

Mastering the Cost of Higher Education

“Colleges must do their part to keep costs down, and it’s our job to make sure they do. Tonight, I ask Congress to change the Higher Education Act, so that affordability and value are included in determining which colleges receive certain types of federal aid.”

President Barack Obama State of the Union February 12, 2013

Many educational institutions are struggling with fluctuations in funding and meeting the increasing demand for student services. Educational institutions need to provide competitive courses and degrees to meet the needs of their communities while being fiscally responsible. The college education inflation rate is dramatically higher than the overall consumer inflation rate causing great concern to students and parents. With technology changing so rapidly and globalization playing an important part in education, higher education institutions have to adapt quickly and often. According to a 2012 survey of 1,692 colleges and universities co-sponsored by Bain and Sterling Partners, “60% have weakened financial portfolios that render them vulnerable to collapse, and only 40% are financially sound.” In addition, “approximately one-third are spending more than they can afford”.

Higher education institutions have good visibility into total operational costs and total revenue collected, but little or no visibility into individual program, degree and course costs, or the cost per student. Currently, colleges and universities have not implemented activity-based costing used in most commercial enterprises. Activity-based costing goes beyond the traditional allocation of overhead and provides institutions with better insight into information needed to make strategic decisions about cost containment and allocation of resources. With governing and regulatory bodies currently recommending (and likely soon requiring) this type of reporting, it is becoming critical for higher education institutions to have this type insight for both long term and short term planning and reporting.

Business Modeling for Higher Education

Using cost and revenue models enables academic institutions to answer crucial questions and, more importantly, analyze many business scenarios to determine their best courses of action for any given set of economic and academic conditions.

Why is business modeling needed so desperately now? It can provide needed visibility into program, degree, course, and student costing. Revenue and cost modeling can also help with

- Understanding the financial stability of a program, degree or course. It may be OK to lose money on a program or course that will attract students, but doing it blindly is not.
- Transparency that enables institutions to ensure resources are aligned correctly based on actual measurable information
- Understanding the true cost to implement new programs and the ability to make pricing decisions based on those costs

“..only 39 percent of the respondents indicated that their institution was effective in using financial data to aid and inform campus decision-making”

“During periods of economic recession, enrollment demand tends to grow more rapidly at a time when state revenue falls or fails to grow”.

Kenneth C. Green, with Scott Jaschik and Doug Lederman, The 2011/2012 Inside Higher Ed Survey of College and University Business Officers (Washington, D.C.: Inside Higher Ed, 2011)

- A thorough understanding of costs at a more granular level and the root cause of the costs. This information enables institutions to make informed decisions
- Creating accountability that enables departments to understand the resources they consume as it relates to the revenue that they generate
- Full disclosure of accurate costs – a requirement from accreditation bodies and from boards of trustees
- Addressing concerns and questions from various stakeholders, e.g. CFO, Provost, Board of Trustees, State and other governing boards and accreditation bodies

In an *Inside Higher Ed* survey of college and university business officers in 2011, it was found that “only 39 percent of the respondents indicated that their institution was effective in using financial data to aid and inform campus decision-making”. Budget and spending decisions need to be based on data, not on rumor or public opinion or perceived impact. Better use of data is mandatory if higher education is going to fix its current, broken cost model.

Oracle Solution

Oracle understands the challenges faced by Higher Education institutions today, and offers an integrated solution that provides all the features and functions required to operate in today’s dynamic world of education. Oracle provides cost and revenue modeling solutions that enable calculations by different dimensions such as program, degree, and course-level financial stability, major and type of student. Our solutions expertly provide resource allocations (direct as well as shared services) that will help you maximize your offerings and can help you model financial and operational parameters when considering new programs.

Oracle Higher Education Revenue and Cost Management Solutions:

- Provide graphical, interactive traceability maps
- Provide operational what-if modeling for decision making
- Foster best practice analysis for course and program delivery and the infrastructure necessary for costing course delivery channels
- Are tightly integrated with the Oracle Hyperion Planning and BI solutions
- Are built on a proven financial technology stack
- Are built for business users

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