Capital Gains

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Surviving in an Increasingly For-Profit World

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In "The Wizard of Oz," Dorothy pulls back the curtain to reveal the wizard as an ordinary human being, and Oz as a place quite different from what she had envisioned. This is not unlike the experience of first-time presidents of nonprofit colleges and universities, who step into the job and pull back the presidential curtain—however, they often discover that the position entails *far more* than they had expected.

First-time presidents of nonprofit colleges are generally unprepared for the rapidly evolving market forces that exert a profound impact on their colleges. The scenario is troubling, exacerbated as it is by the inroads that have been made by for-profit colleges and universities.

According to the American Association of Colleges and Schools of Business, top-tier business programs at not-for-profit institutions saw an 11 percent drop in their market share for baccalaureate degrees from 1992 to 1997. In the same period, enrollments at for-profit business schools soared by 180 percent.

Last year, Harcourt General, one of the largest educational publishers in the world, opened the doors to its online university, which offers associate and bachelor's degrees. Kaplan Inc., owned by the Washington Post Company, now offers online jurisprudence degree programs for $5,100 a year through its Concord University School of Law, far less than most traditional law schools charge. Renowned Harvard Professor Arthur Miller serves as an adviser to this school, an indication of its pursuit of credibility.

For-profit colleges launched by businesses operate with a live-profitably-or-die mentality. They are managed as businesses, and their presidents know their true costs. This eye on the bottom line has helped them attract students at a healthy pace. Even the prestigious Virginia Association of Scholars acknowledges the effect for-profit institutions now have upon the traditional not-for-profit sector.

One lesson for-profit institutions teach is that, clearly, millions of dollars are available each year to reinvest in additional facilities and scholarships. Their strategies also may help presidents of nonprofit colleges and universities better react to the changing expectations of foundations, evolving demographics of student populations, and the growth of technology.

Faced with this multifaceted, competitive situation, a critical question arises: How can the new president of a nonprofit college or university assure the continued vigor of his or her campus? In fact, a number of actions can be taken.

Establish a professional cost accounting system.

Your cost accounting system should spell out in explicit detail the costs of providing your educational offerings in relation to the prices you charge. At the very least, the system should reflect the cost of administrative and professors' salaries, benefits, facility operations, recruitment, auxiliary services such as your library, health care coverage, and technology, and the discounts you offer.

In the process, you may come to one or more of several conclusions: that you are underpricing or overpricing your offerings in relation to your costs; that certain programs are costing your institution money; or that the institution does not benefit when it meets enrollment objectives or does not incur penalties when it fails to meet them.

A detailed cost accounting system such as this differs from the current practice of many colleges; that is, considering the revenue of only four courses per student, taking 50 percent off the top for support costs, and leaving the rest to cover professors' salaries alone.

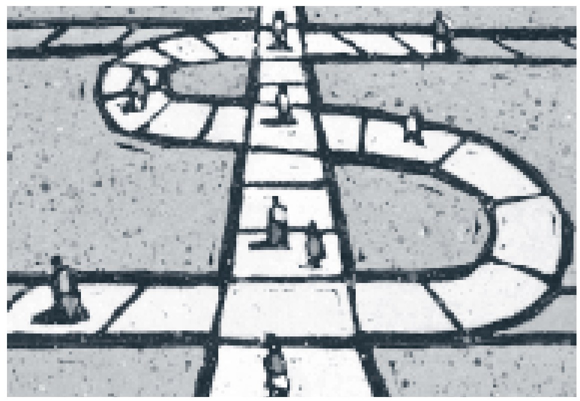
When two programs need financial support—for example, a psychology program and a nursing program—a professional cost accounting system will enable you to answer such questions as: Will enrolling more nursing students generate greater revenue than enrolling more psychology students? Are these students of comparable quality? Are you including institutionally funded scholarship costs in your estimates? Are you losing money on both?

Be careful not to allow your mission to justify financially shaky courses. For example, your mission may require you to offer a foreign language course, but one course may attract only one language major. When that happens, it may be time to drop the course from your curriculum and have students take it at a nearby college.

Use zero-based budgeting when planning new programs, and avoid making additions without considering which existing programs you may need to drop to make room for new ones. Know how much a new program will cost and how much revenue it will generate.

Use the interest from your endowment to support other revenue-producing efforts.

Suppose that your college has an endowment of $100 million, bearing annual interest of about $5 million. Many colleges and universities will automatically earmark this income for operational purposes. Other institutions invest the interest in for-profit ventures that yield passive income. Today, it is not unthinkable for a college or university to invest in fast-food franchises or even in businesses like golf courses and parking garages.



Think of foundations as your funding partners.

If you do, you likely will attract more funding. Foundations use three criteria when determining which colleges to fund:

- Distinctive differences: Foundation money flows to colleges that distinguish themselves, rather than to those that emphasize stability and continuity. You should be able to show how your college differs from colleges that may appear similar to yours.
- Exciting new approaches: Foundations look for colleges that develop new ways to meet students' educational needs. You should avoid resting on past laurels.
- Community collaboration: Develop creative ways to work with other colleges, as well as with health providers, businesses, government, and unions.

Increase retention.

It often is easier and more economical to grow business from an existing customer base than to find new business. This is as true for nonprofit colleges as it is for commercial ventures. Students of baby-boomer parents seem to get the transfer itch more easily than previous generations. In fact, colleges now graduate fewer than 60 percent of the students who enter as freshmen—a poor retention rate by anyone's measure. And, on average, it takes six years for today's college student to graduate. If you are not maximizing retention, you are losing students and money.

It takes two students to replace every one who transfers out of your college—one to fill the freshman complement and another to replace the departed student. Simply knowing the total head count at your college does not give you an accurate overview of retention. Attrition numbers often are submerged into this total, because colleges and universities fail to recognize transfer enrollments.

Just because students come to you as freshmen does not mean that they will return for a second, third, or fourth year. This means you need to innovate and re-recruit them each year. In this context, it is important to know that the way you market to sophomores should differ from the way you market to juniors, which should differ from the way you market to seniors. That's because the needs of these students differ from year to year.

Market to your students as customers.

Traditional and nontraditional students, men and women alike, now consider a college degree to be a ticket to a well-paying job and career growth. Increasingly, they choose colleges and universities that not only will provide this ticket, but also will secure them jobs after graduation.

Consider increasing the number of career counselors you employ. For-profit colleges take the career focus seriously and may employ as many as 20 counselors to help students land income-producing jobs during school, and to start them on career paths with high earning potential after graduation. Compare this with the one or two counselors on staff at many nonprofit colleges across the country. Some for-profit institutions also offer their graduates meaningful lifelong career placement services.

For-profits lay out job and salary growth curves that are practical and that their graduates can expect to reach. For example, graduates of one large culinary institution know that they can expect to move into entry-level jobs earning an average starting salary of $23,000. Five years after graduation, they are likely to earn about $35,000 and in 10 years, around $65,000.

Adapt your marketing practices to long-term demographic trends and cyberspace. Prospective students now browse college web sites for the information they once requested by contacting colleges directly. To engage those prospective customers who bypass the traditional, direct approach, make your college's web site a highly interactive information resource, instead of a site that contains only repackaged information from your view book. This approach will engage visitors, keep them longer, prompt them to return to your site, and encourage them to visit and enroll in your institution.

And, if you've focused heavily on attracting white males in the past, start thinking about diversity. A large proportion of the college-age population is not even considering college at all. Many can land good jobs and earn high salaries without a traditional four-year college education.

Males are now the student minority on many college campuses, reflecting a trend in enrollment downturns for colleges marketing to this audience. Universities that have marketed exclusively to a Euro-American audience may now find that their recruitment procedures are out of sync and ineffective when employed to attract African-American and Hispanic students. Nor can colleges continue to produce recruitment materials that depict only a few minority students at a campus teeming with white males. Nonprofits will need to develop advertising and promotional campaigns that are customized to address the specific needs of the growing majorities on college campuses.

Promote your college as a brand.

Traditional approaches carry little weight with teenage children of baby boomers, who tend to regard colleges as commodities. To them, one college is as good as another—a perception that can sound a death-knell for a nonprofit institution.

Branding creates familiarity and identity with which prospective and current students can relate. Branding also engenders loyalty and promotes your school's distinctiveness. Invest in the positioning of your college brand, and develop ways to effectively merchandise your brand to prospective students and those already enrolled at your school. One college in the Northeast merchandises its brand in myriad ways—from M&Ms tinted in the school's colors to bottled water emblazoned with the college's logo.

Learn from the auto dealerships in your town or city. They see customers not in terms of individuals making one-car purchases, but as individuals making a series of purchases over a lifetime, of multiple family members purchasing autos, and of the revenues that accrue from repairs. Thus, when thinking about this year's enrollments, consider the student, his or her siblings, and even children who might attend your college later.

Assuming the presidency of a not-for-profit college or university requires resiliency and a re-examination of traditional approaches. This leadership position requires prescience and learning from for-profit colleges. Not-for-profit colleges are not for-profit businesses, but they can become more businesslike in their operations without sacrificing integrity. ■