Financial Aid Policies

- How much are you giving in the way of aid packages to the students who enroll? What is the willingness to pay of the students you hope to enroll?
- Who is involved in your awarding practices? How can you centralize and systematize your process?
- Are students leaving because their financial needs are not being met throughout their college career?

Key Metrics: Financial Aid Policies

- Award "gaps" between student need and actual award (*annually*)
- Percentage of need met/aid awarded in each year of the student's career (*annually*)
- Percentage of need met with gift aid versus self help (*annually*)
- Yield rates by need level and academic ability level (*annually*)
- Yield rates by key enrollment shaping goals (academic program, geographical area, ethnicity, talent, students, etc.) (*annually*)
- Family income distribution in your primary student markets to assess "ability to pay" (*annually*)

IV. Student Marketing and Recruitment

Are you managing your institution's marketing dollars wisely?

"The typical four-year private college spends $1,961 to recruit each new student, four-year publics average $516, and two-year public institutions spend $322."

Given the vast array of ways to invest your marketing and recruitment dollars, there could hardly be a more challenging question—or one that more clearly calls you to account. With millions of dollars hanging in the balance, including revenue from enrollment and the soaring costs of marketing and recruitment, the fiscal implications in this area are enormous.

That's precisely why successful institutions invest in a rigorous analytical approach, guiding these decisions with sound, data-based strategies. Many are finding that advanced techniques such as predictive modeling, control group experiments, and financial aid leveraging bring a return many times greater than the initial investment.

A simple first step is to benchmark your current cost to recruit a student. The typical four-year private college spends $1,961 to recruit each new student, four-year publics average $516, and two-year public institutions spend $322.* If you are:

- **Well below these levels and meeting your enrollment and fiscal goals,** you may already be operating in a very efficient and effective manner.
- **Well below and not meeting your enrollment and fiscal goals,** you may not be investing enough in marketing and recruitment to achieve your enrollment goals.
- **Above these levels, or at these levels but failing to meet your enrollment and fiscal goals,** you may need to reallocate existing resources by evaluating each activity for its benefit versus cost. You may face a situation where the perception of your institution is lacking and additional marketing and recruitment investments are required. Overspending in this area may be an indicator of a weak academic product, geographically dispersed marketing effort, or a very crowded and competitive primary market.

Analyzing the effectiveness of each marketing and recruitment activity is essential in maximizing your recruitment dollars. For example, one campus analyzed its high school visit program and found that the admissions staff saw 1,502 students, received 263 applications, and enrolled 128 students. While the program was effective, it resulted in only a fraction of the 2,600 freshmen who enrolled. Ultimately, the expense of the program was deemed too high for the results it produced. Without this painstaking analysis, the campus would not have discovered this. Use research as your guide and you will invariably reap the benefits.

* Four-year data taken from the 2004 Noel-Levitz National Enrollment Management Survey, two-year data taken from the 2002 survey.

Key Questions: Student Marketing and Recruitment

- Do you have a systematic method for benchmarking your cost to recruit a student?
- Have you analyzed the effectiveness of each of the following marketing and recruitment activities in terms of cost/hours vs. student yield?
  – Direct mail programs
  – Inquiry generation activities
  – Campus visit programs
  – Recruitment travel
  – Telecounseling program
  – Publications
  – Web site
  – Advertising initiatives

Key Metrics: Student Marketing and Recruitment

- Net revenue versus cost for each marketing and recruitment activity (*annually*)
- Recruitment cost per student benchmarked with like institutions (*bi-annually*)
- Control group testing for each marketing and recruitment initiative (*annually, staggering each test on a three-year cycle*)
- Conversion rates for each stage of your recruitment funnel—inquiry to application, application to admit, admit to enroll—and comparison with national data
- Institutional image perception study for each relevant prospective student market (*every three years*)

V. Cost of Student Populations

Are you managing your institution's marketing dollars wisely?

As institutions gain a clearer sense of their positioning—both actual and desired—many have an increased interest in shaping, rather than increasing, their enrollments. But the behaviors of different student populations differ markedly, and shaping policies may have widely ranging effects on your institution's fiscal health.

The key is to place a price tag on your "student wish list." Use a detailed cohort-by-cohort analysis—broken down by ability and need levels—to see how much it costs to recruit and retain various subpopulations (for example, honors students, commuter students, international students). Look for high or low yield rates, which suggest how much you have to spend to attract specific student populations, as well as the willingness of those populations to enroll.

"Use a detailed cohort-by-cohort analysis—broken down by ability and need levels—to see how much it costs to recruit and retain various subpopulations..."

Examine retention rates as well. Often, campuses that wish to diversify their student populations focus mainly on student recruitment and financial aid costs. However, to ensure the success of these populations, it's necessary to consider the support mechanisms that may be required once they enroll. Once you have identified these variables, you can achieve a clearer understanding of the ability *and* willingness to pay of the groups you desire, as well as the cost of supporting these students after they arrive on campus.

An analysis of the average net revenue produced by each subpopulation will yield valuable information that will guide enrollment-shaping decisions. For example, even a relatively small decrease in the number of highly subsidized, high-ability students and a corresponding increase in lower-ability students who are paying more of their tuition may produce a noticeable improvement in your overall net revenue.

Key Questions: Cost of Student Populations

- How do our enrollment goals for special populations relate to our fiscal investment for enrolling and retaining those groups?
- Are there anomalies in the yield rates of these populations that may signal the need for changes in our awarding policies?
- Are these groups graduating in a timely manner compared to the overall cohort?
- Will we need to invest in special services to serve these students after they have enrolled?

Key Metrics: Cost of Student Populations

- Yield (accept to enroll) rates for each subpopulation (*annually*)
- Retention and graduation rates of subpopulations (*annually*)
- Per-student award levels for special populations (*annually*)
- Average net revenue for key subpopulations (*annually*)
- Average net revenue by financial classification (*annually*)
- Average net revenue by academic classification (*annually*)

VI. Cost of Educational Capacity and Demand

Do you know the capacity of your classrooms, courses, majors, and cocurricular programs? Have you determined the level of demand for your programs?

"Simply put, whether you have too many students vying for particular classes/majors or too many programs/courses that are under capacity or too many students in high-cost programs, your institution's fiscal health will suffer."

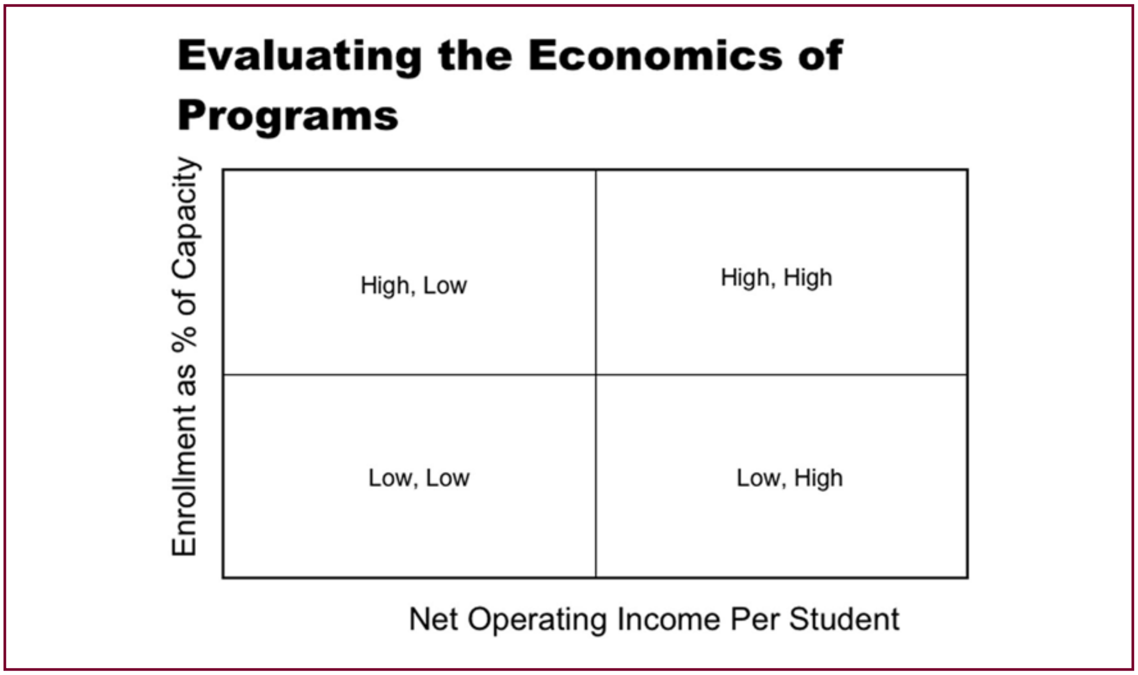
Along with analyzing your recruitment and financial aid programs, it's important to obtain a firm handle on the capacity and demand for your academic and cocurricular programs. Consider these factors:

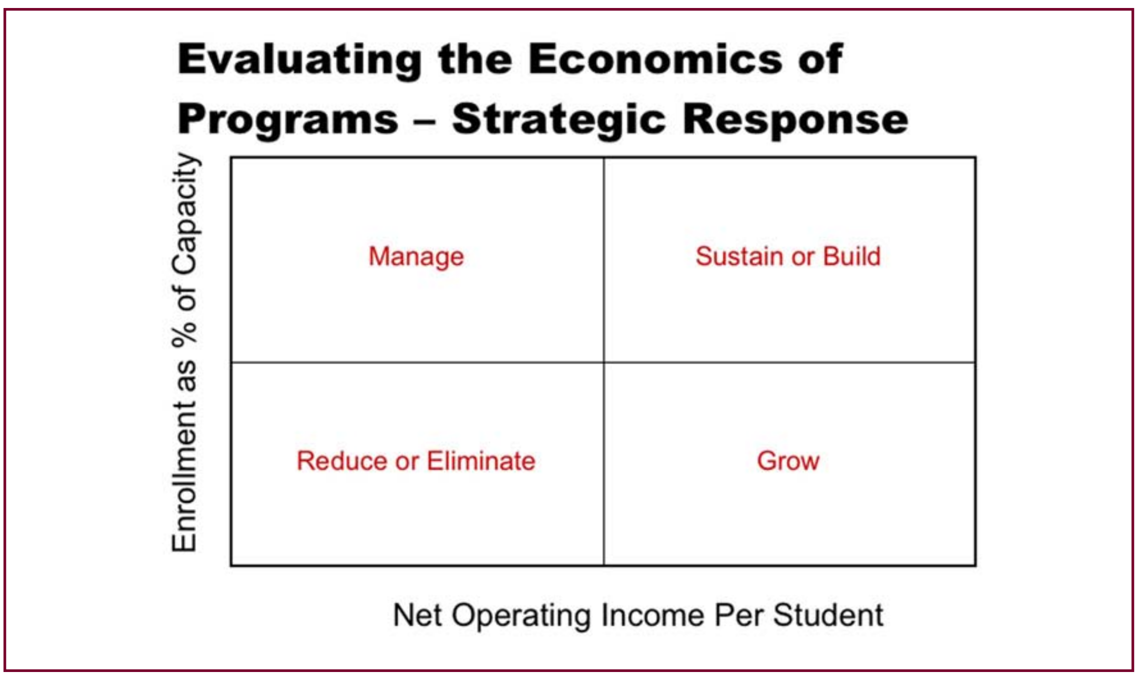
1) Students who are unable to pursue their chosen academic majors or enroll in required courses due to capacity issues take longer to graduate and may be more inclined to drop out/transfer.
2) Underenrolled academic programs and courses typically have a higher cost-per-student than programs that are at capacity. The same is true for undersubscribed cocurricular programs such as an athletic team with a roster that is not at capacity.
3) The proportion of students enrolled in high-cost academic or cocurricular programs has a direct (negative) impact on your balance sheet.

Simply put, whether you have too many students vying for particular classes/majors or too many programs/courses that are under capacity or too many students in high-cost programs, your institution's fiscal health will suffer.

In your analysis, compare current capacity with student demand for each academic program, each course, each classroom, and each student living-learning facility. Examine the costs and/or lost revenues from any significant positive or negative gaps between student demand and capacity. Working with your business office, determine the average cost to deliver each program to each student. Although this may be a challenge to ascertain, the resulting information is critical to your leadership team. For example, if your most highly discounted students are enrolled in your most expensive programs, the impact on your bottom line is obvious.

The two charts below provide a simple guide for using the economics of each program to guide your decision-making about its future.





Again, investing in these analyses before you make major decisions about your institution's future can result in tremendous cost-savings and/or revenue growth in the years ahead.

Key Questions: Cost of Educational Capacity and Demand

- What is our current capacity versus student demand for each academic program, course, classroom, and student living-learning facility?
- Are these variations in demand increasing costs per student or robbing us of revenue?
- Can we alter our enrollment strategy to help fill underperforming programs?
- Can we invest in expanding the capacity of popular programs/classes that are not keeping up with student demand?

Key Metrics: Cost of Educational Capacity and Demand

- Current and projected capacities for each course, academic program, and classroom (*annually*)
- Current and projected student demands for each course, academic program, and classroom (*annually*)
- Lost net revenues for each overdemand and underenrolled situation (*annually*)
- Recruitment and retention costs per student relevant to each underenrolled situation (*annually*)
- Average net revenue per student for each program (*annually*)
- Average cost to deliver each program per student (*annually*)

VII. Student Retention

Is your investment in student retention keeping pace with your investment in marketing and recruitment?

" An improvement of even a percentage point or two in your retention rate can produce a significant gain in net revenue. "

Investing in student retention may be the most cost-effective outlay you can make in your attempts to increase revenue and improve efficiency. A simple but effective method for mobilizing campuswide support for retention initiatives is the "dollars lost" scenario:

1) Calculate your average net revenue per student (revenue minus institutionally funded financial aid) and your attrition rate per class to demonstrate the one-year impact attrition has on your enrollment-related revenue.

2) Show the multi-year impact by forecasting the amount of additional revenue those students would bring if each cohort were to stay the number of years that it takes a typical student to graduate from your institution.

3) Compare that to how much it would cost to recruit a like number of new students to your campus to replace those who have left.

The figures usually speak for themselves. Conversely, you can easily demonstrate how an improvement of even a percentage point or two in your retention rate can produce a significant gain in net revenue.

Key Questions: Student Retention

- Do we have sound intervention programs for our at-risk students?
- Does the entire campus embrace the responsibility of retaining students?
- How much would we have to spend to recruit new students versus the costs of retention initiatives?

Key Metrics: Student Retention

- First-to-second year retention and financial impact analysis (*annually*)
- Second-to-third year retention and financial impact analysis (*annually*)
- Graduation rate data (four-year, five-year and six-plus years) and financial impact

VIII. Auxiliary Income

Have you explored ways to generate additional income using existing resources?

At this point we have surveyed a host of fiscal issues, from the cost of positioning your institution before you recruit students through the costs of helping those students persist and graduate. It also makes sense to consider creative ways to generate revenue beyond these traditional enrollment areas.

Think about the wide range of services provided by your local mall or business district. Imagine the revenue you could gain if your campus could provide a similar assortment of services to your students. Or perhaps you already provide some high-cost services, such as a health clinic. Could you outsource these services to a specialized provider to reduce your costs?

Your physical plant represents another potential source of revenue. How are you using your facilities at times when students and members of the campus community are not? Conferencing, camps, special events and exercise/wellness facilities can all provide additional income from facilities during periods of non-peak usage. Are there other services that students consume that you could improve, increase or offer to a wider audience of consumers? For starters, consider the potential of the following areas as sources of additional income:

- Laundry
- Facility rental
- Computer services and sales
- Transit services
- Food service
- Housing
- Conference operations
- Camping operations
- Printing
- Office supplies
- Parking fees
- Bookstore

"Think about the wide range of services provided by your local mall or business district. Imagine the revenue you could gain if your campus could provide a similar assortment of services to your students."

Key Questions: Auxiliary Income

- What services can you provide to students that could generate revenue?
- What services are you providing that could be outsourced to save revenue?
- What types of events or activities could take place on your campus during non-peak times?
- What is the effect of your enrollment on your auxiliary income?

Key Metrics: Auxiliary Income

- Residence hall occupancy and income (*quarterly or by term*)
- Auxiliary facilities-related income from outside sources (*bi-annually*)
- Auxiliary services income by category (*quarterly*)
- Auxiliary services income per student (*annually*)

Research and analysis: Where the discussion begins and ends

How many of the above questions are you currently addressing? How many of these indicators are you tracking? If the answers to many of these questions are uncertain and the metrics are a mystery, you are probably missing significant opportunities to increase revenues or reduce costs.

Understanding all of these areas presents a challenge. Managing the fiscal health of your institution requires attention to detail, careful analysis of trends, and campuswide coordination. That's why ongoing research and data-tracking play such a pivotal role in every facet of fiscal management. Yet, at a time when many institutions are struggling with fiscal issues, financial planning is often based on casual observation rather than hard data. Consequently, while many institutions know they can't afford to waste resources, they do so merely by failing to monitor them.

Simply stated, campuses that exhibit the strongest fiscal profiles are those that put data at the forefront of their financial decision-making process. Many of them have invested in cutting-edge analytical tools such as predictive modeling and financial aid leveraging—tools and approaches that can help institutions not only avoid wasting money, but also grow their revenue.

If your campus hopes to make the leap to advanced fiscal management, it must invest time and resources in research and data tracking. One of the best ways to do this is to set up a venture fund to pay for the data collection, advanced tools, and initiatives that will lay the foundation for future success. Once your institution has done that, you can compile available data and resources, assess what information is missing and how to obtain it, make decisions to redeploy resources to implement needed changes, and evaluate the effectiveness of these efforts. Be sure to replenish your venture fund each year with a portion of the additional revenues that were generated the previous year. Otherwise, research and tracking, along with all of the accompanying attractive returns on investment, will decline.

To begin the process of leading your campus in this arena, start with the following steps:

- Appoint a team to guide the process
- Identify a handful of initial indicators that you wish to track
- Build baseline historical data on those indicators
- Require identification of three to five immediate initiatives for revenue enhancement
- Establish a venture fund to reinvest a portion of your ROI

Once you begin this journey, your campus will be on the road to greater fiscal health, creating benefits for you, your colleagues, and the students you serve every day.

For further discussion or questions, please contact Noel-Levitz

If you would like to discuss the Fiscal Indicators Inventory in more detail, or for questions, please contact Kevin Crockett, president and CEO of Noel-Levitz. Call 1-800-876-1117 or e-mail kevin-crockett@noellevitz.com.

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About Noel-Levitz

A trusted partner to higher education, Noel-Levitz helps campuses and systems reach and exceed their goals for enrollment, financial aid and revenue management, marketing, and student success.

Since 1973, more than 1,700 public and private institutions nationally at the two-year, undergraduate, and graduate and professional levels have invited a Noel-Levitz consultant to collaborate with them—either individually or through system projects. Our 30 full-time consultants and 50 associates bring direct experience from their previous and current positions on campuses as consultants, enrollment managers, financial aid directors, marketing leaders, retention directors, institutional researchers, faculty, student affairs leaders, advising directors, and more.

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