OPTIMAL TAILORED TECHNOLOGY & STRATEGY SOLUTIONS

Academic Program Financial Data Analysis for a Small Liberal Arts College

In a recent consulting engagement, Optimal Campus principal consultants reviewed the academic program financial data for a small liberal arts college. The college faced major financial challenges that necessitated budget cuts approaching twenty-five percent.

The college had developed a financial model to guide faculty and administrators in making program cuts they believed would allow continued viability for the institution. Our review of the college's financial model and the model's assumptions revealed that it would not provide appropriate guidance for management decision making.

- The model generated "full costs" for each program by allocating indirect costs to programs using the negotiated Federal indirect cost rate. Since most of the allocated costs would not be eliminated if a program were canceled, this full-cost model provided an inaccurate picture of what could be saved by eliminating programs. We proposed an alternative model that calculated program contribution margins based on direct costs, thus recognizing only the program costs that would actually decline or be eliminated if programs were canceled. Several programs that would have been slated for cancellation were identified as having positive contribution margins, and the overall picture for cost savings became considerably more accurate.
- The model did not properly account for the costs of delivering the general education program or courses taken outside of a student's major, thus underestimating the true cost of delivering certain programs. We developed strategies for allocating to each program the revenues and costs of general education courses and courses taken outside of a student's major area of study. Once implemented, these changes would make the college's financial models much more accurate in gauging the cost of delivering each program and thus better guides for management decision making.
- We were able to show how data the college had on student retention and institutionally supported financial aid could be combined with the contribution margins generated by the revised financial model to suggest strategies the college could use to identify programs in which to invest and to pursue enrollment growth.
- Finally, we were able to propose a more comprehensive model that developed program profitability by building up from the revenues and costs of delivering individual courses. Such a model could be implemented in the future as a more effective way of managing the program evaluation process.

The institution concluded that without the guidance of our consultants, they would have made significant mistakes in realigning their academic programs in the face of a severe financial crisis.