Career Education REVIEW™

The Career College Information Source

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Career Education Review™

The Career College Information Source

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The Career Education Review is the career college information source dedicated to providing top management, owners, investors, sector leaders and suppliers with the in-depth information required to operate a successful educational enterprise and to provide a life-changing education experience for the students served by the sector.

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Letter from the Editor

It is often said that organizations do not plan to fail, rather they fail to plan. Our experience finds this truism to not always be so true, especially in colleges and schools. Sadly, every year schools cease to exist and you do not need CER to remind you of the all-too-numerous incidences of recent and planned career college closings. We are sure all of these institutions had a strategic plan. All accredited colleges must have some form of a "campus effectiveness plan" or "institutional effectiveness plan." The essence of accreditation's peer review is to verify that a school is serving an appropriate mission. So, if these colleges and universities have plans, how and why do they fail? Is the planning and budgeting process a waste of time or useless exercise undertaken to satisfy accreditation requirements?

In this month's edition we explore these and many other questions and offer articles by well-respected experts in the areas of planning, analysis, budgeting, and operating reporting. Frankly, we debated this edition for some time. In the pages to follow, you will read much about "dollars and cents" and other "numbers" in the same discussions focusing on students. Students are not a number and must be respected and treated like an individual. Some career colleges have the motto or pledge of "one student at a time." CER believes the student is the very reason for the existence of career colleges. Students are not and must not be a "number." Or, are they?

Whether we like it or not, students must be counted, measured, verified, and reported. A student is a start, enrollment, graduate, withdrawal, alumni, deliverer of good or bad word-of-mouth, and yes a sources of both income and expense. Accreditation and good governance requires a strategic plan and that plan should be a process and not a document or event. Proper management also requires budgets and operating reports, along with analysis of results. This analysis should occur on both the monetary outcomes and the student learning outcomes. This process of planning, reporting, analysis, planning adjustment and comparison should be viewed as a circle and not a line.

We are sure our readers all have a strategic plan and annual budgets. We know accredited schools and Title IV participants must have annual audits performed by approved CPAs. Our best advice is to integrate the planning, budgeting, and reporting process into a seamless activity that occurs daily and not just quarterly or annually at the planning retreat. Strategic plans that sit in big binders on shelves may satisfy our accreditors but is that their most effective use? We would suggest you take down your planning documents today and use the "dust test." If there is dust on the binger, you may not be using your planning process as a living document that you use to manage your school. Our experience has also suggested that many plans just cover the basics of a vision statement, supported by a mission statement, followed by goals and objectives. Our goal with this edition is not to be a "Strategic Planning 101" primer. If you would like additional resources on basic SWOT analysis, strategic planning, and goal setting these two free websites will be very helpful:

- http://www.nu.edu.sa/userfiles/awadm/m31.pdf
- http://www.businessballs.com/swotanalysisfreetemplate.htm

Planning is about decision making in advance. Does your plan cover all or even most of the strategic questions that are crucial to your and your students' success? The planning tool "Strategic Decision Areas of College/University [X]" is a tool you may use to probe for important strategic questions (see Appendix A on page 45). It can be used as a template for your plan summary, which we suggest be widely distributed throughout your organization. We have seen strategic plan summaries on business cards and this two-page template would also force you to be concise. Everyone involved in leading a career college should know the vision and mission. The more strategic decisions that the planning process makes and communicates in advance, will allow employees to focus on students, knowing what the CEO/President believes and expects.

Even before the basic vision and mission are developed and well before important strategic decisions are made, the planning process must start with a thorough review of the external and internal environment. Of course, the well-known SWOT analysis is a great tool to assist with this assessment. As with all planning and reporting, this assessment should be ongoing and not just done before the planning retreat. This month we start with a fascinating interview with Daniel Greenstein the director of Education Postsecondary Success at the Bill & Melinda Gates Foundation, the largest foundation in the world. Greenstein discusses the strategic environment all educators face and the future of higher education.

Following Greenstein's interview is a fascinating article by Bob Atkins, CEO and Founder of Gray Associates about strategic planning. The article briefly touches on the basics but focuses on the strategic questions, specific to higher education that should be answered through the planning process. Next, Robert Herzog, senior vice president of finance & administration at Berkeley College and the current board chair of APSCU, discusses the importance of tying the strategic plan with the budget and then reporting accurate and timely numbers that measure results against our plans.

Many companies and schools stop with a plan, budget, and monthly profit and loss statement. And, many of them are very successful. The next two articles offer tools from general business and financial management that can prove useful to further analyze our results. Cynthia Reynolds, retired vice president of campus operations at Northwestern College has more than 40 years' experience managing several excellent career colleges. Based on presentations and suggestions by her mentor and industry pioneer Jack McCartan, Cynthia discusses benchmarking. Cynthia suggests benchmarks, comparing our results against sector standards, but more importantly against our own budgets and plans from prior years. Then a school leader can "manage by exception," and focus on the areas that are not up to established standards.

What matters most to you in leading a successful school? Dave Kramer, CPA writes about "Lifetime Value Analysis: A Map to Your Future," which is used frequently in general finance. The thesis of this analysis is to evaluate the financial outcome of a program for the expected period of enrollment of a student. This article treats students as pure numbers, at least in calculation. However, knowing the costs and outcomes of each program is actually in the students' best interest. A program that is losing money takes resources from successful programs and students. Of course, enrolled students must be taught to completion and treated as an individual. Nonetheless, schools should know which program contributes to a positive cash flow and which ones do not.

The final article recognizes and discusses the many numbers that are crucial to school success but are not directly connected to a dollar sign. In "Managing the Seemingly Unmanageable – Retention, Gainful Employment and Student Loan Repayment," Elizabeth Keifer Herron, solution executive at Collegiate Admissions and Retention Solutions (CARS), describes techniques to manage the numbers, such as placement, retention and loan repayment that keeps us accredited and leads to financial success for both the school and its students.

We hope you find this edition useful and you believe CER's commitment and strong suggestion that students are not "just a number." This is what has made the career college sector successful. Nonetheless, regulators, bankers, Title IV, and just sound governance, regardless taxpaying status, require schools to have plans and financial reports. We suggest these required documents be expanded to working tools to manage and enhance student success. No student benefits from a financially unsound school and neither do its other constituents.

Dr. Hutton and I wish you the utmost success in your schools, as you do what you do best—educate and train today's and tomorrow's workforce for successful careers. We would also like to take this time to thank you for your continued support of Career Education Review and to wish you the Happiest of Holidays and the Most Prosperous and Joyous New Year in 2015.

Sincerely,

Jenny Faubert

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CAREER EDUCATION REVIEW'S

Career College Event Calendar

December 2014 - February 2015

Dates You Need to Know

December 2014

Maryland Association of Private Colleges and Career Schools (MAPCCS)
Annual Conference
December 12, 2014
www.mapccs.org

National Accrediting Commission of Career Arts & Sciences (NACCAS)
Workshop
Las Vegas Hotel & Casino
Las Vegas, NV
December 6-9, 2014
http://naccas.org/naccas/

January 2015

Private Career Colleges & Schools (PCCS)
Region VII Conference Financial Aid/Teacher Training
Kansas City, MO
January 26-27, 2015
www.regionspccs.com

February 2015

Private Career Colleges & Schools (PCCS)
Region IV Conference Financial Aid/Teacher Training
Atlanta, GA
February 23-24, 2015
www.regionspccs.com

Accrediting Bureau of Health Education Schools (ABHES)
12th National Conference on Allied Health Education
Bellagio Resort
Las Vegas, NV
February 25-27, 2015
www.abhes.org

Gates Foundation: 'Working with all institutions to find evidence-based solutions'

By Daniel Greenstein, Director of Education Postsecondary Success, Bill & Melinda Gates Foundation, written from an interview with CER

Dr. Jim Hutton, publisher of Career Education Review, and Jenny Faubert, editor-in-chief, spoke with Daniel Greenstein, director of Education Postsecondary Success at the Bill & Melinda Gates Foundation. Here is what Greenstein had to say about the Foundation, the future of education and more.

Q: Tell us about the Bill & Melinda Gates Foundation.

A: Globally, the Foundation focuses on global health, agriculture and global development. In the United States, College-Ready Education focuses on K-12 education and tries to ensure that all children graduate from high school ready for college or for a career. The other program, Postsecondary Success, ensures that students who pursue a postsecondary education are able to acquire an affordable career-relevant credential.

Q: Does the Foundation use education as the vehicle to give back and make the world a better place?

A: Bill and Melinda Gates are committed to the notion that all lives have equal value. They recognize that for hundreds of millions of people from around the world, things get in the way and stop them from achieving their aspirations. The Foundation focuses on eliminating or reducing those barriers. In the developing world, those barriers have to do with issues of health, agriculture and other development. In the U.S., the focus is on education.

> **For a low-income student, education is a ticket out of poverty.**

For a low-income student, education is a ticket out of poverty. It is actually essential to our nation's economic development that we have more adults with postsecondary credentials. Our strategy pursues two related missions. One of them is making sure that adults have the skills they and the nation need to be economically competitive going forward. The other is to reduce the attainment gap and thus address social inequalities in this country.

Q: Recently, Mr. Gates told the National Association of College and

University Business Officers that proprietary colleges were necessary. What is the Foundation's view of for-profit colleges?

A: Let me start with our view on higher education. In general, the postsecondary system in this country is not producing the number of credentials that the nation needs, whether you are looking at the problem from an equity lens or from an economic development one (on this last point, Tony Carnevale, director and research professor at the Georgetown University Center on Education and the Workforce, predicts that by 2025 we will be 11 million postsecondary credentials short of what the nation requires to remain economically competitive to fill its workforce).

The other issue is that the credentials are distributed inequitably. According to a March 2012 New York Times opinion piece, college becomes a reproducer of privilege in this country by distributing its fruits disproportionately to the wealthy and exacerbating the income gap rather than narrowing it. To address those problems, you need to increase the rate and efficiency with which colleges and universities are creating credentials. We need them to be affordable and to be distributed more equitably. Where will these credentials come from? As a nation, we need more capacity, but we are agnostic about where that capacity comes from, certainly about the business status of the institution. Our first goal is to ensure that all students have access to an affordable, high-quality career-relevant, postsecondary credential. Secondly, whether it is for-profit, not-for-profit, or private or public, the fundamental question we must address is how to get the improved capacity to deliver high-value, affordable, credentials to more low-income people.

Whether it is for-profit, not-for-profit, or private or public, the fundamental question we must address is how to get the improved capacity to deliver high-value, affordable, credentials to more low-income people.

Q: The problem is also exacerbated by sheer demographics. There are 20 million fewer millennials coming through to replace the baby boom

DANIEL GREENSTEIN is director of Education Postsecondary Success at the Bill & Melinda Gates Foundation, which works to substantially increase the number of students who acquire a postsecondary degree or certificate.

Before joining the Foundation, Greenstein was vice provost for Academic Planning and Programs at the University of California Office of the president. In that role, he oversaw academic planning for the 10-campus, 220,000-student system. He also had administrative responsibility for system-wide academic programs, including the University of California Press, the California Digital Library, the university's Education Abroad Program and the internship programs in Washington, D.C. and Sacramento. In addition, he was director for UC Online Education, an effort to integrate online education into the university's undergraduate curriculum.

Previously, Greenstein was executive director of the Digital Library Federation in Washington, D.C., where he facilitated collaboration among 26 major U.S. research universities in their development of shared networked infrastructure and information services.

He has a bachelor's and master's degree from the University of Pennsylvania, and a doctorate in philosophy from Oxford University. Greenstein began his career as a senior lecturer in Modern History at Glasgow University.

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generation, not to mention the lack of access and the capacity.

A: That is a great point. Layer onto this problem of underproduction the fact that the majority of students now making up our student body look nothing like the majority of students in the 1950s. Many of them are part-time. They are going to two or more institutions to gather credits toward their degree. They come from families where they are the first-generation to go to college. They are predominantly from low-income families. Initially, a lot of them are ill-prepared for college and need developmental or remedial education. This is a different population than the one that people typically associate with higher education. Yet the system is still geared toward that predominantly white, predominantly middle class, predominantly residential, and predominantly 18-24-year-old population. How do we implement and deploy models of education that meet this new majority of students? How do we meet these students where they are, not where they used to be? That adds a layer of complexity. We will look anywhere for solutions that address these challenges.

Q: What technology changes do you see in the next 20 years that might help education?

A: Technology will continue to personalize learning. Instructional online courses are still in an early stage, but they are showing some promising results. They use predictive analytics and adapt themselves to the needs of the learner so that individual students engage with instructional material in a way that is adapted to their needs. That technology will only get better. It will not replace faculty members or instructors, but it will enable them to deal specifically with an individual student's needs and challenges. So it not only provides a more personalized experience with the engagement technology, but more importantly, it enables a more tailored engagement with the instructor.

Education is a fundamentally human act; student/faculty and student/student interactions will be more effective when technology works well.

We also are seeing a similar trend in the use of predictive analytics in student advising and support. There are a handful of companies and a bunch of platforms that really assist students in planning the educational path they need to get a career and to achieve the outcome they want. They create supports for students, their advisers and their faculty members who can constantly refer to the education plan and see how students are doing and if they are taking the courses that will take them where they need to go. These systems provide early warnings when students get off track so you can intervene before it is too late and help a student get back on track. This personalization in both the instruction and in the advising, in mentoring and coaching, is important for low-income, first-generation students who need that extra level of support in navigating the complexity of higher education.

Q: There has been a huge shift from the traditional ivy walls, football teams and ground-based schools to online in the last 20 years. How much further do you see that shift going? In other words, what percent of delivery will be online and how much will be left in the "traditional college" 20 years from now?

A: Online is really a means to

an end. The online tools that are becoming available will enable colleges to deliver a more personalized learning experience. Education is a fundamentally human act; student/faculty and student/student interactions will be more effective when technology works well. I think you will see online growing. If you look across a lifetime of learning, students' experiences will be hybrid ones. Education will remain a fundamentally human act that will be assisted and supported more effectively by technology.

As a nation, we are not very good at ambiguity. It is part of our culture to want to see things in terms of black and white. But that just does not work in higher education.

However, I hope and believe that there will always be a place for that residential experience, not just for students from well-heeled families in the 18 to 24-year-old age group, but also for folks in mid-career who go and do a semester for some kind of mid-career development. If you look across the lifetime of individuals, one would expect that the face-to-face residential experience will continue to play an important role in certain segments at certain times for certain purposes.

Q: Every day there are articles in The Chronicle of Higher Education about Massive Online Open Courses (MOOCs) or adaptive learning competency-based education. Do you see anything that is truly revolutionary that will disrupt education? Or do you think most everything out there is just part of a normal evolution?

A: I would say evolution. Technology lurches forward in leaps and bounds. I do think the MOOC was a big leap, not so much for the technology and the application, but for the fact that it was coming out of elite institutions. The MOOC did for online learning what no one had been able to do for 25 or 30 years, which is to give it some credibility. However, it has yet to be proven whether it is going to be a lasting value. There is more positive data behind adaptive learning with respect to its potential performance. Competency based learning seems to be an important potential response to the demands of the new majority of American students who are trying to accumulate the credits they need to get a degree. It creates an alternative pathway for students who really need it. That is important.

Q: What is the current state of higher education? We read about the K-12 system being a mess, but that our higher education system is the envy of the world. However, I think that higher education is losing some of that glow. How do you compare higher education issues with K-12 issues?

A: One's perspective on higher education depends on what role you believe higher education plays. If you see higher education as the fundamental bastion of a liberal arts education, then it is in rough shape because liberal arts degrees are seriously in decline. But if you believe that higher education is fundamental to the nation's pure research engine, then it is in pretty good shape.

However, there are some real challenges if you believe that higher education is about creating career relevant credentials that are essential to address our equity and economic development issues. One of the challenges we have in the dialogue around higher education is that people approach it from very different perspectives. They have different views about the role of higher education, and as a consequence, they value different aspects of it. So we tend to use the same words but we talk past each other because we think about an industry in pursuit of very different goals.

Q: That is true. One group thinks we should strengthen the liberal arts component, and another group thinks we should strengthen the research component or strengthen the career readiness component.

A: As a nation, we are not very good at ambiguity. It is part of our culture to want to see things in terms of black and white. But that just does not work in higher education. People have different needs. It is a diverse and segmented marketplace because providers of education have grown up to support those different needs, and they all look very different. It is not a one-size fits all solution, and it should not be.

Q: Let us go back to the outcomes you are trying to improve. A freshman from Harvard University would likely succeed in any college in any system in the world. But a community college student likely could not compete at Harvard, no matter what you did. How do you adjust for those differences? How do you evaluate colleges and come up with a scorecard when there is such a huge difference in the input of students?

A: Measurement and performance really need to be input adjusted so that you are measuring the value that an institution adds to its student. I am not underestimating the complexity of what we are asking for. I think it goes back to the fact that it is a highly diverse industry where its providers are serving very different populations with very different needs. So the question is how does each provider serve its population and add value to its population given what it is trying to accomplish? There are approaches to measurement that enable us to do that, and enable us to do that in a way that is uniformly applied across the industry. As a student, does it actually add value to me at the price that I am about to pay?

Q: What do you see as some of the strengths and some of the weaknesses of private-sector colleges?

A: Private-sector colleges are not all the same. It is a highly diverse segment and one needs to be careful about at least acknowledging that. There are smaller, older, community-based places, which have really provided a critical capacity in meeting local workforce development needs, and then there are systems that have grown dramatically in the 1990s and 2000s and have achieved a significant national scale. For strengths, you could point to their abilities to move quickly with respect to innovation, not just in instructional delivery, but also in delivering instruction to a new majority of students. All of the trends in mainstream higher education emerged out of the for-profit sector or were accelerated by the for-profit sector, such as online education, the use of technologies in supporting student advising or the movement to improve the college readiness of entering students. On the downside, Title IV funding and the profit motive have been pretty powerful and

All of the trends in mainstream higher education emerged out of the for-profit sector or were accelerated by the for-profit sector, such as online education, the use of technologies in supporting student advising or the movement to improve the college readiness of entering students.

sometimes have resulted in some pretty unseemly practices.

Q: What is the right governance structure for higher education? Is there a right model?

A: I am going to sound like a broken record, but I think the pursuit of this one-size fits all solution just plays into the kind of ideological divides that are already too rife in this country. We have to take a much more sophisticated approach and ask ourselves a more nuanced question: What is the right governance model for a liberal arts college that serves 18-24-year-olds who are predominantly drawn from the middle and upper middle classes and has a tuition discount rate of 47 percent? We can have that conversation since it is tied to a set of outcomes. We can have the same discussion and ask the same questions, but it will be a very different discussion if we are talking about the governance of a technical college that serves people of all age groups that are predominantly drawn from low-income, first-generation families who are largely, if not entirely, unprepared at least initially for a college education. We need to be precise in the kinds of questions we are asking, and we need to demand that preciseness of our policymakers and industry leaders so that we can begin to change the dialogue.

We are looking for solutions that work for the students we care about, regardless of tax status. Like I said before, we are agnostic about where we find them.

Q: What could the private sector do for the Gates Foundation?

A: The more visibility the private sector can offer, the better off the nation will be. What value does it add for its students and at what cost? These are questions that can be answered with measurements and data. It requires being bold and putting that data out there. I know that is difficult in the proprietary sector because there is a profit motive, but I am not convinced that the secret sauce is actually tied up in that data. The secret sauce is probably tied up in the nature of the service and how it is operated. Education is an industry that is not good at measuring its costs or its outcomes, so how do we know anything about performance? I think there is an opportunity for institutions, let alone sectors, to come forward and say this is not good enough; this is a country where consumers know more about the peanut butter they purchase than they do about the institution they attend. We owe it to our consumers, whether we think of them as students, an industry or even taxpayers, to provide as much information about the quality and cost of the product as we expect of virtually any other thing we buy or consume. Those who step forward and begin to provide that level of visibility of their costs and value will play a significant role in moving the industry forward, but will also do a lot of good for themselves. So there is an obvious leadership role for some institutions to play.

Q: How could the sector work with the Gates Foundation to help students? Are there project possibilities or grants or joint research efforts?

A: We work in a variety of areas, both with commercial and not-for-profit entities. We invest in development and deployment of innovative technologies, courseware and student advising. Our partners are very frequently non-profits, but we also work with commercial for-profits. We work with institutions that are interested in measurement and understanding value and are willing to engage deeply and inform the community about their student outcomes in terms of graduation rates, costs and value with a view of helping to identify benchmarks. We have just launched an initiative with a group called American Institutes for Research to look specifically at those kinds of questions with colleges and universities pursuing new models, both in the non-profit and for-profit sector. We are looking for solutions that work for the students we care about, regardless of tax status. Like I said before, we are agnostic about where we find them. The opportunities to partner with us are really opportunities for those who share our mission and who are willing to open up their practice to be evaluated and used to inform the broader higher education community. So the short answer to your question is yes, there are opportunities.

Q: What are some of the innovative things that have come out of partnerships that have helped low-income students go to college?

A: Our approach to strategic philanthropy is pretty simple: Find what works and accelerate its adoption. We talked about technology that allows for personalized learning and we are beginning to see some really good data about its effectiveness with low-income students and the costs of delivery, both on the courseware and the advising side. We are seeing some good information so prospective college students can make informed college choices. Making informed choices about which colleges to attend can significantly improve students' graduation rates. We are really pretty animated by a new generation of developmental education approaches where we are looking at substantial successes, particularly for students who are close to being college-ready and only require a couple levels of remediation across one or two subject areas.

Institutions that are improving their success rates with low-income students are using data-driven decision making, mission-oriented governance and focusing on a small number of interventions that provide good student supports that drive efficiency and cost effectiveness in their industry. We are just gathering information, but we are beginning to see patterns emerge, which is really important. We hear rhetorically about the effectiveness of the for-profit model; to get some real data under that would be really important and would have a helpful effect elsewhere in the industry. We are beginning to see a number of institutions step forward and say we are going to put this information out there. We are beginning to establish benchmarks for what "good" looks like and ought to cost. The more of those that we can collect, the better off we will be. We are always looking for those who are bold enough to do that. It is a big move at the institutional level, but it is an important one.

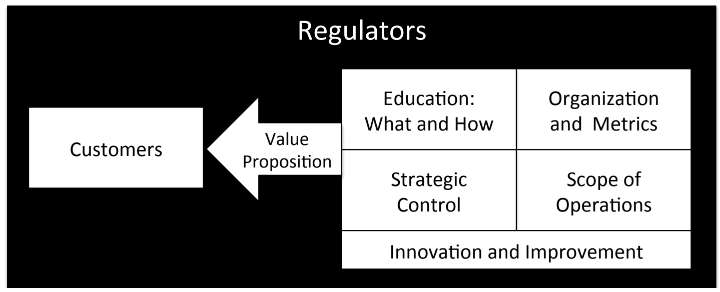
Our approach to strategic philanthropy is pretty simple: Find what works and accelerate its adoption.

Career Education REVIEW

Written by Barbara A. Schmitz.

What is Strategy in Higher Education?

By Bob Atkins, CEO and Founder, Gray Associates



Imagine that you are about to hear the new strategy for a career school. What questions should it answer? How will you know if it is any good?

Of course, the strategy should include the mission and values of the institution. Perhaps a SWOT (strength, weaknesses, opportunities and threats) analysis will help. But they are only part of a strategy. In my view, strategy for a career college must also answer these eight questions[1] :

1. **Regulation:** What regulators do we choose?
2. **Customers:** Who do we choose to serve? What are their needs?
3. **Value proposition:** What unique offer will attract and retain our customers?
4. **Education:** What and how do we teach?
5. **Strategic control:** How do we protect our institution from the competition?
6. **Scope of operations:** What do we do? What do we outsource?
7. **Organization and metrics:** What organization structure, systems and measurements should we use?
8. **Innovation and improvement:** How do we get better?

Regulation: What regulators do we choose?

Higher education is one of the most heavily regulated businesses in the U.S. Rules may be imposed by institutional accreditors, programmatic accreditors, the Department of Education, State Boards of Education, state laws, litigation and who knows who else. In the never-ending process of compliance with all the rules, it is easy to forget that **educational institutions get to choose who sets the rules** for them.

We have a successful client that is not subject to oversight by the DoE, institutional accreditors, or most of the other educational rule-makers. How? They are private and do not accept financial aid. Instead, they offer short courses that are largely paid for by students or employers. This seriously limits their addressable market, but it avoids the costs and risks of regulation. Nationally-accredited schools may seek

[1] These questions and many of the concepts in this article are derived from "The Profit Zone" by Adrian Slywotsky and David Morrison.

regional accreditation to enhance their prestige. Regionally-accredited schools may choose to switch regional accreditors to find an accreditor that better fits their strategy.

Almost all for-profit schools carefully pick the states they enter, usually trying to avoid harsh regulatory environments in states like Massachusetts and New York. Of course, this creates an interesting strategic opportunity for others. There is less competition in these states, which make them attractive markets for schools that have the patience and skills to enter and operate in strict regulatory environments.

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Programmatic accreditation is required in some fields (e.g., nursing) but is an important choice in others, such as medical assisting. In medical assisting there are several programmatic accreditors to choose from and several certification tests graduates may take.

Some schools choose to accept the additional oversight that comes with programmatic accreditation for their medical assisting programs. They may believe that the accreditation enhances their credibility with students and enhances their graduates' ability to get jobs. Other schools choose not to be programmatically accredited but do prepare their students to take certification exams. They believe the exams give their students an edge in the job market and give the school valuable feedback on course content and student learning. Still other schools choose not to have programmatic accreditation and do not specifically prepare their students for a certification test.

In my view, picking your regulators and accreditors is one of the most fundamental and enduring strategic choices a school can make.

Customers: Who do we serve? What are their needs?

There are several potential "customers" for a career school: students, employers, society and donors. Each school can choose its primary customer, though most schools cannot ignore any of these constituencies.

Student as a customer

Career school students are as diverse as humanity itself. They come in every race, religion, country of origin, academic skill level, income

BOB ATKINS, CEO and Founder, led Gray's entry into the education industry and the development of Gray's proprietary industry databases and service offerings. He has worked with all of Gray's education clients, counseling CEOs and CMOs on business strategy, pricing, location selection and program strategy. He is an expert in business strategy, marketing, sales and high-tech distribution channels. He has helped AT&T, Avaya, American Express, Dex Media, Qwest Communications, HP, IBM, Northcentral University, UTI, Alta Colleges and other clients to develop growth strategies, enter new markets and build their sales and channel organizations. He is a published author, whose articles have appeared in the Wall Street Journal, Sales and Marketing Management and other publications around the world. He received an MBA, with honors, from Harvard Business School and a BA, magna cum laude, from Harvard College.

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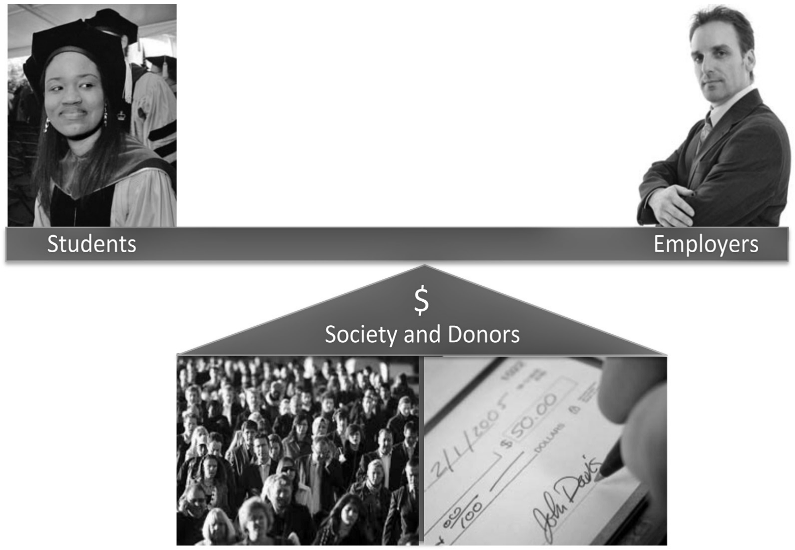

level, family structure, psychological state and learning potential. Out of this diversity, each school intentionally or unintentionally picks the students it can attract and serve. The chosen segments will influence every aspect of the institution from admissions, to academic remediation, probability of graduation and likelihood of employment.

In career schools admission is usually open to any student who is interested in attending and able to pay (typically with financial aid of some sort). Even with open admissions, schools can select or influence the type of student they serve by choosing campus locations, programs, recruiting practices, recruiting venues, course schedules and modalities, pricing, faculty, sports and marketing messages. Let us explore three examples of approaches that open-admissions schools use to select their students.

1. Location

Some career schools choose to locate in inner city areas where there is often strong demand for vocational education. In the U.S., this often means the schools have chosen students who are likely to be poor and members of a minority group. They also may not have mastered high-school level skills. They are likely to need financial aid and usually qualify for Pell grants. Often we hear clients say (and the data support this view) that such students are less likely to graduate and get jobs. However, there are many examples of schools that serve these students and get good results.

Other schools create "destination campuses," often in low-cost rural areas. They then recruit students from selected high schools across the country. This approach allows them to pick the type of student they want and target the high schools that have a high proportion of them. However, it significantly raises the cost of marketing and admissions, since relatively few students are willing to go away to school. Some schools believe this helps improve graduation and placement rates; interestingly, other schools that use this approach do not see improved results.

2. Program

Programs tend to have a student profile. In vocational education, nursing tends to attract female students and may require an above-average IQ (or Wonderlic score), solid academic training and good study skills. In contrast, auto technician programs tend to skew male and toward kinesthetic learners who may not have fared well in a traditional classroom.

3. Disability

Some schools focus on serving students with specific emotional, physical, learning or other disabilities. These are perhaps the purest example of schools that choose their students and adapt the institution to meet their needs.

There are many other ways an institution can influence the make-up of its student body. However, once an institution chooses its students, there is no use in complaining about their prior skills or education—the institution must be designed to meet their needs. After exploring data on outcomes, particularly placement, Gray Associates believes that schools can deliver very good student outcomes with almost any student segments. The key is that the school must be designed to teach the students it has chosen. (See Education section.)

These relationships, in turn, lock-up a disproportionate share of jobs for their graduates—leaving other schools to struggle with declining placement rates and shrinking programs.

Employer as a customer

For employee training programs, the employer is the obvious customer—though employees usually have a choice of providers, so their needs must also be addressed. In most career schools employers can also be considered the primary customer. In this model, the school focuses on employer needs and tries to create the number and type of graduates employers want. These schools may actively recruit employers and attempt to forge strategic relationships with them. These relationships, in turn, lock-up a disproportionate share of jobs for their graduates—leaving other schools to struggle with declining placement rates and shrinking programs. There are many ways to segment employers so a school can select the employers that it can best serve. Ideally, these employers will also have a strong influence on hiring. A couple of examples of employer-based segmentation are:

1. Original Equipment Manufacturers (OEMs)

OEMs are typically large national or multi-national companies (e.g., Carrier for air conditioning or Ford in automotive) that may directly or indirectly hire hundreds or thousands of graduates a year. OEMs usually understand that the people who install and maintain their equipment must be properly trained, or they may cause problems in the field that would damage the OEM's brand. OEMs often have training departments and CAPEX budgets for training equipment. As a result, they may know precisely what training is required and may be able to fund or donate equipment to a school. OEMs may prefer to deal with educational institutions that can meet their needs nationwide, which is an advantage for large for-profit schools. The OEMs (e.g., BMW) may allow the school to use their brands, which often have more prestige than the school itself.

2. Local dealers

In most cases, OEMs are not really the employers for career college graduates—technicians are hired by local service organizations, dealers, or franchisees. These local employers (e.g., your local Ford dealer) do not have the resources of their OEMs. They may not be able to precisely define how to train students and usually cannot afford to fund new equipment for use in the classroom. However, they do actually hire, while OEMs may only influence the hiring process. They may also be able to provide used equipment for training—which may be the equipment, techs will actually see in the field. Local schools can establish personal relationships with these employers, which may give the school's graduates an edge.

For schools with health care programs, the OEMs and dealer relationship may be similar to the relationship between a hospital chain and local doctor's offices. The hospital may influence hiring for its affiliated doctors, but the doctor may be the real employer.

Choosing the employer as a customer can drive awareness and differentiation, as schools use powerful OEM brands to attract students. In some fields, employers may also steer job seekers to a school so they can get the training they need. This focus on employer as a customer may also help the institution win a larger share of jobs and place its graduates in a tough economy.

Society as a customer

In the U.S., the local community, state and federal government directly pay or finance most of the costs for higher education. Therefore, understanding, influencing and responding to social and governmental needs should be a critical part of institutional strategy. As Tesla is experiencing[2], state lawmakers can create serious legal barriers to new entrants that threaten established institutions. Of course, federal, state and local governments also decide on the direct funding for public career colleges. In our view, government and society are too often overlooked, especially by for-profit schools, as the primary customer of the institution.

In private institutions, donors may play a similar role. In this instance, the college often forms or bends its strategy to appeal to major donors. In particular, what gets built usually depends on what donors will pay for—even if it is not central to the educational mission of the school.

Value proposition: What unique offer will attract and retain customers?

Career colleges have become one of the most competitive sectors in higher education. Thousands of for-profit and not-for-profit schools now compete for attention among potential applicants, employers, governmental officials and workers and donors. All these groups are flooded with marketing messages about everything from colleges to candy bars. Their attention is short and must often be captured in 10 to 15 words (the limit of a Google ad or a Twitter post). In this environment, schools need a compelling value proposition that clearly addresses the needs of the students and other customers they have selected.

Choosing the employer as customer can drive awareness and differentiation, as schools use powerful OEM brands to attract students.

Fortunately, there can be as many potential value propositions as there are creative leaders of educational institutions. Below are a few value-proposition options that focus on the student-as-customer.

Outcomes

At some schools, the vast majority of students graduate and get well-paid jobs; at others, few do. This difference in outcomes can be a compelling message to potential students, especially in today's economy. Now that placement results are a matter of public record for many schools, we believe they could be used in advertising and admissions to influence student decisions. In particular, they can be a

[1] Most states have laws intended to protect franchised car dealers from the franchising OEMs. Now, in states including Massachusetts, Michigan, New Jersey, New York, North Carolina and Texas, national and state dealer associations are fighting to use those laws to prevent Tesla's entrance into their markets unless Tesla also franchises dealers instead of selling direct.

powerful, factual selling point against competitors that have poor results.

Lifestyle

For destination campuses, being in a good climate, near beaches, skiing, or other attractions can help to win students who want to get away from home and enjoy themselves after class. Better still, the attractions may be linked to the academic program, such as with dirt tracks near a motorcycle repair school.

Once a career school chooses its student and employer segments, the curriculum and teaching must be adapted to their needs.

Facilities

In private education, there has been an "arms race" to have the biggest gym, nicest dining hall and best labs. Where money is more constrained, we suggest investing in facilities that attract students and really make a difference in the education. For example, labs that allow students to get hands-on experience may also impress students on their tours.

Brand

There are vocational schools that have developed powerful brands in their fields. For example, FIT is a known leader in the fashion industry, just as MMI is synonymous with motorcycle technician training.

Price

For many years, schools were able to raise prices faster than inflation with little or no effect on enrollment. More recently, low prices, scholarship offers and discounts have become increasingly common.

Sports

Many students, male and female, may pick an institution that offers a specific sport and level of competition. A top high-school football player may not consider schools that do not have a Division I NCAA football program. A good, but not great, lacrosse player might prefer a school with a strong Division III program. Employers may also prefer students who have shown the discipline, teamwork and other attributes required to compete in a college-level sport.

Education: What and how do we teach?

Once a career school chooses its student and employer segments, the curriculum and teaching must be adapted to their needs. These days, adapting often involves substantial remediation for students who may graduate from high school with eighth-grade skills in reading, writing, or math. Many students in vocational schools (especially males) may also have issues with attention that can impair their learning and make them disruptive in the classroom. Often, students in vocational schools come from households with little space for studying, many distractions and limited access to technology. Many students need to develop basic professional skills, such as punctuality and professional attire. There is extensive research and thousands of publications on this subject, which is beyond the scope of this article to address. Below are a few points that we think are strategically vital.

Teachers: In this context, selecting the right teachers is essential. Of course, instructors must know their subject. But that is not enough. As one of our clients put it, "Teachers must *need* to teach. They must have a deep-seated, sometimes irrational, belief in their students' ability to succeed. They can—and should—set high standards, but they must also show they care about each student. They must be willing to devote the time to help each student succeed."

Teaching: Instructors may also need extensive training in *how* to teach. As an example, one auto tech instructor had a simple way to help students who had ADHD. He gave them parts they could play with, which enabled the student to focus and reduced disruptions. (This technique is formally called "fiddle to focus.")

Support for developing professional appearance: Many students entering career colleges come from a youth culture that is physically at odds with the working world. Tattoos, gauges (the metal circles that stretch earlobes), poor hygiene, clothing and other issues may need to be addressed to prepare students for interviews and employment. In our experience, schools can partner with local organizations that can help—one client had a dentist who would replace missing teeth, a surgeon who would remove gauges, a tattoo removal service and a charity that would supply suits for interviews.

Employer needs and advisory boards: Employer needs must be brought into the classroom. Employers may require up-to-date technical training and often stress professionalism and communication skills. Most career programs have advisory boards; unfortunately, some are a formality that is of little use to students or employers. Other schools have large, open advisory boards. They carefully document the boards' recommendations. Then they track implementation of the board's priorities—at the highest levels in the school. At the start of each advisory board session, they review progress on prior recommendations—all of which leads to significant improvement in placement rates.

Scope of operations: What do we do ourselves, and what do we outsource?

Outsourcing often has a bad name (though not as bad as off-shoring), but every organization outsources something—even if it is just garbage removal or litigation.

Successful organizations make careful choices about what they do and what they lean on others to do.

Successful organizations make careful choices about what they do and what they lean on others to do. Here are a few examples of areas that some schools outsource.

E-Learning platforms and other major software: Often, smaller schools need to use outside organizations for functions that require economies of scale, such as creation of an e-learning platform, or development of marketing optimization tools.

IT administration: Even larger schools may choose to outsource work that can better be done by organizations that focus in a specific area. IT is an area where functions that previously had to be done in-house can now be done in the "cloud," typically with higher service levels, lower cost and better security.

Location and program analysis: Consultants and realtors are often brought in to help with location and program analysis, so schools can leverage knowledge and investment others have made in data, tools and analytical techniques.

Curriculum development: Even curriculum development can be outsourced, to the degree permitted by accreditation standards.

Strategic control: How do we protect our institution from the competition?

Strategic control (sometimes called competitive advantage) prevents other institutions from being able to imitate or destroy your institution. In business, it has many forms, ranging from patents to brands, secret processes, distribution agreements and sheer size. In most industries, the sources of strategic control are constantly under siege—and their life span is shrinking as competitors become more adept at circumventing them. In education, there are also many potential sources of strategic control. As competition in education intensifies, developing strategic control will be an increasingly important part of strategy. Below are a few examples of sources of strategic control in education, but there many others.

How an institution is structured and how it measures itself can have a tremendous impact on its cost structure and effectiveness.

Location: Great locations in the right markets are fairly rare and can give a school an advantage that is hard to imitate.

Brand: Awareness and preference for a brand can help a school get through to prospective students, employers and regulators. While few schools have the resources or need for a national brand, many can establish local brands that are known in the markets they serve. In fact, we often hear of on-ground schools that opened online programs and found that most of their online students come from local markets where the brand is known.

Relationships with feeder schools/ or military bases: Access to high-school campuses and military bases is tightly controlled. Schools that are able to cultivate relationships with guidance counselors and military gatekeepers can compete for these students much more effectively.

Employer relationships: As mentioned above, relationships with large and prestigious brands (e.g., BMW) can significantly improve the interest in a school.

Organization and metrics: What organization structure, systems and measurements should we use?

How an institution is structured and how it measures itself can have a tremendous impact on its cost structure and effectiveness. Some schools have "monolithic structures" where all programs and functions are centrally managed. In contrast, others believe that every school within the college is separately run and must be responsible for its own funding. Some schools are essentially faculty-led, while others have powerful administrators or boards who control most decisions. The critical issue is whether the institution's organization and measurement are well aligned with the rest of the strategy.

Innovation and improvement: How do we get better?

In our view, many institutions, public and private, would do well to establish formal improvement programs—also known as quality initiatives. Far too much money is spent teaching students who do not graduate or get employed. For example, many schools have graduation rates under 50 percent and placement rates of 75 percent or less. Putting those two metrics together, for those schools, barely one in three of all students who start, manage to graduate and get a job. If these institutions made automobiles, the cars would leave the factory with just one or two wheels.

Rather than shoot for a number, the goal should be continuous improvement, year after year. Over time, this would create a powerful source of strategic control: better performance.

Innovation is being thrust onto educational intuitions at an unprecedented pace, particularly online innovation. To survive in this environment, schools will have to select innovation priorities and set aside budgets for these initiatives. Most schools should develop a portfolio of these investments, with most investment in near-term innovations in core programs (e.g., introducing new lab equipment). Some investment should also be made in longer-term, riskier investments that may have substantial returns, such as introducing new programs in an emerging field like big data.

Conclusion

For many career colleges strategy used to be about how to add campuses and programs. Technology and competition are changing this world—at an astonishing pace. In this new world, it will be critical to ask the right strategic questions and to craft an institutional design that fits your mission and values and your market.

Crafting a design for your organization is an exciting and demanding process that requires hard thinking and hard data. It is not a spectator sport—the faculty and leadership of the organization must to be actively involved so the best ideas are brought forward and there is understanding and support of the final design. Once done a great design can evolve and guide your institution through decades of market change.

Career Education REVIEW

Developing and Managing a Budget

By Robert Herzog, Senior Vice President of Finance & Administration, Berkeley College, written from an interview with CER

Dr. Jim Hutton, publisher of Career Education Review, and Jenny Faubert, editor-in-chief, spoke with Robert Herzog, senior vice president of finance and administration at Berkeley College. Here is what Herzog had to say about budgeting.

Q: Our readers no doubt understand what a budget is, but from your perspective, how do you define a budget?

A: Ultimately, what a budget does is help an organization understand the resources that they produce on a yearly basis and how to best apply those resources to meet the institution's goals and mission. The operating budget is usually done on a fiscal year basis, but can extend out to three and five years. For example, some accredited schools and larger groups have three-year and five-year budgets. Fundamentally, budgets are an understanding of an estimated application of resources to meet strategy and goals of the organization. More simply, a budget is a financial blueprint of estimated inflows (revenues) and outflows (expenses and investments).

Q: How would you best tie in the dollars and cents of the budget with the mission, vision and strategic plan?

A: It really has to happen co-jointly, if you will, as a strategic plan is being developed. Generally, the best way to achieve this is for the strategies developed from the plan need to be aligned with the resource allocation necessary to meet those strategies This alignment of goals with necessary resources is generally captured through the strategic planning process and is then translated into the yearly budget, or the longer-term budget. Having a

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strategic plan that is not funded is generally a waste of time. The most important job in the budgeting/planning process is allocating scarce resources to the necessary and desirable investments. What I have found to be successful, while undertaking the strategic planning process, is to allocate available resources based on prioritization—we cannot "do it all." I try to ensure that investments associated with those strategies are estimated and then translated into either the annual operating plan, or a longer three-year or five-year strategic plan.

Q: What is your recommendation for the timeframe of the budgeting process?

A: A lot of institutions have a July to June fiscal year; some have a September year-end; and some a calendar year. In the higher education model, the fall start tends to be a time when enrollment is set for the beginning of the year. Depending upon the organization, anywhere from three to four months prior to the start of the fiscal year is when some type of budget starts to develop. Again, every institution is going to be different, but much of a budget is based on the student enrollment patterns for the year the institutions are budgeting for. Institutions have to take into account starts per a year. For example if an institution only has four starts a year, they are probably going start the budget process sometime before the final start. Generally speaking, when wrapping in capital budgeting and enrollment and allocation of instructional costs, faculty and full-time staff administration; institutions are going start four months prior to the beginning of the actual fiscal year.

Q: How long should you budget for: one year at a time, or three or five years?

A: I think people have different opinions on this. I budget for one-year; especially at either a campus or an account level where understanding all of your costs, in detail, on an annual basis is needed. In that situation a one-year operating budget is really the best model by which to ensure that institutions can understand strategy, investments and match those to a mission. Higher education is moving so incredibly fast these days, and institutions are trying to make as many changes as possible to keep up with the differing demands of not only the students, but accreditors and other stakeholders. Three to five year budgets can lock organizations into decisions that may need to be addressed more quickly. Bottom line—the longer the budget's timeframe the less detail.

Q: The Department of Education and accreditors have their fiscal year, which institutions must follow. W2s, payroll and the IRS type reporting have a calendar year-end. Do you recommend a school have a fiscal year that ties in with the regulatory type dates, or something that is totally different so you are not doing all of your "year-end" work at the same time?

A: It is really organizational-dependent, and I think institutions can make it work in any number of ways. A lot of it depends upon historical precedent and which way internally an institutions books and all records have been kept on a fiscal year basis – say at the end of June. I do not really have a strong opinion on that.

Q: What is the starting point when it is time to do your annual budget and your strategic plan?

A: The starting point is a couple of different things. Institutions always want to start with what they budgeted in the prior years, such as revenue and expenses. Then use current year-to-date information through a period as close as possible to the budget work. Then look at past enrollment trends, probably by individual start patterns—whether that be quarterly, weekly, or on a semester basis. Then start to estimate with the enrollment team what the future year looks like from an enrollment perspective. After that, I think the next piece would be full-time faculty and full-time staff and assessing, based on your enrollment projections and enrollment trends, where those full-time costs from a people perspective come into the budget. I think those are probably the key places to start.

Q: Do you use benchmarks to prepare the budget? For example, if you need one financial aid person for every 150 students, do you factor that in as you do your budget, or do you prepare the budget and then check it against your benchmarks?

A: Some of that is dependent upon how decentralized or centralized an organization does their budgets. I think the more centralized—meaning the controller or CFO or equivalent—works with the president, for example, and maybe one or two other people to prepare the yearly budget. Then, yes I think it tends to be more of a case where an institution will operate with one financial aid person for every 150 students, or what the institutions specific ratio is. Then you set the budget based on estimated student count. That, versus a more decentralized budget where a larger organization, with many more campuses or schools starts to get into the thousands of employees, and then tends to plan for how many financial aid people are needed at each campus. The CFO will then ask how does that roll up to say a central administration of financial aid staff. Then it tends to be more of a case where you have prepared the operating units' budgets and then look at staffing models, or percent/spend categories in comparison to benchmarks.

Q: What do you use for the revenue? Do you use a total of accrual or cash basis of all revenues; or do you break the revenue sources down where your denominator is tuition? In other words, what is the 100 percent?

A: Some of that is dependent upon the institution. Institutions should look contextually at how it generates revenue. For instance, some more traditional institutions will have institutional aid, some will not. Bad debt also needs to be analyzed. I tend to use overall total net revenue, meaning net of all of your bookstore, bad debt, auxiliary services that would roll up into revenue, and cost percentages, such as staffing, or occupancy/real estate marketing, and use those as percent of total net revenue. There are different schools of thought and CEOs and CFOs need to look at each institution. The key point is to know what are the main drivers of revenue. Maybe it is average tuition per student, or average tuition per FTE. Institutions can judge the costs as a percentage of that. Generally speaking though I think for the average organization, percent of cost measured against net revenue is the most used and best gauged.

Q: How do you go about budgeting your other expenses after payroll?

A: Real estate and related occupancy costs are generally based on historical and any other changes that may run from prior years. Marketing is probably the next cost. Dependent upon the organization; is it based on estimated number of new student starts for the next year, or is it based on total enrollments projected? Generally the marketing team will have a way to effectively budget what the total expenses will be for the next year. CFOs would be working with that team to understand what that model looks like. Then start getting down to other operating costs that happen at a classroom level—other instructional support costs that would wrap into an organization. Some of this, again, is dependent upon the organization.

Q: For simplicity's sake, the formula would be the various revenue sources—net revenue, minus the expenses would give you the profit. Once you get that estimated profit, are there other things you need to budget for?

A: Again, it depends on the institution and its size and plans. Generally organizations are doing a couple of different things and, again, much of this is dependent upon the size. But certainly a capital budget, any sort of capital expenditures that the organization is going to need to make in the year or years—and this would cover buildings, leasehold improvements, technology equipment, and new campuses or buildings—are kind of the biggest drivers in those categories. I think most higher education institutions are budgeting, or should be budgeting for capital needs on a yearly basis. I think many are probably doing some sort of a cash projection or cash modeling on a yearly basis. Larger institutions will also budget a projected balance sheet, although this may not be necessary for a smaller school.

Q: What is the best way to meet that budget, from a financial standpoint? In other words, how do you report to make sure the budget is managed?

A: Giving clarity and openness to how performance is mapping to the plan is the best way to track the budget. Institutions need to make sure the key people, whether that is a campus president or VP, know what the tracking goals are. The second piece is monitoring and finding out what has happened from various perspectives. Three months into the year look at what happened in this cost category. Why are you over or under-budget as it relates to enrollment and salaries in four campuses? Or why is the occupancy costs 8 percent more through the first half of your year? It is one thing to set a budget, but the other key piece, and the one that a lot of organizations do not necessarily do well, is monitoring as the year progresses. This should be done to drive accountability to mission and aligning the correct resources to stay close to that plan.

Q: There are many numbers to report, especially with multi-campus organizations. You have the monthly results or yearly results. What do your recommend as the format for comparing those on your main P&L sheet?

A: There is no one right answer because every organization is different. But I think you have to summarize all your main revenue and expense categories. The key point is, this does not have to be delineated at the account level. Having key breakouts by your campus location and then by major categories within the expense and revenue categories is key, instead of having 80 different accounts that show occupancy. I like to have some sort of enrollment numbers, or enrollment statistics, included on the P&L as well. Then generally some sort of marketing costs per student, costs per start, costs per lead; those kind of key factors as well because they drive much of the underlying costs of one of your largest subcategories.

Q: Who should be involved in the budgeting process?

A: It depends on how the organization is structured and whether it is a small school with one or two campuses; or multi-campus, multi-school, maybe even multi-accreditation. But clearly the president, head of enrollment and marketing, head of academics and student services and then campus or school leadership. A larger organization would want to include the head of human resources and information technology. In fact, in larger organizations program chairs, deans—if you have deans in your college—can also be included. If an institution is implementing new programs in the next year, the program chairs or equivalent should be involved because they will be involved in developing the new programs. Also include financial staff that will be generating reports, tracking information and feeding it into a budgeting software.

Q: Who should get the actual operating results compared against the budget, or the monthly P&Ls with the comparisons?

A: That is going to be either the campus leadership and/or the individual functional operating people within the group. With a smaller organization typically the campus leader is responsible for all the enrollment and costs at that campus. They will get a P&L showing their campus operation, the revenue that has come into that location, less the direct costs—staff and faculty, real estate and occupancy cost and then some sort of allocation of costs, either for technology, the underlying telecommunications to get information back and forth from that campus as well as some overhead costs for HR and financial types. Each campus would get a P&L. Depending upon the organization the VP of enrollment may see all the enrollment costs from a yearly basis. Then a core leadership team generally would see the entire consolidated P&L and budget and the results against that. Usually the head of marketing and the head of enrollment, Chief Academic Officer, CFO and one or two others, depending on how the institutions is structured. It would not be everyone on the payroll, certainly, but would include a pretty broad distribution of the organization's leadership.

Q: If you were only able to look at five numbers, five standards, five benchmarks or five outcomes, what five would make your dashboard?

A: The first one that comes to mind is the total payroll and benefits as a percent of net revenue. The next one is probably a little bit more complex, but I would always have some sort of a student satisfaction number. That can be your last quarterly consolidated assessment. Some sort of a number that is tracking student success indicators. Revenue per employee is probably another one that I would throw in there. I would say cost per lead would probably be four, and the fifth one I would use would be an employee satisfaction score of some sort.

Q: What do you think the payroll with all benefits and insurance, as a percent of revenue should be?

A: I would say from the high 40s to 50 percent. When you are over 50 percent total I think you are probably running to the point where you must really look at your number of employees and student count.

Q: What have we not asked you that we should have, or what parting words of advice do you have for a school owner trying to budget?

A: The main thing is know thyself. Try to understand what it is that you want to accomplish with your school or your institution. Then think about how to meet those objectives with the resources that you have. So much of budgeting can get ground into the year-to-year process of putting reports together and how the reports look. As a result, especially in a smaller organization, it is easy to forget what you are trying to accomplish and the best way to do that. Then have the CFO and people help you allocate resources accordingly. That is probably the one other thing I would advise CER readers to consider.

Career Education REVIEW Written by Cheryl Hentz.

Benchmarks: Unique to Each Institution Since All Institutions Are Unique

By Cynthia Reynolds, Retired Vice President of Campus Operations, Northwestern College, written from an interview with CER

Benchmarks are things colleges and universities need to measure, but each benchmark must be unique to each institution, says the retired vice president of campus operations for Northwestern University.

Cynthia Reynolds says institutions vary widely in population and programs, so it makes sense that their benchmarks should also be different. "Benchmarks are not going to be the same for a school of 400 students and a school of 7,000 students," she says. "The compositions are different. Is it an adult market or a high school market? Are you offering certificates, associate degrees or bachelor's degrees? We are each unique because with all those variables, we differ from campus to campus."

Reynolds says that uniqueness means looking at what you are, creating your benchmarks and then looking to others as resources. "If a school is doing better in placement, call them and ask what they are doing," she says. Look for the similarities and see how you can adjust. "But do not deceive yourself unless you are exactly the same as that institution," she explains. "Remember, you are unique to your institution and you have to develop your benchmarks as they represent you."

Remember, you are unique to your institution and you have to develop your benchmarks as they represent you.

Benchmarks should also serve as reference points so you can track

CYNTHIA REYNOLDS has been involved in the career college sector for 40 years. She retired in 2013 as Vice President of Campus Operations for Northwestern College, Chicago, Illinois. She also previously served as President of Pittsburgh Technical Institute from 2002-2007 and as president at IADT, now known as Sanford-Brown College, from 1991-1994.

Reynolds started in the industry as a faculty member, and then moved into marketing and to management.

She received her Bachelor's Degree from Indiana University in Bloomington, majoring in English, and her Master's Degree from Robert Morris University, Pittsburgh, in Instructional Leadership. She also was a board member of the Teachers Excellence Center from 2002-2009.

progress over a period of time. “You want to use your own data to measure your success, but you always want to compile the data at the same point yearly,” she says. “You cannot be changing it each year and then wondering why it does not work.”

You also need to measure fiscal data for the same time period, such as from July 1 to June 30. You should measure your population data for the same time period as well, such as after the start of classes in September.

Reynolds says the proprietary school sector should measure five benchmarks: personnel, financial, education, placement and admissions.

“It needs to be measured over a period of time, but it also has to be at the same time so that you know that you are measuring the same data,” Reynolds explains.

One thing most schools do not do well is to help their staff understand what is important. “People see us gathering all this data, and they hear us talking about this data, but only at certain levels do you talk about it completely.”

If you asked people how many new students you have, or how many students graduated this year, Reynolds says you would likely be surprised at the answers. “None of this information has been shared with faculty and staff,” she says. “Everybody gets excited when a new class comes in or when people graduate. But how does that compare to a year ago? What has your growth been? You need to help your staff understand what is important.”

Reynolds says data must go beyond financial statements. You need to know what graduation and placement rates are, as well as staff turnover within departments.

“Benchmarks are unique,” she stresses. “They can be reference points and you need to help your staff understand what is important on a yearly basis.”

Reynolds says the proprietary school sector should measure five benchmarks: personnel, financial, education, placement and admissions. However, benchmarks should not just be about each student and his or her particular outcome. “If you do not look at what is affecting each of these areas, how can you better provide the kind of education and the kind of growth and development you want for your institution?” she asks. “You have to look at all the things that affect each student.”

If you have low graduation rates, is it because you have high faculty turnover? Or if your students are graduating but not finding jobs, is the department not staffed appropriately for job searches? Has the market for jobs in your area changed?

Personnel benchmarks

“The most important part of a leader’s job, whether you are a leader of the institution as a whole or the leader of an individual department, is to hire the right people,” Reynolds says. “If you hire the right personnel, everything works.”

But too often schools hurry through the hiring process and do not look at how it impacts the students within the institution. “Too often we get caught in the everyday things and we procrastinate. We do not measure at the end of the year how well we have done.”

You need to measure turnover and the bad hire timetable. “If you find that your institution is a revolving door, or a particular department seems to be losing individuals continuously, there is a lot of cost in that,” Reynolds says. High turnover results in higher costs because of the cost of hiring, both in time to screen individuals, bring them in for interviewing and so on, and for the cost of advertising.

Not only is it time consuming to hire people, but it often gets put on the back burner because of other more pressing jobs. “Then you have classes that are not covered, positions that are not filled and it begins to snowball and you cannot get any traction; you cannot get any growth,” Reynolds says.

Training is another cost of hiring new people. “How much training are you giving instructors before they get into the classroom?” she asks. “Are they being observed and coached so they can develop within your institution?”

People with little experience will need more training, and often schools do not do enough training, Reynolds says. “Most schools/colleges do not spend enough time with new teachers and then we have problems,” she says. Students are not receiving the education you promised and dropout rates rise. And that spirals into students not graduating.

Schools need to train new hires to understand the job and deliver the quality that students expect, Reynolds says. If schools are not willing to provide that help, then they really need to hire experienced people who can go in and start functioning at a much higher level.

“If any of these things are not addressed in the beginning, it is going to cause people to go through your institution like a revolving door.” Reynolds says. “You are never going to see your graduation rates go up, have successful students or even experience happy departments because you always feel like somebody is new.”

Reynolds says you need to use a formula to measure your turnover rate based on full-time employees. (Take the number of employees leaving, and divide by the number of total employees.) Thus, if you start the school year with 50 full-time people, add 10 additional new full-time hires, but then lose 12, you would have a turnover rate of 20 percent.

But is that 20 percent good or bad? That will depend on your turnover rate last year, and the year before that, too.

Not only is it time consuming to hire people, but it often gets put on the back burner because of other more pressing jobs.

“There should be somebody who deals with your numbers so you know if you are improving,” she says. “Then if something bad is happening, you can determine what is causing it.”

The formula should be used for the institution as a whole, as well as by each department and major. “By keeping this information, you can measure your strengths and weaknesses in outcomes,” Reynolds says. “I am sure you will see a correlation between low turnover within an area and strong outcomes.”

Reynolds notes that there are two kinds of turnover: voluntary and involuntary. Voluntary turnover includes those people who leave because they find other opportunities. They may be dissatisfied because of low pay, lack of opportunity or a poor hiring process.

If you find that you are attracting people but they are not staying, you need to survey, she says. Find out if you are paying a comparable wage. If you are, do you offer promotion opportunities or help them develop? Or do you have a hiring process that is flawed so that you are hiring the first person vs. the right person?

“You need to keep track of why people leave,” Reynolds says. “It takes time to hire people. It took us 11 hours to hire someone in the classroom. That did not always mean we were successful, but it certainly minimized turnover."

Involuntary turnover occurs when you let people go, and it can also be a sign of a poor hiring process or inadequate training.

Reynolds says you need to keep a yearly record of both voluntary and involuntary termination, including the department, the termination date, the reason for termination or leaving, a person's months of service, and his or her race, age and gender. "That way you can look at it and make sure you are not discriminating or you can see if there is a department with a problem. It helps you to see patterns that can effectively address your personnel and their needs."

Reynolds says you need to keep a yearly record of both voluntary and involuntary termination, including the department, the termination date, the reason for termination or leaving, a person's months of service, and his or her race, age and gender.

Reynolds says there really is not a "standard" or target turnover rate. An institution needs to compile its history and then set goals. We had a benchmark of 10% that rose to 18% (8% voluntary and 10 percent involuntary) when our student population dropped and then balanced itself out at 11% in the years that followed. A school's human resources department would usually keep this information, and should review it yearly, making notations when people are let go because of population issues.

Reynolds says their human resources department also surveyed employees anonymously at the end of each year, asking about their experience at the college. "Were they satisfied, dissatisfied, did they have opportunities for growth?" Reynolds says. That information is then shared at staff meetings, she adds.

Not surprisingly, good hiring, good training and happy employees lead to successful financial outcomes.

Financial benchmarks

Reynolds says the financial benchmarks they used included departmental standards, revenue per hour, cost of personnel, 90-10, default rates, bad debts and rate of profit. They were looking for 20 percent operating profit before taxes.

"Were we always there? No," she says. "But since we were watching, we could see what was causing it. We set the benchmarks for what we wanted to do and then we operated to get as close as we could. Each year we made adjustments to stay within our financial numbers."

Schools need to look at each of their programs and determine what they are costing. Revenue per class hours can be determined by looking at tuition and the total class hours, she says.

If you cannot keep your total human costs below half of your revenue, you will not be successful. "The basic benchmark is that you have to have salaries plus the benefits. You really must work at not exceeding 50 percent of net tuition revenue. You set the benchmark so that you work toward it. But it takes work because you still need quality people."

That is particularly troublesome when things happen outside of your control. For example, when IT became popular, you had to pay higher salaries to get people to teach in particular programs, and tuition went up. "So you have to watch what you are teaching and how it is going to affect you so you can stay within that

50 percent," Reynolds says.

Education benchmarks

Completion rates are the most important of education benchmarks. "We always looked at it as a cohort because to look at it quarter by quarter really does not tell you the picture since people can re-enter and re-start. So if you have 100 people start your program Sept. 1, where are those 100 people when the program finishes? If you have a 10-month program, where are they in 10 months? If you have a two-year program, where are they in two years? What is that completion rate?"

Reynolds says you need to have somebody assigned to watching numbers and being detailed. "If we bring 100 people in and only nine graduate, we are not educating," she says. "It is difficult when you look at (the numbers) quarter by quarter because in September you have 100 people, but then when the new quarter starts you again have 100 people. Yet those 100 people are not the same people. Unless you are watching the cohort as they come in, you could find that your graduation rates are not what you think they are."

You also need to look at faculty when you talk about completion rates. "There was a definite relationship between certain departments and the longevity and experience of their faculty to completion rates," she says. "If you are watching completion rates by departments, you can ask why the CAD department has a 90 percent graduation rate and the medical assisting department has a 30 percent graduation rate. Is it the program? What are they doing differently? What could we learn from them? However, sometimes we do not use the data to go and say what are you doing?"

Reynolds says they kept the data so faculty members had the facts. "You would be surprised by the number of people who would think they had 40 students in their class a particular semester, but when I looked at the data, they had 16 or 19. The data is there to let people know what is really happening."

Ideally, you set the class size benchmark at 24. "But the reality was that many times we did not have that number," she says. "So you keep the data more to help people understand what they really are dealing with. It helps them understand the reality of class load."

Placement benchmarks

Placement, or graduate services, is really the reason schools exist, Reynolds says, since it is the reason students want to obtain an education. You need to look at three things: total placement rates, starting salary rates and timing or the length of time it takes graduates to find jobs in relevant fields.

We do not do the student any service and we do not help ourselves if we put them in jobs, just to say they have a job.

"Students are coming to the institution so that they can be educated and then use their skills," Reynolds says. "That is the ultimate measure. If you are doing the job you said you were going to do, are students getting jobs and getting placed? Are you offering programs that give them that opportunity?"

As part of placement, Reynolds says you also need to look at their major. How many people completed the major? Were they placed in their field of study? "We do not do the student any service and we do not help ourselves if we put them in jobs, just to say they have a job," she says. "We said they would have a career, not just a job."

A second benchmark is if students are receiving marketable starting salary rates in their new jobs. "You have to look at what was the salary in 2013 and what it is now," Reynolds says. "Is it increasing? Is it staying the same? What is causing the differences?" You also need to look at starting salary rates in your area, as well as outside your area.

Lastly, you need to keep data on how long it takes to place students. "These last few years have not been an easy market. But if you have been keeping statistics on the timing before placement you can talk to your students and say it used to take us four weeks for placement and now it is taking 12 weeks. They need to have some measurement and understanding of what is going on."

Schools also need to look at the time it takes graduates to find jobs by major or field, and check back periodically until the greater part of the class is employed.

Schools also need to look at the time it takes graduates to find jobs by major or field, and check back periodically until the greater part of the class is employed. "Let us say you had 30 percent of your computer aided drafting graduates placed at the time of their graduation because they were offered jobs from their internships. But four weeks later, and then eight weeks later, how many were placed? It will rarely be 100 percent."

You also have to allow current market conditions. "Maybe everybody wants to hire computer aided drafting students and no one is hiring in IT. Conditions are going to be different and you have to be prepared to understand that. You are not prepared if you do not have any information."

Admissions benchmarks

Admissions benchmarks should include the full cost of cost per start, starts per admissions representative and lead to start.

"Admission benchmarks are always the ones everybody wants to know and yet I think the biggest problem is that we all put different things into our admissions cost per start," Reynolds says. "You should know the full cost of your cost per start."

Thus, what percentage of your financial aid department are you using? What part of your administration are you using? What are your payroll-related costs? What are your travel costs for recruitment, or your marketing costs? If you have a call center, what are those costs? What are your costs for postage and supplies? All those things plus more will give you your total recruiting cost.

"I know that not everybody puts all those things into their cost per start," she says. "The things I mentioned are just what we put into our cost per start. What you are trying to do is know what your cost per start is so that you can contain it and use a reasonable cost per start. Is it going up by program? Is it going up overall? All that has to be measured if you are to bring your cost per start down, instead of having it increase every year."

Secondly, you need to have benchmarks of the starts per admissions representative. "You are not supposed to measure people that way, but I do not know how else you measure people for effectiveness," she says. "A golfer is measured by his or her scores. So if you are responsible for bringing people into your institution, the only way you can be measured is by how many people you bring in…"

Although that has become quite controversial, Reynolds says no one has come up with a better way to measure a representative's performance.

"In the old days this was easy," she says. "If you needed 50 students and you had five reps, everybody would give you 10 new starts. But today I do not know how they are measuring starts per rep. Everybody keeps using different things."

The last benchmark for admissions is lead to start. "You should be measuring all the different funnels that come in to get a start," she says. "Again, you have to look at what kind of a population you have. If you are a high school market, you are going to have a different lead to start than you are if you have an adult market or an online market."

Reynolds says you also need to look at your historical data. "But you need to make sure you are measuring the same things every year or you are going to get a false number," she warns.

Benchmarks: A summary

It is important for institutions to develop benchmarks for every phase of their institution, she says. "That way at the end of the year, your management team can sit down, look at the data and see if you are improving or not."

But you also need to create benchmarks that are unique to your institution. "No two institutions are alike," she says. "You can use general information or other information from your accrediting agencies, but do not compare yourself to another institution unless you are exactly alike. You need to share benchmarks with faculty and staff. They need to know your graduation rate. They need to know your placement rate. Share your staff turnover, especially with managers. You cannot improve if you do not know what you are working toward. You can only establish that by keeping a history. You can get as detailed as you want, but you have to look at it once a year."

Admission benchmarks are always the ones everybody wants to know and yet I think the biggest problem is that we all put different things into our admissions cost per start

For companies overwhelmed by data, the most important numbers to look at include turnover, graduation, placement, cost per start and profit for the year, she says. But Reynolds says the most important thing to ensure a school's success is to hire the right people.

"If you have the right people, you can go anywhere you want," Reynolds says. "Instinctively, I think people know what to do and if you give them the environment to do it, it will be done. You can have the best plan in the world, or all the benchmarks in the world, but if you have the wrong people, nothing is going to happen."

Career Education REVIEW

Written by Barbara A. Schmitz.

Lifetime Value Analysis: A Map to Your Future

By Dave Kramer, Experienced Chief Financial Officer

At its bare essence, businesses need to develop and retain profitable relationships. Tantamount in this, is that businesses also need to avoid unprofitable relationships. Unfortunately, this is not so simple and it is definitely harder than it sounds. Proper identification is vital as one must accurately uncover the often hidden details of these relationships, and which side of profitability they truly reside. This article will provide a very effective tool to accomplish this: a lifetime value analysis.

When completed properly, a lifetime value analysis can be instrumental (if not eye-opening) in drawing attention to what customer relationships should continue or expand, and what relationships should be considered for discontinuation. Just as important, it should serve to provide a unique perspective to accurately identify and focus on areas to better manage the cost of delivery, which can be effective in the long term for both a business and its customers.

As its basic objective a lifetime value analysis measures the net profit attributed to the relationship with an average and single, but unique customer. As the first step, it is necessary to evaluate and determine the level of uniqueness and detail one wishes to analyze. As we are discussing schools, I recommend starting out with an in-depth assessment that is by school and by program. (After successfully completing this, subsequent versions could delve into differences between session times or other attributes, as seen fit.) This by school by program level of assessment then means that the gathering of data should also match this level of detail, to the greatest extent possible/practical.

The dependency of revenue on retention and completion is what drives the lifetime revenue lower than the tuition cost.

DAVE KRAMER has over 12 years of experience as a CFO, primarily with private equity backed companies. His experience is predominantly in service based businesses including international businesses and career colleges.

Lifetime revenue is more important than the tuition rate

For simplicity sake, let us assume we have a four-month program with tuition of $1,000 per month or $4,000 in total (books and all fees included). Despite this $4,000 tuition, it is not safe to assume that the lifetime revenue of a single customer would also be $4,000. Instead, the dependency of revenue on retention and completion is what drives the lifetime revenue lower than the tuition cost. Here are four examples (in your particular analysis, ensure you use the rates as determined by a cohort study and not by simple monthly averages):

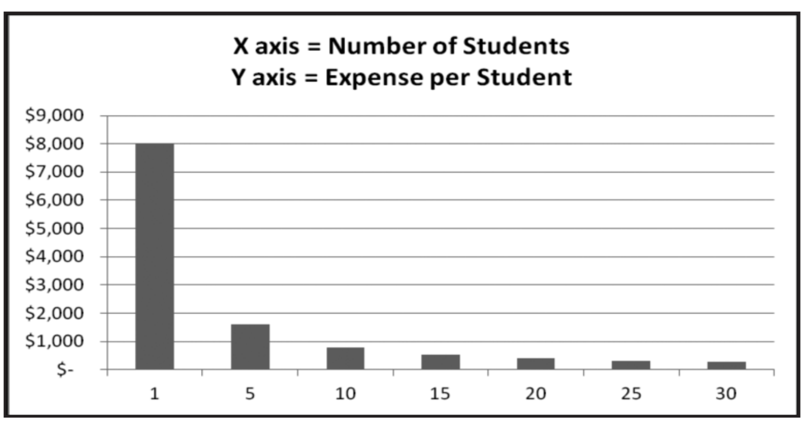
	Month -->	1	2	3	4	Total Lifetime Revenue
A	Student Count @ 100% @ 100% Completion	1.00	1.00	1.00	1.00	
	Revenue Earned	$1,000	$1,000	$1,000	$1,000	$4,000
B	Student Count @ 75% Completion	1.00	0.92	0.83	0.75	
	Revenue Earned	$1,000	$917	$833	$750	$3,500
C	Student Count @ 50% Completion	1.00	0.83	0.67	0.50	
	Revenue Earned	$1,000	$833	$667	$500	$3,000
D	Student Count @ 25% Completion	1.00	0.75	0.50	0.25	
	Revenue Earned	$1,000	$750	$500	$250	$2,500

(As shown by the above, yes, not only do we use fractions in completing our average calculations, it is necessary.)

Please note the lower the retention/completion percentages, the lower the lifetime revenue, on average, is for each unique student. The important lesson here is to know how much the school actually receives, on average, from each unique relationship developed (i.e, the lifetime revenue attributed to one particular student start). It is lower than the tuition rate and it is critical to success.

Costs that are fixed per the classroom vary per the student

This concept is certainly not anything new as it pertains to instructional (teacher salaries, taxes, benefits) and facility expenses. The more students that can attend together, the lower the cost will be to teach our average unique student (as shown in the graph).



Once again, when researching the costs of instructional and facility expenses, be specific. Do not just take the expenses the school itself is averaging. You must properly identify the specific costs attributable to each program as they can differ widely as compared to other programs (even at the same school).

Costs that are variable to the company on a per student basis are fixed to the student in a lifetime value analysis

Whatever it costs to furnish the students with their books and supplies, such amount is also the cost to utilize for a lifetime value analysis. It does not matter how many students are in the classroom, the school, etc. You should know this cost for the specific program/school being measured and not use an average across programs. While acknowledging purchasing power gained, there are no economies of scale similar to the chart for instructional and facility expenses.

Costs that need to be allocated

Not all costs can be readily identified to a specific program. As an example, student services and financial aid are most commonly provided to students in general with inconsequential differences for students of one program versus another. Nonetheless, from an expense standpoint, we still want to include ALL costs that are *directly* associable to the student (emphasis added). This is regardless if a traditional Profit & Loss Statement would classify the expense as fixed or variable.

As a result, we need to include support costs that are provided directly to the student but we should exclude overhead of the school. Overhead examples include the campus executives and their offices, their travel, etc. This is because if you add

Program -->	X Diploma	X Associate	Y Diploma	Z Diploma	Total, if averaged
Number of Students	1	1	1	1	1
Lifetime Revenue	$7,000	$12,000	$5,000	$8,000	$8,000
Teaching Expenses – Direct	-$1,800	-$2,400	-$1,800	-$2,000	-$2,000
Teaching Expenses – General Education	$0	-$600	$0	$0	-$100
Facility Costs	-$1,200	-$1,500	-$1,800	-$2,400	-$1,400
Instructional Supplies	-$500	-$700	-$300	-$600	-$500
Student Support	-$500	-$800	-$400	-$500	-$500
Contribution before Acquisition Exp.	$3,000	$7,000	$700	$2,500	$3,500
Acquisition Expenses	-$3,000	-$3,000	-$2,000	-$2,200	-$2,500
Contribution after Acquisition Exp.	$0	$4,000	-$1,300	$300	$1,000

and subtract students and programs, there should be no impact to the amount of expenditures related to such overhead. As an example to serve as a guideline, if a program is discontinued, the facilities space for that program can be re-purposed for other business endeavors while the hiring requirements of support positions will also be impacted. Meanwhile though, if a program is discontinued, there will be no immediate impact on the campus executive, his or her office, or the school's receptionist (as examples).

In summary, the costs that are direct to (and whose resource requirements depend directly on) the school's students should be allocated as appropriate even if they are not readily identifiable with one program or another. Further, as we are measuring the performance and contribution of the programs specifically (and their individual students), rather than the school itself, costs relative to school overhead (that are not direct to programs and students) should be excluded.

Combining the elements thus far and layering in acquisition costs

The previous stated items require significant details to research and breakout in order to match the level of detail and uniqueness needed. It is necessary though, to analyze in this fashion; as an examination that is too much in aggregate will certainly mask and hide programs that are successful in one school but not another, or programs within a particular school that perform differently.

In this chart are hypothetical results of four different programs at the same school:

Here are some observations to consider, regarding the chart:

- Though the overall school is profitable, there are programs that are far from profitable. The unprofitable programs should have plans set against them to optimize and improve them. If they cannot be improved, the program may not be in the long-term best interest of either the school or the student. Do not wait too long to recognize this. Phase out bad performing programs in favor of other programs with more worth.
- The contribution before acquisition expenses can and should be used to set caps/maximums on what marketing can spend as well as the results they achieve. At minimum, the caps need to be set by school by program.
- ALWAYS try to lower costs but NEVER do so in a manner that negatively impacts retention to the degree that you lower the lifetime revenue generated. Only lower costs to the extent that you are also increasing lifetime revenue!
- Recognize the impacts that, as example, a diploma program can have on an associates program of the same discipline. In the chart, Program X diploma is only breaking even while Program X Associates is generating significant profits. However, without the Diploma program, the Associates probably would not be able to achieve the economies of scale that it does.
- Make sure to layer in other non-financial

factors such as abundance of inquiries (sometimes called leads), abundance of jobs and placement rates to make a more knowledgeable judgment.

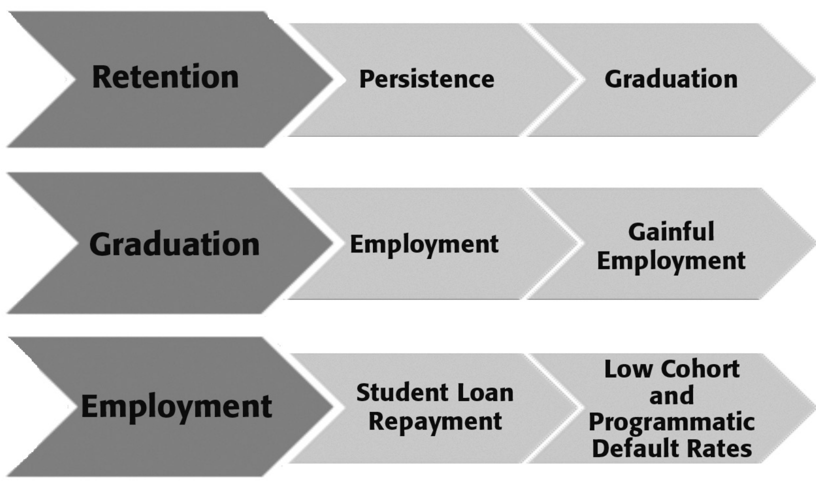
In the end, what is important is that if you are only looking at the financial performance of the school itself, you do not have appropriate details that will shine light on specific and pointed areas of opportunity. Traditional financial data combines results in aggregate and fails to examine students from a unique perspective that recognizes differences in business relationships and how accompanying services are delivered. A lifetime value analysis accomplishes this unique perspective.

If you are a CFO, complete this exercise while also ensuring your accounting and operating records are structured to readily assist as much as possible in providing needed data on an on-going basis. If you are not a CFO, talk to your CFO and get it done. It should not and would be too much to prepare such an analysis each month. But, at minimum, a lifetime value analysis should be examined at least once a year to first evaluate then monitor progress and trends from there. It is a map to your future–let it guide you.

Managing the Seemingly Unmanageable – Retention, Gainful Employment and Student Loan Repayment

By Elizabeth Keifer Herron, Solution Executive, Collegiate Admissions and Retention Solutions (CARS)

More than ever, institutions must track their student success metrics in order to remain in compliance and to succeed. This article will review the relationship between retention, gainful employment and student loan repayment and provide detailed examples on how to improve in all three areas.

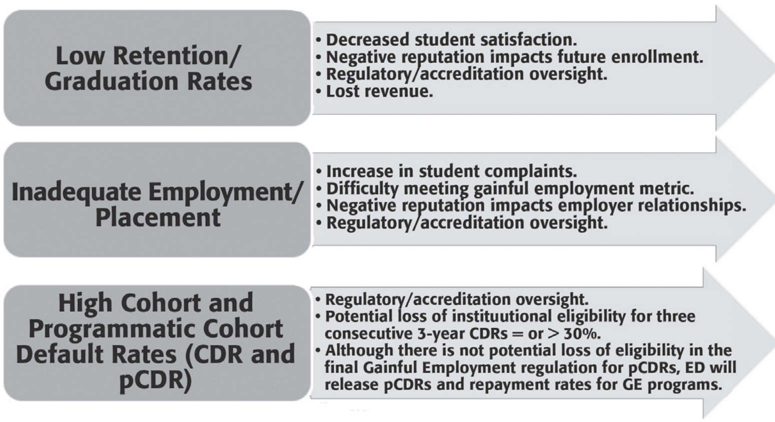


Overview

Students, families, regulators and press evaluate higher education institutions based on student achievement benchmarks. There is a direct correlation between retention, gainful employment, student loan repayment, and they all tie to the population served. To thrive (or merely survive) institutions must find a way to succeed in all three areas.

Consequences of poor student achievement

The negative consequences of student achievement are far-reaching and inter-related. Institutions must track their rates to know where they stand and to implement corrective action throughout the student's matriculation and beyond. This is vital from a revenue and reputation perspective, as well as the perspective of compliance and survival.



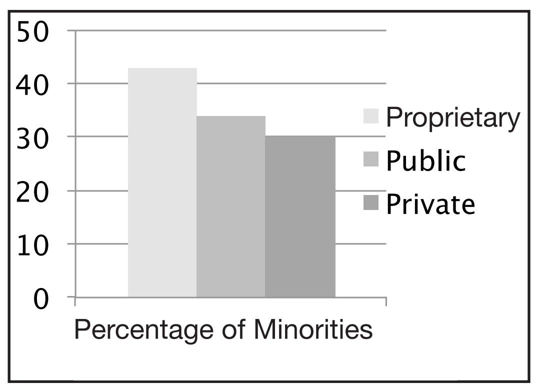
Common risk factors affecting student achievement

According to the most recent National Postsecondary Student Aid Study (NPSAS), the most common risk factors affecting student achievement are:

- Delayed enrollment.
- Independent status.
- Number of dependents.
- Single parent.
- Lack of high school diploma.
- GED in lieu of high school diploma.
- Enrollment status (part-time higher risk than full-time).
- Ethnic background (non-Caucasian students more likely to have multiple risk factors).
- Working while enrolled; non-working or working more than 35 hours are at greatest risk.

According to the National Center for Education Statistics, private sector colleges and universities are more likely to serve a higher percentage of minority students thus serving more students with multiple risk factors. In order to achieve strong persistence and graduation rates (leading to strong employment and student loan repayment rates), private sector colleges and universities must know the risks encompassing their student population and deploy interventions to support those students. Without the additional support for this student population institutions cannot survive in this regulatory arena.

Higher Education and Minorities



ELIZABETH KEIFER HERRON is a founding partner of PEAC Student Loan Assistance and a member of the executive management team of CARS. Ms. Keifer-Herron provides client services, community outreach and is the chief compliance specialist for the family of companies. She serves on numerous committees for higher educational associations, presents at many workshops and conferences, and her presence in Washington, DC enables her to have up-to-the-minute information on a variety of legislative and regulatory issues affecting the industry.

Prior to founding PEAC in 1992, Ms. Keifer-Herron was the chief lobbyist for the Career College Association (now APSCU). Ms. Keifer-Herron received her BA with honors in political science and economics from Douglass College of Rutgers University, and resides in Washington, DC with her husband and two boys.

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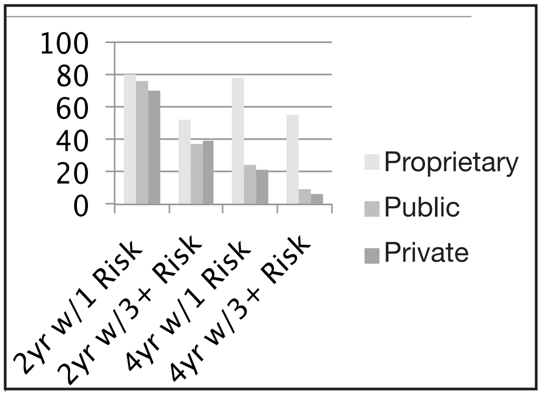
Students with Multiple Risk Factors



The "rates"

Institutions must understand and have an action plan for tracking the various "rates" that will be used to measure their effectiveness and survival.

- Graduation rate: Student's must graduate within 1.5X the time (clock hour) or 1.5X the credits (credit hour) of normal expected completion time. The final gainful employment (GE) rule will release completion rates for GE programs in the disclosure piece of the rule.
- Gainful employment (GE): The final regulation (published Oct. 31, 2014) establishes only one program test to determine continued eligibility, but retains a host of disclosures.
  - o Debt-to-earnings (DTE): Graduates of a program would need to spend on average no more than 8 percent of their annual income or 20 percent of their discretionary income on student loan payments.
  - o The Department of Education will release completion, placement, median earnings, median debt, repayment and programmatic cohort default rates for all GE programs.
- Cohort default rate (CDR): The percentage of students who enter repayment in one federal fiscal year (10/1 – 9/30) who default within that year or two subsequent federal fiscal years. Institutions will lose Title IV eligibility for three consecutive CDRs equal to or greater than 30 percent.

Access to data to track your "rates"

Persistence and Graduation

Institutions have access to the necessary data to track student performance, persistence and graduation. However, to thrive, institutions must deploy a mechanism to rate students' risk factors so necessary interventions can be deployed to support each student through to graduation. Since completion of the educational objective is the basis of long-term student success, employability and ability to repay student loans, must be at the root of any institutional success strategy.

Suggested plan of action to increase persistence rates

Collect baseline data

- Evaluate risk factors of completers and non-completers for your institution.
- Review historical retention rates by term.
- Identify most common times to drop.
- Determine courses with the highest withdrawal rates.

Develop plan

- Identify available resources and procure as necessary.
- Establish counseling/mentoring program.
- Establish student engagement

plan based on risk factors.

- Determine points and methods of contact based on risk factors (phone, text, email and one-on-one meetings), including positive contact points to develop relationship and rapport.

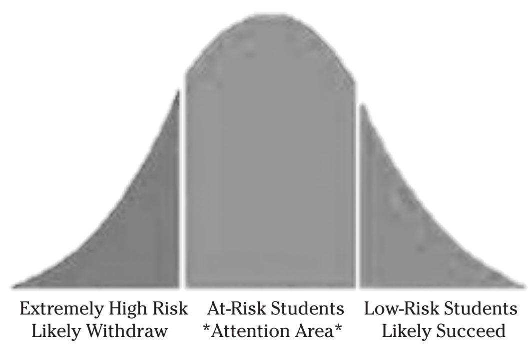
Suggested "basic" contact plans for all students

- **Future start welcome call:** all new students prior to term start, welcoming them and keeping them engaged while awaiting term start.
- **Term introduction call:** all students prior to term start; make sure they're ready; conduct risk assessment, build rapport, etc.
- **Orientation call (if applicable):** all students during orientation window; for curriculums that require an online orientation to remain enrolled, call to ensure this is accomplished within the allotted time.
- **Check-In call:** ideal to conduct near midterm exams to ensure students are prepared, studying, do not have issues; address risk factors and student profile notes, update.
- **Re-Registration call:** announce registration for next term is open and encourage early re-registration.
- **Check-In/End of term call:** check on preparation for finals, that they have re-registered for the next term and continue coaching plan by addressing risk factors.

Additional contacts suggested for higher-risk students

- **Grades:** determine threshold (CARS suggests grades below 65 percent) and contact to determine cause and address as needed; create awareness of academic warning/suspension possibility and effects.
- **Attendance:** determine threshold (CARS suggests missing 3 days, in classroom or last login for online campuses, also look at inactivity of 7 plus days) and contact to address attendance requirements from syllabus; determine cause and address as needed.
- **Other / Instructor identified:** could also include behavioral, participation or other identified issues causing declined quality, frustration or possible withdrawal
- **Withdrawal:** upon withdrawal, contact student for up to 90 days to identify cause and attempt to re-engage the student.

Your students are a bell curve. Some will not succeed, regardless of your efforts; some will succeed with little intervention; and some will require a tremendous amount of proactive support to persist.



Implement

- Execute the plan using a dedicated team.
- Track results.
- Analyze results and refine as needed.

Employment and gainful employment rates

Many states and accreditation agencies now require employment surveys and independent verification of job placement. Attorney Generals in many states have locked onto job placement statistics as a means to demonstrate poor institutional achievement, and, in other cases, to suggest fraud. Even when not required, many institutions are incorporating some form of independent review into institutional best practices with regard to employment tracking.

In addition, the final GE regulations published Oct. 31, 2014 will include disclosures of placement and median earnings rates for all GE programs, and will include options for challenging the accuracy of the information released by ED. Further, if an institution fails the debt to earnings ratio or falls "in the zone" for one year, they may submit an "alternate earnings appeal" of the earnings of their students for the failing program, using state data or a survey of earnings that meets criteria outlined by the Department. They may not challenge the SSA data used by the Department, as that data cannot be disaggregated, but must present a complete body of alternate data for every student included in the metric for a given program.

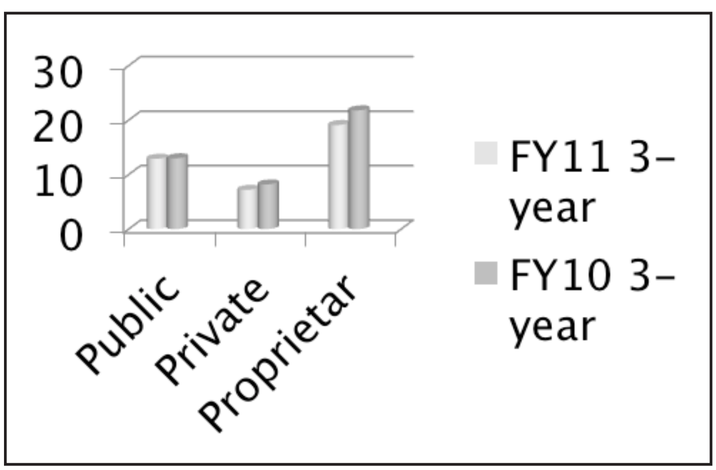
One of the single greatest challenges to securing initial placement information, which is exacerbated over time, is the ability to reach your former students by telephone, email, text or other means. If an institution is fighting to retain eligibility for a GE program with an alternate earnings appeal survey, the ability to contact 100 percent of all students becomes vital.

Building rapport during the in-school period and collecting and testing multiple methods of contact is more critical than ever. If you intend to use an independent third party to validate the information you obtain from employers or graduates, it is best to perform this review within 90 days of the actual placement. This is the time when contact information for the employer and graduate will be, most likely to be "good," and the employer will readily recall the graduate's placement.

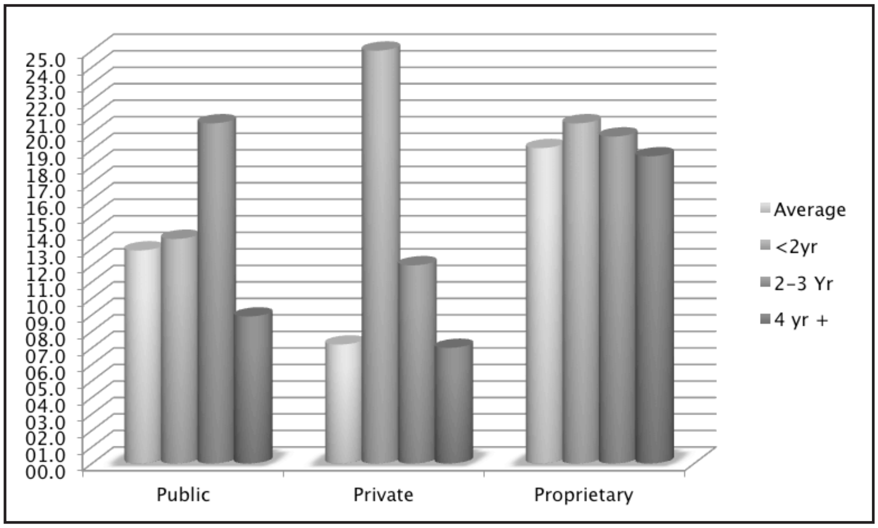
Cohort default rates (CDRs) and programmatic cohort default rates (pCDRs)

Cohort default rates continue to drop as more institutions work with students to select the appropriate repayment plan, loan servicers continue to advocate for income-based repayment, and we are further removed from the split servicing and TIVA issues that caused a spike for FY2009 and FY2010. That said, the Department of Education (ED) altered default rates for many institutions facing potential loss of eligibility with the release of the official FY2011 three-year rates due to split servicing issues (default on some loans but not in default on the same number or more other loans with a different servicer). It is unclear how the determination was made by ED and what the long-term impact will be for students and institutions.

Institutional CDRs for FY2011 vs 2010



Institutional CDRs for FY2011 by



Sector and Length of Program

In order to continue to drive down institutional default rates, institutions must continue to build rapport and relationships with students during the in-school period, obtain and maintain quality contact information for their students, and provide financial literacy coaching and counseling focused on borrowing what the student truly needs. Contact should be frequent and proactive, providing congratulatory contact when payments are made and support at difficult points in the life of the loan.

Institutions will frequently create "buddy" teams between career services and loan management/default prevention for student outreach. Both of these groups are attempting to maintain contact with students after they leave the institution, and few students will be able to repay their students loans if they are not successfully placed.

Tracking CDRs and pCDRS

Institutions have complete access to information from NSLDS to assist them with tracking their cohort default rate, monitoring delinquencies and defaults and obtaining updated demographic information that has been collected by the federal loan servicers. The most useful reports to assist with ongoing loan management efforts are the school portfolio report, the borrower demographic report and the servicer delinquency reports.

Although program of study is not currently included in these reports, it is a field that an institution could add to gauge where they stand with regard to pCDRs. Although the final GE regulations do not use pCDRs as an eligibility criterion, the Department will be calculating and releasing pCDRs and repayment rates by program in their gainful employment program disclosures.

Where default rate data housed in NSLDS used to have a myriad of inaccuracies, the data are far more accurate and reliable at this time, with very few institutions seeing movement in their rates based on data challenges. All institutions should be able to project where they stand in any of the three CDRs that are active, including knowledge of delinquent students in need of support. Adding programs to the tracking will be a relatively easy transition when the gainful employment metric is enacted.

Top Ten Strategies for Managing the Seemingly Unmanageable

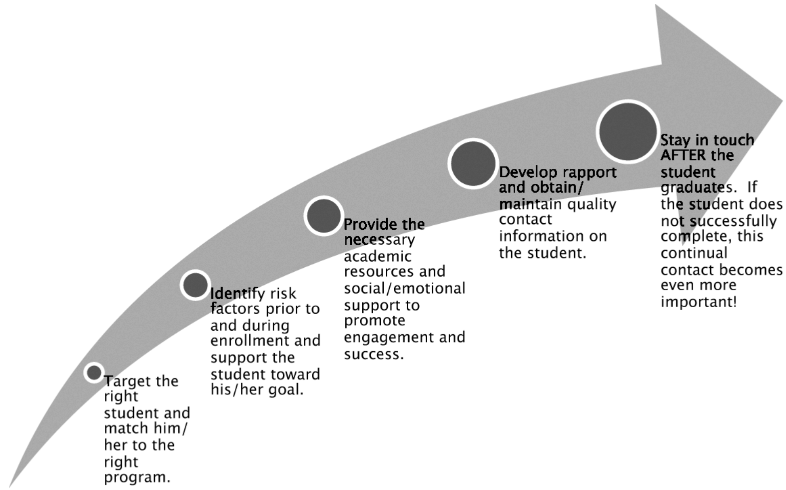
1. Know where you stand – track rates.
2. Maintain continuous contact to retain students.
3. Identify and support risk factors.
4. Obtain and use multiple forms of borrower contact information – phone, text, ICE, mail, email, social media.
5. Initiate 3-way calls helping

borrowers navigate multiple servicer environments – don't squander the grace period selecting the right repayment plan.

6. Instill realistic expectations – right student/right program/right time.
7. Work as a team – entire school, each department.
8. Deploy time-sensitive, appropriate financial literacy curriculum throughout matriculation (entrance/exit not good enough).
9. Enhance placement support and placement tracking.
10. Build relationship and rapport; get in touch and stay in touch.

Conclusion

The entire institution must work together for student achievement, supporting students each step of the way and knowing where the institution stands on these critical rates. Only by working as a team and tracking these metrics throughout the student's matriculation can an institution thrive in this intense regulatory environment.



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Strategic Decision Areas of College/ University [X]

Vision: To be the [What will people say about this institution in 20 years?]

Mission: [How will we achieve that vision?]

Customer Mix: Where does the employer belong in this mix? Who is the “real” customer? To whom do we direct our communications messages, such as advertisements and websites? [Who is the typical customer/student? Demographics, wants, and needs]

Product Mix: Education for [Careers??] in [What will our ideal portfolio of products/programs contain?]
New programs/services will [What will be the main factors to make us consider expanding the offerings, or will we?] [Will we offer training in a narrow field, such as health care, or a broader mix?]

Service Area:
[Where will we build campuses? What area will these campuses serve? 25 miles, 10 miles, or the three state area of xyz??] [How does online change this? Or, does it?]

Goals and Objectives [how will we measure our midterm success?]:
- Maintain and improve. [Already good at?]
- Expand to become. [Size measure]
- Foster. [What do we really support and believe in?]
- Use. [What tools do we have to use effectively?]
- Lead the industry in. [What will we be the very best in?]
- Goals that guide outcomes that can be measured.

Competitive Advantages
- What makes us different?
- What do we simply do better than the competition?
- People sure belong in this area.
- Assets, more importantly those intangible ones.

Outside Relationships
- We are known by the company we keep.
- Important external stakeholders.
- Regulators accreditors, etc.
- Technology vendors?
- Who do we need?
- Other key vendors.

Culture and Values
WHAT DO WE HOLD DEAR THAT IS NON NEGOTIABLE?
- The students really do come first.
- Ethics?
- What makes us “tick”?
- Being the champion of these values is the most important CEO duty.

Strategic Implementation

Marketing Strategies

PUSH VERSUS PULL? MARKETING MISSION STATEMENT.

Product

- What does our product look, feel, act, like?
- What does the target market receive as our half of the exchange?

Place/Delivery

- [Trust us: we are only as strong as our weakest teacher]
- How, where and when does our target market receive our product?
- Any time any place? How does online change this?
- Will we consider hybrid, blended or newer modalities?

Price

- What drives our pricing decision-making?
- Are we the least or most expensive? Do we bundle fees, books?
- Price is everything the customer(s) give up in the exchange—not just money.
- Will the graduates be able to manage any debt? (Gainful employment.)

Promotion/Communications

- Over ½ of starts from referrals—the easiest customer to obtain is the one you already have.
- Or do we focus on new customers?

Advertising

- Frequency vs reach.
- Internet?
- Agency in-house?
- What media?

Publicity

- How will we be seen?
- Be a part of and support our industry and communities.

Salesmanship

- AKA admissions
- What "talk" do we really believe that we are willing to "walk"?
- How will we inspect what we expect? Mystery shopping?

Sales Promotion

- Do we have logo shirts/items?
- How can we get free advertising?
- Use of Internet for PR-good and bad—social media proactive strategy.

Financial Strategies

- Finance mission? Low debt? High leverage?
- How do we create value?
- How do we increase stakeholder returns?

Organizational and Staffing Strategies

WHAT DO OUR EMPLOYEES THINK OF US AND US OF THEM?

- Trust us: if we take care of our faculty and staff, they will take care of our customers.
- How do we compensate strategically? Lower pay high benefits? Higher pay lower benefits? Equity/options?
- How do we avoid promoting people to the first level of incompetence?
- How do we build a team of all "a" players? Do we want to try?

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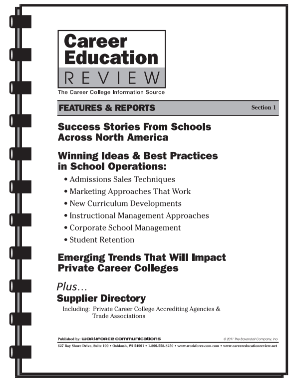

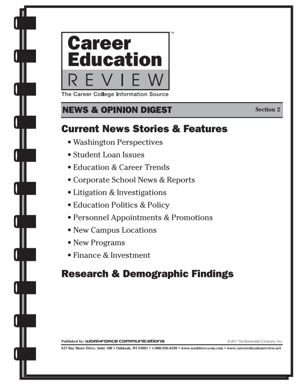

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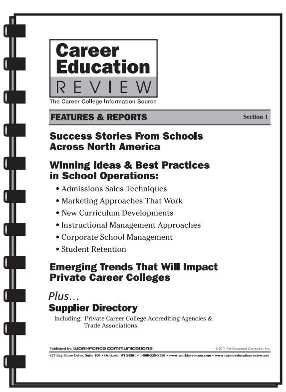

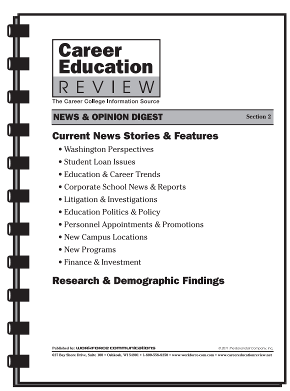

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