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Will Your College Close?

Forty percent of institutions are destined to struggle. What to do? Here's what works — and what doesn't.

Harry Haysom for The Chronicle

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By Susan Campbell Baldridge, Susan Shaman, and Robert Zemsky

When things are bad enough, everybody knows. Programs have been closed or neglected; enrollments have declined; a hiring freeze has been imposed; pessimism permeates the campus. While all of that is true of institutions on the brink of collapse, what about those not yet in such dire straits? How can a college monitor its fitness so that it can head off serious trouble — or plan for the inevitable? Our answer is a risk score that quantifies institutional health.

With that in mind, we created the Market Stress Test Score, a composite of measures reflecting an institution's market position over a period of years, usually 2008 through 2016. Our measures relate to enrollments, revenue streams, and expenditures. Our inputs are the sort of metrics deans and provosts track carefully. Here's what we learned from examining the financial health of almost every college in America.

Closings will not be nearly as prevalent as some prognosticators have predicted. Just 10 percent or less of the nation's colleges and universities face severe market risk. 30 percent face some market risk and are likely to struggle. The remaining sixty percent face little or no risk.

The financially strong — the winners of our test — are pretty much what one would expect. They are the nation's most competitive and prestigious colleges, and they will only grow stronger as the market further consolidates. Their worries are principally political: Have their ever-higher price tags made them targets

, not just of envy, but of political action as well?
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The financially weak — the losers — are those colleges already at substantial risk. Their circumstances are due to a grab bag of causes. Some four-year publics face sharply declining state appropriations. Some of these financially imperiled colleges have mismanaged their endowments and adopted risky pricing strategies that yield ever higher discount rates and little or no enrollment increases.

The really unlucky colleges have suffered a double whammy over the last decade: higher discount rates that yield less tuition income per student coupled with enrollment declines yielding fewer students. Most losers have also experienced financial shifts large enough that budget reductions alone are unlikely to yield sufficient savings to offset losses in revenue.

Leaders of financially stressed colleges may respond to our diagnoses by saying, “Tell me something I don’t know. What I need are strategies that offer the promise of fixing my problems.” This is a tall order. There are no magic bullets. Nonetheless, the fixed nature of the market provides important clues as to what a rejuvenating strategy might look like.

Our proposed strategies fall into two broad categories: (1) those that focus on the market, such as pricing policies, and (2) those that involve changing the internal behavior of a college in ways that might substantially improve its retention of first-year students. We begin with the former because increasing new-student enrollment is the most obvious short-term solution to a college facing substantial risk.

Before we get to those clues, two brief caveats. First, our analysis focuses on buyers rather than shoppers. It doesn’t account for the possibility that substantial numbers of would-be undergraduates are not currently enrolled in a college or university. Second, our recommendations assume financially stressed institutions have already tried a few things. They have hired consultants who promise analytic insights. They have invested in new marketing materials. They have hired new staff, having first made their chief enrollment officers vice presidents. They have engaged in ever more substantial price discounting in an attempt to lure more students to their campuses.

Agrowing number of colleges have concluded that the wrench in the works is the now decades-old practice of having a high sticker price, which is ameliorated for almost all students with generous amounts of student financial aid, which, in all but name, are price discounts. What is needed, these colleges proclaim, is not a high-price/high-aid pricing model but instead a low-price/low-aid pricing model. Moving from the old model to the new is called a tuition reset.

While a host of private colleges, often spurred on by trustees tired of defending escalating sticker prices, have talked about resetting their tuitions, to date few have done so. Many of those that have have done it in the last five years, making it difficult to judge whether the resets generated enrollments and net-tuition revenue sufficient to cover operating costs. There have been only a

few credible studies on the topic, and they ask the same basic question: Is a tuition reset worth the attendant disruption and risk?

One study is by Laura Casamento, at the time Utica College's executive vice president and now the college's president. Researched and written while Utica was pursuing a tuition reset, Casamento's 2016 study was a cautionary tale, warning colleges considering a tuition reset to be both cautious and purposeful. "Most colleges and universities that have implemented a tuition price reset strategy have done so with negative or mixed results," she explains, "because the strategy was not part of a larger, comprehensive strategy to elevate the brand of the institution." A comprehensive approach would require, she writes, "linkages to academic quality and program delivery, investment in institutional branding, revenue diversification and risk mitigation." Simply adopting a tuition price reset in isolation means that "price — and only price — is the story."

Casamento's advice is worth remembering. Each of the two institutions in her sample of four whose tuition resets produced the sought-after stabilization of net-tuition revenue had "a story to tell in terms of investment and enrollment growth" in the form of larger freshman classes, new buildings, and/or new academic programs. "Both colleges proclaimed their institutions were resetting tuition from a position of strength, not desperation." The less successful institutions did not have the financial strength or expertise to effectively market their institutional brand and did not have a story of investment and growth to tell.

When it comes to tuition resets, a positive result is anything but guaranteed.

Just as important was due diligence. A tuition reset requires complex planning. "The decision cannot be rushed," Casamento writes. "Only two of the four colleges participating in the study utilized outside consultants and they were the only two colleges in the study that experienced an increase in undergraduate tuition revenue in the first year of the tuition price reset implementation."

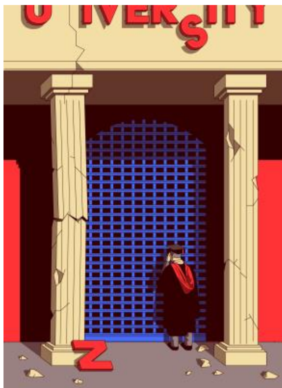
Another study of price resetting, by Andrew S. Armitage, an experienced institutional researcher, was undertaken two years later. Armitage identified 12 private, not-for-profit colleges and universities that had implemented a reset, and then tracked their performance for the two years following the reset. The reduction in sticker price among these 12 private colleges ranged from a low of 8 percent to a high of 43 percent. On average, there was a 25-percent reduction in published sticker prices. The results were mixed.

In the two years prior to the reset, average enrollment at the 12 colleges was on a downward slope. They enjoyed enrollment increases of 13 percent in the year of the reset, another double-digit increase the next year, and then a 3 percent increase in the second year after the reset. Colleges selected as controls for their similarity to those resetting generally headed in the opposite direction. Complicating matters, while enrollments increased, net tuition did not at three quarters of the resetting institutions.

Communicating the pricing cut was key. As one campus leader told Armitage, "The first question the media asked was, 'How can you do this? How can you cut your tuition 43

percent?'" Most campus leaders Armitage talked with for his study were blunt about the idea that a reduction of a college's sticker price was an early warning of trouble to come. One interviewee explained: "This must mean they're in trouble. This must mean it's a gimmick, and there's bound to be some fine print in there."

So when it comes to tuition resets, a positive result is anything but guaranteed. But despite the risks, this is a strategy that can buy time, perhaps as much as five years. In the long run, however, even a fundamental change in pricing policy is not likely to protect institutions at substantial market risk. The alternative is either to grow one's enrollment or reduce costs.



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If pricing isn't a magic bullet, is technology the answer? There is an endless debate about whether e-learning can reduce costs, produce the same results as old-fashioned in-class instruction, and maintain the spirit of the humanities and liberal arts. There are few well-documented examples of colleges using technology to substantially reduce their instructional costs. But we do have a pair of stories that suggest such cost reductions are at least possible.

The first of these is Studio Physics, a course pioneered at Rensselaer Polytechnic Institute in the 1990s. It began with a simple observation. The most expensive component of a traditional introductory physics course was the large lecture section that many students routinely skipped. Weekly discussion sections conducted by the department's tenure-track faculty were often attended by less than half the registered students. Only the labs — which in practice focused on the problem sets a successful student was expected to master — were regularly attended.

Studio Physics relied on computers clustered in large, open-learning spaces to deliver most of the instruction. Students worked in pairs on problem sets. Detailed simulations of the problems were presented on the computer, while a small team of faculty members roamed the studio to answer questions and help students get unstuck. While Studio Physics is still taught at a limited number of colleges today, the mystery is why it has not spread to other disciplines.

Our second example comes from the University of Central Florida. UCF was mandated to serve significantly more students without a corresponding increase in state funding. The university turned to online learning with promising results. The University of Central Florida is admittedly

something of a flawed example — a university that enshrined bigness as a strategic imperative: big football, big research, and big buildings which, it turned out, were financed in awkward ways.

Dealing with financial stress is about more than just the numbers.

That said, the online-learning initiative taught UCF a great deal about increasing faculty productivity — lessons that might help smaller institutions trying to reduce instructional costs. According to doctoral research by Peggy McCready, now Northwestern University's associate vice president for IT Services, UCF in 2012 had seen support from the state of Florida decrease $144 million over the previous five years. The university managed to do more with less. Between 2007-8 and 2012-13, the university experienced a roughly 20-percent increase in the size of its undergraduate student body along with just a 4.7-percent increase in the number of faculty (full-time teaching and adjunct). In short, the university taught a lot more students while receiving significantly less state funding and only a small increase in faculty positions.

How did UCF do it? Online courses came to absorb roughly a third of the total course units. Joel Hartman, then the university's vice provost for information technology and resources, told McCready that "the way UCF uses technology to support its teaching mission has become its business model, as opposed to something the university does on the side." The majority of faculty members taught multiple types of courses — web-based, mixed-mode, or face-to-face. This became a regular part of the undergraduate experience.

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Hartman went on to explain that the web-based courses tended to fill up first. "In fact," McCready reports, "many of the students living on campus are taking web-based and mixed-mode courses, suggesting that student choice is a matter of convenience and personal-learning preference, as opposed to strictly an issue of access."

The UCF faculty embraced growth through technology, and accepted a strategy that required a substantial increase in faculty productivity as measured by a decreasing faculty-to-student ratio. For its part, the university offered incentives that recognized faculty members who taught beyond the median class size, which could only be achieved through the delivery of online courses. Bonuses of $2,000 were awarded to 50 faculty members each year. Faculty who taught more than the median class size in their department could receive a permanent boost in pay of $5,000.

The lesson is that changing higher education's business model is within the realm of the possible. It requires taking advantage of a mode of education that has a lower overhead cost than a traditional residential college experience. This kind of change isn't easy. Few severely financially stressed colleges have the capital necessary to invest in online learning. Even fewer can expect the kind of growth in student enrollment that allowed the University of Central Florida to reduce unit costs by 20 percent. Still, some colleges are recognizing both the opportunity and challenges of online education.

There is also an alternate path — getting faculty to lead curricular reform aimed at improving student success. The median freshman-to-sophomore retention rate for four-year publics in 2016 was 75.5 percent, which means that half of those institutions were losing nearly a quarter of their freshman class in their first year. The numbers for four-year private nonprofits are not much better. Their median freshman-to-sophomore retention rate was 77.6 percent.

The problem may be as basic as the curriculum students experience when they begin their college educations. Often the curriculum is conceived as a sort of funnel: students start with broader general-education courses, and eventually come to major in an area of study. Most efforts aimed at reforming general education have sought to strengthen its commitment to intellectual exploration and, not incidentally, to lessen the degree to which the general-education curriculum serves as an academic bazaar in which faculty, particularly from underenrolled departments, recruit new majors.

Ignoring muddled value propositions will only perpetuate the status quo.

But consider a successful effort to recast the general-education requirements at the University of Wisconsin at Oshkosh. Once a proposed revision of the gen-ed requirements was in hand, a survey asked all interested undergraduates to comment on both the new and old requirements. While most students had little understanding of the proposal, they did realize general education was broken. For them, gen ed was "a waste of time and money." They saw it as "very disorganized" and disconnected to their majors. Most damningly, as one student put it, gen-ed courses did nothing more than "keep particularly irrelevant courses funded and tired faculty continually employed."

Faculty, of course, would likely disagree. And half the students at Oshkosh felt that the general-education courses had value. Our concern, however, is with the other half — those students who start college needing to be convinced about the value of their education. General education is not what they want, and, at many institutions, a third or more of them will not be around to start their sophomore year.

What would the freshman-to-sophomore retention rate be if the students' first year was explicitly tied to their interests, which are increasingly vocational? Could they start with a true introduction to their preferred major? Could they focus on practical learning skills that have a postgraduation payoff in the labor market: writing, statistics, problem solving, and, yes, a foreign language?

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We are not talking about general-education courses that have each of these skills as subthemes. Nor are we arguing for abandoning the kind of intellectual growth a really good gen-ed curriculum promises. Our alternative flips the curriculum: Start practical and skill-centered, but insist that no one graduates without spending a portion of their junior and senior years engaged in a broad, probably self-designed exploration of topics outside of but ideally connected in meaningful ways to their majors.

Such a proposal would require a fulsome change in faculty behavior. Only a faculty can design and deliver the kind of first-year, skill-based vocationally tinged experience we have in mind. And that is the principal lesson our ruminations about the link between attrition and curriculum have taught us. The kind of improvement in an institution's freshman-to-sophomore retention, which institutions at market risk require, will inevitably entail a rethinking of the curriculum in general and the first-year experience in particular. Only the faculty, not as individuals nor individual departments, but collectively, can produce the kind of changes that retaining more students requires.

Dealing with financial stress is about more than just the numbers. And the strategies we have outlined are admittedly difficult. But some colleges are providing reasons for optimism. Through 2014, Utica College's intake of first-time first-year students was on a downward slope, which the college's 2015 tuition reset reversed. Freshman-to-sophomore retention went up, but at 75 percent, there remained room for significant improvement. The most troublesome stress-test indicator was market price, which through 2016 had yet to stabilize, suggesting that further price reductions might be in order.

In January 2019, Karen Vahey, a student in the University of Pennsylvania's executive doctorate in higher-education management program, interviewed Jeffrey T. Gates, the senior vice president for student life and enrollment management at Utica College. As Gates put it, the college wanted "to prevent sticker shock and stop families from walking away from a private education." "The market responded," explains Vahey: "Applications increased by 15 percent since the reset." Gates goes on to say that higher-income families have been considering Utica in greater numbers, and that net tuition grew from around $13,000 per student to $17,000.

The process has had many benefits to Utica, not the least of which was the campus finally coming to terms with its actual competition. When asked to name Utica's principal competitors, faculty and staff most often responded with the names of private, highly selective colleges such as Hamilton and Colgate. Gates followed up with analysis of Fafsa data and discovered that seven of Utica's top 10 competitors were public colleges. Convincing the faculty of this wasn't easy.

Utica's tuition reset is a prime example of Andrew Armitage's observation that resets worked best when they were part of a larger strategy. The college is simultaneously expanding its graduate-education program through online and hybrid offerings and exploring opening a branch of its nursing programs in a state where there is demand but a dearth of nursing programs. Its most interesting new direction is a discussion initiated by the president about possibly flipping the college's gen-ed programs. As the president told us, time will tell.

A second campus at which our Market Stress Test Score has led to change is Central College, in Iowa. Its president, Mark Putnam, was facing mounting difficulties. Recruiting a freshman class was an increasingly puzzling operation. Having invested heavily in market research, the college believed it had turned the corner in 2014 when that year's freshman class suddenly returned to pre-2010 levels. Soon after, however, freshman enrollments resumed their downward slope. Nothing seemed to make sense until 2017 when the college engaged in a second round of market studies, this time focusing on prices and shifts in the Iowa market.

By the fall of 2018, Putnam had his answer, and he is clear-eyed about the challenges.

“We cannot cut, borrow, and discount our way to success. We have to find another way. Incremental changes in our recruiting operation will not address the depth of the problem we are facing. Pricing tactics in the face of aggressive price competition will not have a stabilizing effect and will only mask a fundamental lack of perceived quality. The challenge is further exacerbated by a stunning lack of visibility for Central College in the broader marketplace.”

No one in our experience has said it better than Putnam. What Putnam and his senior leadership team have proposed is but a beginning: a modest tuition reset to buy some time and some understanding on the part of the board to allow the application of extraordinary funds in the short term. The college will also launch a much-needed discussion of mission, after which it will embark on an equally tough revision of the college’s curriculum.

Is it really closing time for America’s financially stressed colleges, as so many have predicted? For some it may be. But for many financially stressed colleges, it is time for full and frank reckonings with the future. Being realistic about challenges to enrollment, retention, endowment, and expenses can help colleges comes to terms with their financial predicaments, choose the proper indicators to help track their progress toward sustainability, and help galvanize the entire campus to work toward a shared solution. Failing to pay attention to increasingly muddled value propositions will only perpetuate the status quo, with institutions at risk and a market that makes increasingly less sense to a public already skeptical of higher education’s core values.

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