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Roadmap for Discussion

1. Beyond Hiring Freezes: Adjusting to an Era of Enduring Austerity

2. Protecting the Core—Playbook for Managing through the Recovery

3. The Vices of our Virtues: Making Difficult Choices in a Culture of Consensus
The Problem with Furloughs and Freezes

Universities Largely Only Buying Time to

Quick Staffing Cost Fixes

- Employee hiring freezes
- Employee-centralized retirement plan
- Staff furloughs
- Travel restrictions
- Capital project delays
- Across-the-board layoffs
- Employee salary freezes

University Costs

4.0% Cost Growth\(^1\)

\(^1\) CAGR FY 1994-1995 through FY 2004-2005
Implement Permanent Savings Measures

The Cost Curve Rebound

Rethinking University Organization

Managing Facilities Cost

Consolidating and Streamlining Administrative Support

Growing University Revenues

Managing Research Center Costs

Playbook for Managing Through the Recovery
Cutting Everything Possible from the Periphery to Protect the Core
Looking Outside First

Supplies and Services One of Largest University Savings Opportunities after Labor

Breakdown of Research University Operating Expenses:

- **Academic and Research Labor**: 45%
  - Teaching
  - Research
  - Public service
- **Administrative and Operations Labor**: 30%
  - Finance and HR
  - Student services
  - Facilities management
  - Auxiliary services
  - Enrollment management
- **Outside Spend**: 25%
  - Construction
  - Lab supplies
  - Office supplies
  - Building maintenance
  - Food
  - Utilities
  - Professional services

State University System Strategic Sourcing Analysis

$583 M $113 M $5.5 M-$22.6 M

5%-20% Annual Savings Opportunity

**Addressable Commodity Spend**

- Office supplies
- Lab supplies
- Lab equipment
- Food
- Medical supplies
- IT hardware
- IT software
- IT services
- Telecommunications
- Printing
- Shipping
- Fleet

---

1 Excluding interest expense, depreciation and scholarships

Source: University Leadership Council interviews and analysis.
Every University a Procurement Archipelago
Decentralized Purchasing a Major Obstacle to Strategic Sourcing

Purchasing Power and Decision Making
Rest Largely with Individual Departments

Procurement office relegating to transaction processing

Scientific and Lab IT MRO General
Commodity Managers

Medical School Arts and Science Engineering School Business School

Academic Departments

Faculty and Research Staff
Universities Not Always Aggressively Managing Vendors
Many Universities Not Channeling Spend to Low Price Vendors and Contracts

Dramatic and Sudden Shifts in Vendor Market Share

Centrifuge Rotor Market Share at Small Private Research University

Better Pricing Not the Reason
Vendor Pricing Comparison for Centrifuge Rotors

USA Scientific 0%
Beckman Coulter 1%
Jencons Scientific 0%
Bruker Biospin 0%
VWR International 8%
Fisher Scientific 1%
Beckman Coulter 22%

% above median hospital price
% above "best-in-nation" hospital price
Universities Not Always Getting Best Prices

*Significant Opportunities to Negotiate Lower Prices Across Categories and Vendors*

**Lab Supplies**
- Chemistry reagents: 8.1%
- Procedure gloves: 11.2%
- Serological pipettes: 16.4%
- Immunology test kits: 25.2%

**Scientific Equipment**
- Chemistry reagents: 8.1%
- Procedure gloves: 11.2%
- Serological pipettes: 16.4%
- Immunology test kits: 25.2%

**Computers and IT**
- LCD monitors: 6.8%
- Desktop computers: 7.3%
- Notebook computers: 10.9%
- Wifi base stations: 18.5%

☑ % above median hospital price
☑ % above “best-in-nation” hospital price
Unexploited Opportunity: Active Management of Health Benefits

One of the Fastest Growing Items in the University Budget
Cost of Covering University Employees Rising at an Unsustainable Rate

University Health Benefit Cost Increases Outpacing Other Sectors

Average Annual Premiums for Single Coverage

Covering an Older Workforce
Percentage of Employees Age 50 or Older

Offering More Generous Benefits
Percentage of Organizations Offering Retiree Health Coverage
Large Savings Possible Within Current Benefits Package
Research Demonstrates Ten Percent Savings Opportunity for Average Employer

<table>
<thead>
<tr>
<th>Quick Hit Savings</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Errors</td>
<td>1.5%</td>
</tr>
<tr>
<td>Questionable Pricing</td>
<td>1%</td>
</tr>
<tr>
<td>Inappropriate Utilization</td>
<td>1.75%</td>
</tr>
<tr>
<td>Suboptimal Acute Care</td>
<td>2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>One to Two Year Savings</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Suboptimal Chronic Care</td>
<td>1.5%</td>
</tr>
<tr>
<td>Unmanaged High-risk</td>
<td>2%</td>
</tr>
<tr>
<td>Populations</td>
<td></td>
</tr>
<tr>
<td>Lack of Wellness and</td>
<td>.25%</td>
</tr>
<tr>
<td>Prevention</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Long-term Savings</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Ineligible employees/dependents receiving health benefits
- TPA paying duplicate claims or claims for terminated employee
- Excessive charges for (clinically questionable) oncology drugs prescribed by physician offices
- Inappropriate use of MRIs for lower back pain
- Overutilization of Lipitor rather than generic antihyperlipidemics
- Cancer patient taking 23 different supportive care, infusion, and pain medications prescribed by 7 different physicians
- Diabetes patients failing to receive semi-annual HbA1c tests, leading to (expensive) downstream utilization
- Employee predisposed to breast cancer not receiving annual mammogram
- Employees increasing health risks through eating habits, smoking

Annual Health Benefit Costs

<table>
<thead>
<tr>
<th>Average University</th>
<th>Uncontrollable (20%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Age and health of employees</td>
</tr>
<tr>
<td></td>
<td>Richness of benefits package</td>
</tr>
<tr>
<td></td>
<td>Local health care costs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Low Cost University</th>
<th>Controllable (10%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Diabetes patients failing to receive semi-annual HbA1c tests, leading to (expensive) downstream utilization</td>
</tr>
<tr>
<td></td>
<td>Employee predisposed to breast cancer not receiving annual mammogram</td>
</tr>
<tr>
<td></td>
<td>Employees increasing health risks through eating habits, smoking</td>
</tr>
</tbody>
</table>

$5,600
$3,900
Still in the IT Standardization Foothills

Routine Consolidation Savings Underexploited in Higher Education

Consolidating IT Supply

- Controlable Cost Consultations
- Tiered Chargeback Pricing
- Usage-Based Storage Policies
- Maintenance TCO reports
- Single ERP
- Single Course Management System
- Central Applications Licensing
- Storage Area Networks
- Server Farm Clustering
- Regional Data Centers
- Shared Printer Pools
- Shared Desktop Pools
- Standardized Desktop Image
- Single E-mail
- Standardized Desktop

Managing End-User Demand

"Invented Here" Syndrome

"Twenty years ago, IT was a competitive differentiator for universities—we had e-mail and fast computing before anyone else. But we've been late realizing that so much of the technology we invented is now a commodity, like running water or electricity. It's a real obstacle to consolidating, much less outsourcing."

Dr. Adrian Sonnier
University Technology Officer
Arizona State University

Source: University Business Executive Roundtable interviews and analysis
# Trading “Control” for Better Service at Lower Cost

*Arizona State Pursues On-Campus Consolidation, Strategic Sourcing Partnerships*

<table>
<thead>
<tr>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New CTO Mandate</strong></td>
<td><strong>Server Consolidation</strong></td>
<td><strong>E-Mail Outsourcing</strong></td>
<td><strong>ERP Hosting</strong></td>
<td><strong>IT Help Desk Outsourcing</strong></td>
</tr>
<tr>
<td>• Divert IT resources from back office to teaching and research</td>
<td>• Promises departments lower cost, augmented support for centralizing</td>
<td>• Transferred 65,000 student accounts</td>
<td>• Outsourced new ERP implementation and maintenance</td>
<td>• Higher education-friendly outsource partner</td>
</tr>
<tr>
<td>• Incent faculty to consolidate and explore strategic sourcing</td>
<td>• From 50% to 95% centralized servers by 2010</td>
<td>• $1 M in savings since 2006</td>
<td>• $85 M in avoided cost</td>
<td>• Absorbs university staff at same-or-better benefits</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• 3.5 years reduced time to launch</td>
<td>• $200,000 savings with superior faculty satisfaction</td>
</tr>
</tbody>
</table>
A Crane on Every Campus

Space Allocation at a Large Public Research University (Estimated)

U.S. Higher Education Facility Space

- Residential: 22%
- Student Unions/Auditoriums: 9%
- Learning/Computer Labs: 9%
- Library/Study: 7%
- Classrooms: 3%
- Health Care: 1%
- Institutional Support Space: 1%
- Research Labs: 10%
- Office Space: 23%

Total Assignable Space

<table>
<thead>
<tr>
<th>Year</th>
<th>Space</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>1.3 B ft²</td>
</tr>
<tr>
<td>2009</td>
<td>6 B ft²</td>
</tr>
</tbody>
</table>

Square Feet per Student

<table>
<thead>
<tr>
<th>Year</th>
<th>Square Feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>160 ft²</td>
</tr>
<tr>
<td>2009</td>
<td>450 ft²</td>
</tr>
</tbody>
</table>

Source: "Campus Officials Seek Building Efficiencies, One Square Foot at a Time", Chronicle of Higher Education, April 17, 2009

1 Excluding hospital space.
2 Police space, mainframe academic computing, etc.
Allocating Space by Priority, Not Precedent

*University of Michigan's Space Productivity Dashboard*

---

**Enabling Truly Strategic Space Planning Decisions**

- What are breakeven levels for various levels of space usage?
- How does grant size affect space requirements?
- Are requests for incremental space justified?
- How much space will we need as new faculty are added?
- What kind of grants should faculty pursue to maximize space productivity?

---

**Single Version of the Truth**

- Standard definitions for space utilization
- Direct and indirect expenditures/ft² across departments

---

Source: University Leadership Council interviews and analysis

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Energy Both a "Free Good" and Significant Cost

Energy Represents a Small but Growing Proportion of Operating Costs

"Average University" Energy Cost

1.42 B Operating Budget

$426 M Non-Labor Costs

70% Labor Costs

30% Non-Labor Cost

7% Energy Costs

$30 M

Greenest Institutions Focusing on Utilization as well as Buildings

$2.58

$0.55

$0.16

$0.11

$0.22

$0.05

$1.49

Average Energy Cost Per Square Foot

Best-in-Class Energy Cost Per Square Foot

$1.09 Achievable in Cost Savings

Lighting/HVAC Upgrades

Building Design/Envelope

Planned Maintenance/Recommissioning

Operational Settings/Scheduling

Consumer Efforts


1 "Average University" a composite of publicly-available financial, energy management, and sustainability planning information of Roundtable Member institutions.
# Making Energy Consumption Transparent

Stanford’s Monthly Electricity Use Report (Illustrative)

<table>
<thead>
<tr>
<th>Electricity Use Report (kWh)</th>
<th>Current Month: November 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Days in Billing Period: 32</td>
</tr>
</tbody>
</table>

To: Dean and Finance Officer,  
Stanford University Libraries

<table>
<thead>
<tr>
<th>Memorial Library</th>
<th>Total Current Month Electricity Use (1)</th>
<th>96%</th>
<th>Budget Unit Occupancy (2)</th>
<th>108,784</th>
<th>Budget Unit Current Month Electricity Use (1) x (2)</th>
<th>383,421</th>
<th>Budget Unit FYTD Electricity Use</th>
<th>346,088</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mathematics</td>
<td>14,430</td>
<td>26%</td>
<td></td>
<td>3,752</td>
<td>13,280</td>
<td>11,343</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Center</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Music Center</td>
<td>56,381</td>
<td>40%</td>
<td></td>
<td>22,552</td>
<td>79,579</td>
<td>69,138</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organic Chemistry Building</td>
<td>24,720</td>
<td>46%</td>
<td></td>
<td>11,371</td>
<td>40,100</td>
<td>34,473</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total:</td>
<td>210,040</td>
<td></td>
<td></td>
<td>146,459</td>
<td>516,380</td>
<td>461,640</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Bill itemizes charges for libraries housed in shared buildings
- Co-located units split electricity use by square footage
- At the end of the fiscal year, overages are paid for by unit's funds
- Deans need only track kWh use; central administration adds or removes funds when electricity rate changes

Visibility Tamps Down "Load Creep"

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Usage</th>
<th>Target Usage assuming load creep</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>2007</td>
<td>2008</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FY05</th>
<th>3% under budget</th>
<th>15% under—5% over</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY06</td>
<td>3% under budget</td>
<td>17% under—11% over</td>
</tr>
<tr>
<td>FY07</td>
<td>3% under budget</td>
<td>17% under—10% over</td>
</tr>
</tbody>
</table>

Source: University Leadership Council interviews and analysis
Administrative Costs Growing Faster than Academic Expenses

Growth by Expense Category at a $1.7 Billion Public Research University

Operating Expense per FTE Student

<table>
<thead>
<tr>
<th>Category</th>
<th>2004</th>
<th>2008</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative</td>
<td>$47,900</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Academic</td>
<td>$54,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Services</td>
<td></td>
<td>6.8%</td>
<td></td>
</tr>
<tr>
<td>Institutional Support</td>
<td></td>
<td>5.9%</td>
<td></td>
</tr>
<tr>
<td>Public Service</td>
<td></td>
<td>3.5%</td>
<td></td>
</tr>
<tr>
<td>Academic Support</td>
<td></td>
<td>7.2%</td>
<td></td>
</tr>
<tr>
<td>Plant Operations</td>
<td></td>
<td>9.2%</td>
<td></td>
</tr>
<tr>
<td>Financial Aid</td>
<td></td>
<td>3.5%</td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td></td>
<td>6.9%</td>
<td></td>
</tr>
<tr>
<td>Instruction</td>
<td></td>
<td>3.9%</td>
<td></td>
</tr>
</tbody>
</table>

Administrative 6.6%

Academic 4.8%

Many Management Layers, Small Control Spans

Chancellor

400 Administrative Units

Nine Management Layers

Half of Supervisors Manage 1-3 FTEs

Front-Line Workers

Source: Bain & Company.
Faculty Unaware of Cost and Quality Decrement from Complexity

Quantifying the True Costs
Results of One University’s

**Human Resources**

**Complexity**
Number of Paper Forms to Process Transactions

- University: ~30
- World-Class: 5

**Quality**
Days to Fill Open Positions

- University: ~60
- World-Class: 45

**Cost**
HR Cost per Employee

- University: ~$4,000
- World-Class: $1,822

**Finance**

**Complexity**
Number of General Ledger Accounts

- University: ~65,000
- World-Class: 744

**Quality**
Days to Process an Invoice

- University: ~8
- World-Class: 2

**Cost**
Percentage of Revenue/Operating Budget

- University: ~7.00%
- World-Class: 0.61%
of the University’s “Thousand Flowers”

*Business Services Effectiveness Audit*

**Procurement**

<table>
<thead>
<tr>
<th>Complexity</th>
<th>Quality</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Suppliers</td>
<td>Purchases Requiring Manual Dissemination</td>
<td>Procurement Cost as Percentage of Spend</td>
</tr>
<tr>
<td>University: ~28,000</td>
<td>University: ~55.00%</td>
<td>University: ~5.00%</td>
</tr>
<tr>
<td>World Class: 1,632</td>
<td>World Class: 0.00%</td>
<td>World Class: 0.63%</td>
</tr>
</tbody>
</table>

**Base-Case Labor Savings Projections**

Expense by and Labor Savings Opportunities Activity

<table>
<thead>
<tr>
<th>Consolidation</th>
<th>Automation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Staff</td>
<td>$50 M</td>
</tr>
<tr>
<td>Decentralized Staff</td>
<td>$17.5 M</td>
</tr>
<tr>
<td>Academic Administration and Sponsored Projects</td>
<td>$24 M</td>
</tr>
<tr>
<td>Information Technology</td>
<td>$12 M</td>
</tr>
<tr>
<td>Finance</td>
<td>$10 M</td>
</tr>
<tr>
<td>Human Resources</td>
<td></td>
</tr>
</tbody>
</table>

Efficiency Gains

- **Savings Potential:**
  - Academic Administration and Sponsored Projects: $9.5 M–$14.3 M
  - Information Technology: $5 M–$10 M
  - Finance: $2.4 M–$4.8 M
  - Human Resources: $2.4 M–$4.8 M

*Source:* University Business Executive Roundtable interviews and analysis.
Distributed
UNH Achieves Labor Efficiencies and Quality

Dispersed pods of business support staff serving major RCM units...

Business Service Center

Director

1-2 Business Managers

3-5 Generalists

VP. Finance and Administration
Dean or RCM Leader

UNH RCM Units (Slightly Abridged)

Academic
• College of Liberal Arts
• College of Life Sciences and Agriculture
• College of Engineering and Physical Sciences
• Whitmore School of Business and Economics
• School of Health and Human Services
• UNH at Manchester
• Academic Affairs, Library, Financial Aid, Registrar, Student Services

President's Office
• Athletics
• Public TV Station
• Advancement, Foundation and Alumni

Central Administration
• Facilities
• Computer Services
• Business Affairs, Housing, Dining, Conferences, Arena, Bookstore

Research
• Cooperative Extension
• Earth and Ocean Sciences
• Marine Laboratory

...manages standard slate of support processes...

Automated and Standardized
• Payroll: Labor, data entry, audit verification, check distribution and policy
• Personnel Services: Transactions associated with appointments; policy and legal requirements; monitor term positions and employee termination; hiring-related activities
• Petty Cash: Periodic reconciliation, policy, procedures and security considerations
• Purchasing and A/P: Document processing, payment vouchers for invoice/bill payments, compliance, P-Card management and training; service providers and consultation
• Budget: Create, monitor, transfer, and benchmarking activities
• Management Reporting: Fund balances, budget variance analysis, budget forecasting, FTE counts, and monthly quarterly and year-end reconciliations

A Standard State of Core Business Services
Overview of UNH Business Service Center Activities

Standardized but Not Automated
• Travel: Document processing, compliance and consultation
• Customer Training: Payroll, budgeting, A/P
• Grants Management

Neither Standardized Nor Automated
• Customer Liaison
• Operating Procedures: Relating to business functions
• Billing and A/P: Automating A/P a priority

Source: University Leadership Council Interviews and analysis.
Business Centers
Gains within the University Social Contract

...after an orderly migration over four years...

Decentralized Era

374 FTEs

Year Zero

Deans and Staff Asked to "Plan Future"

Moving Decentralized Staff to BSCs

335 FTEs

Year Four

Deans given "two-year notice" on move to BSCs
Staff job descriptions redefined around specific services and transactions
Staff complete IT competency survey
89 internal promotions to BSCs
New BSC employees undergo training
AVP Academic Affairs monitors hiring to prevent backfill

...resulting in recurring millions in attrition-led savings

Savings from Administrative Staff Attrition

Break-Even by Fourth Year

$1.8 M

Year 4

Year 1

$1.1 M

Attrition 24 FTEs 15 FTEs 11 FTEs

Speculating on an End-State Shared Services Model

Breaking the Efficiency-Responsiveness Compromise

1. **Faculty Self-Service Portal**
   - Personalized tracking of teaching, research and HR details
   - Initiate and track routine transactions

2. **Service Helpline**
   - 24/7 concierge center
   - Level 1 support for all administrative services
   - CRM ticketing systems for data capture

3. **Shared Service Center**

4. **Performance Datamining**
   - Root-cause analysis
   - Increase Level 1 resolution rate

5. **Outsource Management**
   - Vendor evaluation
   - Contract management

Higher responsiveness and ease of use...

...with lower, most flexible cost structure

Source: University Business Executive Roundtable interviews and analysis.
Growing Our Way Out
Increased Interest (If Not Yet Transformational Results) from Alternative Revenue Streams

**Traditional Efforts**
- Technology licensing
- Trademark licensing
- Affinity marketing
- Summer programs
- Continuing education programs

**Monetizing Real Estate Assets**
- **Student Residence Sale-Leaseback**
  - *Ohio University* to sell student dormitories to property developer in exchange for cash, discounted long-term lease and promise to assume refurbishment and maintenance

- **Campus within a Campus**
  - *Lasell College* houses retirement community of 230 residents on within campus grounds required to take 450 credit hours with tuition included in rental fees; net income ~$2 M

**Monetizing Cost Centers**
- **IT Hosting Services**
  - *Drexel University* provides ERP licensing, implementation and support to four geographically dispersed liberal arts colleges

- **Library Services**
  - *Johns Hopkins University* provides virtual library and reference desk support services for online university; $1 M in 2008 revenues

**Online Education**
- **Blended Professional Graduate Programs**
  - *New England College* launches niche graduate programs in high-management, health care and education combining online and 10-day on-campus sessions targeting adult student population

- **For-Profit Joint Ventures**
  - *Lamar University* partners with for-profit firm Higher Education Holdings to translate content into online format to be taught by university faculty; estimated $3-4 M in new tuition revenue

Source: University Leadership Council interviews and analysis.
The Vices of Our Virtues

Culture of Shared Governance and Inclusiveness Make Decisive Action Difficult

Selective Private University Task Force Chartered to Bridge $100 M+ Deficit

[Diagram showing a meeting table with various roles such as Trustee, Deans, HR, Labor Union, Provost, Chief Business Officer, Faculty Advisor, Faculty Senate, VP Research, Student Affairs, Student Undergraduate, and 4 Members vs 19 Members.]