

Program Economics

Benchmarking: Why Does it Matter?



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Why does benchmarking matter?

Institutions are struggling with enrollment declines and budget pressures. Benchmarking is a tool that allows institutions to make faster data-informed decisions. It helps to precisely manage an institution's costs, revenue, and financial vitality.

Use this data to:

- Compare your efficiency to peers
- Identify opportunities to improve efficiency
- Identify areas that are under-resourced



Program economics focus on direct variable economics: the revenue and costs associated with classroom instruction.



Course-Level Input



Instructor pay and benefits are assigned to the courses they teach based on workload units.



What Drives Cost per Student Credit Hour?





Cost per SCH can be lowered by decreasing instructional cost or increasing student credit hours.







Our benchmarking database is majority private not-for-profit institutions.

Disclaimer: The data provided in this presentation accurately represent reality but do not reflect precise values to respect the privacy of the institutions who anonymously participate in the benchmarking database, including the exemplar institution.



Sector Distribution Gray DI's Benchmarking Database



Instructional Trends

Institutions have been unable to respond quickly enough to a downward trend in student credit hours.

- Student credit hour production dropped by 7%.
- Cost per student credit hour (SCH) rose by 6%.



Instructional Trends Gray DI's Benchmarking Database



Change in Total Instructional Cost

Over the past four years, two-thirds of benchmarking institutions decreased total direct instructional cost.

• This is the total dollar amount associated with courses taught.





Of those that lowered total instructional cost, only 41% were also able to decrease cost per SCH.





Cost-Cutting: Is it Enough?

The decline in SCH production outpaced cost-cutting at most institutions.

- Group A: Did not decrease total cost fast enough to offset the decline in SCH.
- Group B: Decreased total cost enough to offset the decline in SCH.





Credit Hour Production: Effects on Cost per SCH

78% of benchmarking institutions that increased SCH production also decreased their cost per SCH.

• Only 13% of benchmarking institutions that decreased SCH production also decreased their cost per SCH.





Growth is the Long-Term Solution

In most cases, institutions cannot cut their way to sustainability.

 Benchmarking data provides institutions with precise information to inform strategic cost reductions that do not harm the overall health of the institution or its ability to serve its mission.



Change in Total Direct Instructional Cost



How do Institutions Spend Money?

Across benchmarking institutions, 29% of full-time instructors' salary and benefits are spent outside of the classroom.

 Even with a 10% decline in total spend, the share of salary and benefits attributed to direct instructional cost has remained constant.



Share of Instructional Salary and Benefits (Spend) By Type of Cost



Changing the Status Quo

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Our exemplar institution also reduced total instructional spend by 10% – and decreased full-time non-instructional cost from 26% to 15%.

More full-time cost was attributed to instruction, leading to the increase in direct instructional cost.



Share of Instructional Salary and Benefits (Spend)

Spend from Base Year

Benchmarking Sample

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Successful management of cost per SCH requires consistent attention and ongoing action.

Managing the number of sections taught to match changes in enrollment is difficult.





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Benchmarking quickly identifies areas of opportunity by comparing cost per SCH to peers.





1. Identify Areas of Opportunity

Benchmarking data identifies areas where your cost per SCH is significantly higher than your peers.

In the base year, the exemplar institution's cost per SCH is higher than the 75th percentile of peers in all but one area.

Exemplar vs. Benchmark: Course Subject and Level





2. Identify Possible Actions to Take

Actions to improve cost per SCH can include:

- Changing course scheduling to increase section sizes
- Increasing full-time teaching loads
- Reducing faculty headcounts
- Increasing the mix of lower-cost sections

In the case of the exemplar institution, a *dramatic* decline in SCH lead to the decision to stop offering upper-level undergraduate courses in Theatre Arts.

	Year	SCH
	2017	101
25th Pctl. (Sample Cost/SCH) Median (Sample Cost/SCH) 75th Pctl. (Sample Cost/SCH) Client Cost/SCH	2018	63
	2019	92
	2020	55
	2021	11
	2022	2



3. Lather, Rinse, and Repeat

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Continuous management of cost per SCH is key to maintain financial vitality.

 While the exemplar was able to lower the cost per SCH in 76% of their highest-cost areas, there is still room for improvement in high-cost areas.





PROPRIETARY

4. Don't Forget Growth!

Benchmarking can identify areas that may be under-resourced, too.

• The exemplar institution is below the 25th percentile cost per SCH of peers in many areas.

Exemplar vs. Benchmark: Course Subject and Level





Investing in Growth

PROPRIETARY

The exemplar institution took growth seriously, investing in areas with growing student demand.

The institution also de-invested from shrinking content areas.





Success: Maintaining Student Achievement

The exemplar institution decreased instructional spend, increased the average SCH per section, and maintained a consistent pass rate.

Efficiency Impact on Student Achievement





The highest-cost area is graduate chemical engineering.

Sample Average: Course Subject and Level





Fast Facts: Lowest Cost per SCH Courses

The lowest-cost area is lower-level undergraduate Management Information Systems.





The highest-cost Bachelor's program is Clinical Lab Science.

Sample Average: Program and Award Level

25th Pctl. (Sample Cost/SCH)

Median (Sample Cost/SCH)

Cost/SCH) 75th Pctl. (Sample Cost/SCH)

Sample Avg Cost/SCH

Clinical Lab Science/Medical Tech. Bachelor's Biological and Physical Sciences, Bachelor's Music Management, Bachelor's Music, General, Bachelor's Music Teacher Education, Bachelor's Religion/Religious Studies, Bachelor's Dance, General, Bachelor's Mathematics, General, Bachelor's Physics Teacher Education, Bachelor's Econometrics and Quantitative Economics, Bachelor's Statistics, General, Bachelor's Art History/Criticism/Conservation, Bachelor's Geology/Earth Science, General, Bachelor's Creative Writing, Bachelor's Environmental Studies, Bachelor's





The lowest-cost Bachelor's program is Human Services.

Sample Average: Program and Award Level

25th Pctl. (Sample Cost/SCH)

Human Services, General, Bachelor's Organizational Leadership, Bachelor's Operations Management/Supervision, Bachelor's Business/Managerial Economics, Bachelor's Audiology/Speech-Lang. Pathology, Bachelor's Radiologic Tech/Radiographer, Bachelor's Animal Sciences, General, Bachelor's Health Care Admin/Management, Bachelor's Human Dev./Family Studies, Gen'l, Bachelor's Computer Programming, General, Bachelor's Crim. Justice & Corrections, Gen'l, Bachelor's Organizational Communication, General, Bachelor's Health/Phys. Ed./Fitness, Gen'l, Bachelor's Cinematography and Film/Video Prod, Bachelor's Sport and Fitness Admin/Mgmt, Bachelor's





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On average, only four Bachelor's programs have a negative contribution margin.



Cost vs Contribution

Cost per SCH



Managing instructional cost at a higher education institution is easier if you:

- Know what your cost per SCH is by course and by program
- Know your peers' cost per SCH
- Know the content areas where changes in enrollment are occurring
- Act!

Contact us to schedule a demo of our PES Economics and Outcomes tool and join our benchmarking database! https://www.graydi.us/contact



Upcoming September Webinars

Higher Education Demand Trends

In addition to enrollment and labor market data, this month's Demand Trends Webinars will include the recently released 2023 IPEDS Completions data.

Join us to learn about new CIP codes and key market trends.

