2014 Higher Education Industry Outlook Survey

A syllabus for transformation

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THE CHANGING COLLEGE EXPERIENCE

The college degree has long been considered a prerequisite for success. Until recently, the ideal college experience may have conjured up images of verdant campuses and ivy-covered halls. But today, some students may have another vision in mind when it comes to pursuing their diploma.

To be sure, the traditional four-year college is a goal for many, if not most. But economic challenges, competition, technology, and other factors are changing the landscape of higher education. To address these trends, institutions will need to adapt by transforming their business models, including the way they deliver education.

Tuition costs have risen dramatically. According to the College Board, the average published tuition and fees at public four-year colleges and universities increased by 19 percent beyond the rate of inflation over the five years from 2003–2004 to 2008–2009 and by another 27 percent between 2008–2009 and 2013–2014.1 Prices continue to move beyond what many students and their parents can afford. To save money, some students are considering alternatives, such as spending two years at a community college and transferring to a four-year college to complete their degree.

At the same time, those students who are considering a four-year school are becoming more discriminating in their search for the best college experience. School administrators tell us that along with assessing the quality of academic programs, students are weighing the relative strength of a school’s financial-aid package, quality of athletic programs, selection of extracurricular activities, as well as campus housing, food, and other amenities—evaluating the overall student experience in their selection.

These trends are prompting administrators to focus more intently on managing enrollment and competing for students. That will likely lead to schools becoming more focused on and transparent about factors such as graduation rates, student debt burdens, and future employment prospects to facilitate favorable market comparisons.

With declining enrollments comes a reduction in revenue from tuition and fees. This decline, combined with cuts in federal funding, is forcing administrators to search for ways to reduce costs while continuing to deliver quality education.

These are among the challenges voiced by the more than 100 administrators from public and private colleges and universities participating in KPMG’s 2014 Higher Education Industry Outlook Survey. To adapt to these trends, we believe administrators will need to guide their institutions to transform not only how they attract and interact with students, but also their existing business models. Such transformation efforts transcend virtual learning environments; administrators recognize their institutions must deliver education more efficiently and more cost-effectively—with a focus on accountability for outcomes—to make the college experience more affordable and more rewarding for more students.

KPMG’s Higher Education, Research & Other Not-for-Profit (HERON) practice

Milford McGuirt
National Segment Leader

Milford is a senior partner and national segment leader for KPMG’s HERON practice. In this role, he serves as lead partner on key clients and is responsible for enhancing higher education industry market development. His experience covers a variety of clients in the higher education and not-for-profit industries. He has served as a speaker and instructor for professionals outside of the firm including the Southern Association of College and University Business Officers, Georgia Foundation for Independent Colleges – CFO Forum, and Council for Advancement and Support of Education (CASE). He has previously served clients in the financial services, manufacturing, and real estate industries.

David Gagnon
National Audit Leader

Dave serves as national Audit leader for KPMG’s HERON practice. He has 24 years of experience serving private and public higher education clients and is a specialist in applicable FASB and GASB reporting standards and grant and contract compliance. He is coauthor of KPMG’s Today’s Top To-Do’s for Higher Education Audit Committees and a contributor to Strategic Financial Analysis in Higher Education and other KPMG publications. Dave is a frequent speaker at firm- and client-sponsored events, internal and client-focused training sessions, and conferences covering a variety of emerging industry issues and standards. He has also served clients in the real estate and pension sectors.
ENROLLMENT, COSTS, AND COMPETITION

College enrollments have been dropping.

According to the National Student Clearing House, overall college enrollment fell for the second year in a row in 2013, from about 20.2 million students in the fall of 2012 to about 19.9 million in 2013. It’s no surprise, then, that enrollment remains top-of-mind with many college and university administrators.

KPMG’s 2014 Higher Education Industry Outlook Survey found that 85 percent of respondents said they were very concerned or concerned about maintaining current enrollment at their college or university, compared with 71 percent in last year’s survey. Economic issues continue to be a significant factor around enrollment. While some indicators show signs of an improving economy, the survey suggests that many parents and students are struggling to come up with tuition dollars. Among respondents, 66 percent said that parents’ and students’ inability to pay was a major factor affecting enrollment at their institution.

Q: How concerned are you about maintaining current enrollment at your college/university?

- Somewhat concerned: 45
- Very concerned: 4
- Not at all concerned: 11
- Don't know/not applicable: 4

Q: What are the major factors affecting enrollment at your institution?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parents’ and/or students’ inability to pay tuition</td>
<td>66%</td>
</tr>
<tr>
<td>Competition from peer/competitor schools</td>
<td>50%</td>
</tr>
<tr>
<td>Inability to provide sufficient financial aid packages to qualified students</td>
<td>37%</td>
</tr>
<tr>
<td>Changing U.S. demographics</td>
<td>30%</td>
</tr>
<tr>
<td>Students not seeing our university/college as a “hot” institution</td>
<td>24%</td>
</tr>
<tr>
<td>Inability to offer competitive tuition versus peer institutions</td>
<td>23%</td>
</tr>
<tr>
<td>Curriculum not matching job market</td>
<td>10%</td>
</tr>
<tr>
<td>Don’t know/not applicable</td>
<td>2%</td>
</tr>
</tbody>
</table>

(Multiple responses allowed)
EVALUATING MANY OPTIONS

There is also a growing sentiment among some students and parents to evaluate lower-cost options for attaining a college degree.

This may include starting out at community colleges and transferring to a four-year school.\(^3\)

Given this backdrop, it follows that, compared with last year’s survey, fewer respondents are considering raising tuition as an alternative to address cuts in other funding sources (44 percent versus 51 percent). Clearly, institutions understand the price sensitivity of prospective students and the competitive environment of higher education.

Q: As a result of cuts in federal and state funding for higher education and research, which of the following measures have you adopted or are you considering?

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Increasing tuition</td>
<td>44%</td>
</tr>
<tr>
<td>Offering more online courses</td>
<td>43%</td>
</tr>
<tr>
<td>Eliminating programs/disciplines that reflect less demand</td>
<td>28%</td>
</tr>
<tr>
<td>Freezing of salaries of faculty</td>
<td>24%</td>
</tr>
<tr>
<td>Delaying capital projects</td>
<td>22%</td>
</tr>
<tr>
<td>Replacing full-time faculty with part-time and adjunct professors</td>
<td>19%</td>
</tr>
<tr>
<td>Privatizing campus services</td>
<td>18%</td>
</tr>
<tr>
<td>Offering accelerated degree programs</td>
<td>18%</td>
</tr>
<tr>
<td>Layoffs of faculty and staff</td>
<td>17%</td>
</tr>
<tr>
<td>Focusing on programs that reflect effective outcome-based results</td>
<td>7%</td>
</tr>
<tr>
<td>Don’t know/not applicable</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
</tbody>
</table>

(Multiple responses allowed)

Economic issues, however, aren’t the only reason behind these enrollment concerns. The shrinking size of graduating high school classes and other demographic trends are also drivers. With fewer students, competition for incoming freshmen is heating up. Among survey respondents, 50 percent said competition from peer/competitor schools was a major factor affecting enrollment at their institutions. With the increased competition, it seems many students are becoming much more discriminating when making their choice of college or university. Many are casting a wider net, applying to a larger pool of potential schools. Administrators tell us that in addition to judging academic programs, prospective students are evaluating financial-aid packages, athletic programs, extracurricular activities, campus housing, even food options, all as important to the overall student experience.

KPMG perspectives: We believe competition is one of the main factors that will be driving transformation among institutions of higher learning. If a college or university doesn’t offer a student experience that is at least comparable to or better in some way than the next school, it stands to lose points among applicants. And, affirming the importance of first impressions, students and their parents will remember their campus tour and how the school presented itself.

In the years ahead, it is likely that competition also will lead to more collaboration and consolidation, potentially leading to fewer institutions than exist today. We believe institutions will look more critically at themselves to determine where they excel, where they are not as competitive, and how they want to distinguish themselves in the marketplace. That may mean eliminating some programs and focusing on areas of strength.

4 http://www.wiche.edu/pub/knocking-8th-and-supplements
5 http://www.reuters.com/article/2014/04/25/us-column-weston-applications-idUSBREA3D1VU20140425
TRANSFORMATION 101: LAYING THE GROUNDWORK

Faced with the challenges of falling enrollments and increasing competition from other schools, administrators are not standing still.

Forward-looking officials are working to address these issues and laying the groundwork for organizational transformation. As evidenced in our survey results, 46 percent of respondents said their leadership will spend significant energy, time, and resources on student recruitment, followed by 38 percent saying fundraising/capital campaign, and 36 percent indicating technology enhancements.

Q: Looking ahead over the next year, on which initiatives is your institution’s leadership likely to spend significant energy, time, and resources?

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student recruitment</td>
<td>46%</td>
</tr>
<tr>
<td>Fundraising/capital campaign</td>
<td>38%</td>
</tr>
<tr>
<td>Technology enhancements</td>
<td>36%</td>
</tr>
<tr>
<td>Strategically cutting costs through outsourcing, shared services, merging or eliminating programs, etc.</td>
<td>33%</td>
</tr>
<tr>
<td>Building the institution’s brand</td>
<td>25%</td>
</tr>
<tr>
<td>Enhancing the curriculum</td>
<td>21%</td>
</tr>
<tr>
<td>Faculty recruitment</td>
<td>18%</td>
</tr>
<tr>
<td>Identifying alternative revenue sources</td>
<td>17%</td>
</tr>
<tr>
<td>Don’t know/not applicable</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
</tbody>
</table>

(Multiple responses allowed)
Moreover, when asked what steps toward organizational transformation they were taking to address issues such as cost, quality, and access, 53 percent of respondents said improve retention and graduation rates; 50 percent said put more focus on innovative approaches to education delivery, without compromising quality; and 38 percent said eliminate academic programs with lower student demand.

Q: Many institutions, under pressure from policymakers, are embarking on organizational transformation to try to address issues such as cost, quality, and access. Which of the following apply to your institution?

- Improve retention and graduation rates: 53%
- Put more focus on innovative approaches such as online education, without compromising quality: 50%
- Eliminate low demand academic programs: 38%
- Reassess curricula to ensure graduates are prepared for the workplace: 31%
- Better address the conflict between scoring well in national rankings and delivering education efficiently: 28%
- Collaborate certain programs for delivery by other institutions: 22%
- Consolidation and merger with other institutions: 5%
- Don’t know/not applicable: 3%

(Multiple responses allowed)

**KPMG perspectives:** We have observed that the evolving higher education environment has caused institutions to refocus on priorities that align with their mission. These trends are requiring institutions to make a careful self-assessment to determine how their strategy parallels current market demand, as well as regulatory emphasis. To date, many institutions have focused cost-containment measures primarily on administrative functions within the business. Nevertheless, progressive leaders are also reevaluating education delivery and program execution in academic and research enterprises. Challenges to these cost-containment reforms, however, continue to mount in the form of increasing regulatory compliance, technology enhancements, and maintenance of key metrics such as student-teacher ratios to maintain academic quality rankings, among other factors.

Transformation recognizes that in the current environment, schools can no longer be all things to all students, and that those programs and attributes that made them successful in the past may not work the same way in the future. Colleges and universities will have to determine what will be their differentiator in the marketplace. What do they want to be known for? In which areas are they or can they be best-in-class? And what kinds of investments are needed to maintain or achieve that distinction? Schools may want to be comprehensive educational and research enterprises, but they should also want to compete where they can be market leaders. This will require the collaborative engagement of boards and academic and administrative senior management; a willingness to embrace and foster cultural change; and listening carefully to key stakeholders such as students, donors, investors, alumni, and employers that recruit from campuses.
Schools will need to offer new ways to deliver educational content, attract students, and change their overall business models to operate more efficiently and effectively.

In fact, some students aren’t waiting for their schools to act. The New York Times reports on students on campuses around the country who have created “faster, easier-to-navigate, more informative and generally just better versions of the information systems” deployed at their schools to help them choose their course schedule for the upcoming semester. These developments illustrate how pressing the call for new technology can be.

Our survey suggests that administrators do appear to be aware of this need, with 63 percent of respondents saying increased spending to keep up with changes in technology was top on their list of actions to keep up with current trends.

Q: A number of broad trends have emerged in the educational marketplace, e.g., increased use of technology, consumer demand for more educational delivery models, pressure to reduce tuition costs, etc. In response, many institutions are modifying their business models. What changes are taking place at your institution to respond to these trends? My institution is:

- **63%** Spending more to keep up with changes in technology
- **53%** Making more course offerings available online
- **48%** Considering hybrid educational delivery models with virtual learning environments
- **42%** Spending more to create curricula and content
- **38%** Diverting resources to meet the growing demand for online course offerings
- **4%** Don’t know/not applicable

(Detailed Findings: 2014 Higher Education Industry Outlook Survey)
KPMG perspectives: In many ways, technology sits front and center in the realm of higher education. It is embedded in just about every business process—from enrollment, delivery of curricula, administration, research, and alumni outreach. Therefore, leveraging new technology is key to transforming the college or university to operate at higher levels of efficiency. However, there are caveats. New technology can be costly. Risks, such as security breaches, with the potential disclosure or theft of personal information, are a real threat. And from the standpoint of the higher education culture, faculty and staff may be resistant to accepting new technology.

In addition to updating their school’s operations, administrators are looking at technology to provide new ways to deliver course content—or at least offer an alternative. Not long ago, online retailers forced “brick and mortar” stores to reassess their business models and expand their presence on the Internet. Likewise, more colleges and universities are beginning to establish hybrid educational delivery models with virtual learning environments. In our survey, 53 percent of respondents said they were making more course offerings available online, while 48 percent said they were considering alternative educational delivery models.

Hybrid classes offer a promising new way to deliver course content that in some ways offers the best of both worlds. The classes would offer part of the content—the lecture, for example—online. Other aspects of the class—team projects, group discussions—would be held in the classroom. Hybrid classes capitalize on today’s student’s comfort with technology. They also give students the ability to absorb the information at their own pace and in a manner that suits their own learning style.

Nevertheless, many educational leaders have expressed strong sentiment that nothing can substitute for the learning experience that students attain from being on campus and engaging with professors and fellow students. Therefore, in creating these new models, colleges and universities are working through credentialing for students engaged in online programs compared with traditional learning settings. For example, will an online course available to the public as continuing education carry the same weight academically and in the marketplace as course content offered within a classroom setting within a degree program?
It can be said that social media was born on the college campus.

On February 4, 2004, Mark Zuckerberg and his fellow Harvard University students Eduardo Saverin, Andrew McCollum, Dustin Moskovitz, and Chris Hughes, founded Facebook. On Valentine’s Day of that year, a letter from the organizers to all Harvard students read: “We are excited to announce the introduction of Facebook to Harvard College. Facebook is a site for finding people from Harvard. As you can see, it is designed to be used within the context of Harvard College. We hope you will enjoy it.”

Today, most students, armed with their laptops, smartphones, and tablets, are experts at Facebook, Twitter, and Instagram. As one of the most revolutionary technological innovations of the past decade, social media is a powerful means to communicate, particularly with the younger generation.

College and university administrators are recognizing the potent ally social media can be to reach their audience, with 50 percent of survey respondents saying they were leveraging social media to better communicate with current and prospective students.

However, the prevalence of social media carries significant potential risks—one of them being students’ very well-being. A few years ago, a college student committed suicide after discovering his roommate had secretly used a webcam to stream his romantic encounter with another man over the Internet. Heightening the atmosphere of concern, recent media focus on incidents of sexual assault and harassment on campus have pushed campus security—both physical and virtual—to the attention of the boards of trustees, U.S. Department of Education, students, and families. Our survey asked respondents what issues related to social media have arisen at their schools: 46 percent cited online harassment/cyberstalking, 43 percent said online postings that compromise campus security, and 39 percent said the theft of personally identifiable information (PII).

Q: Social media outlets used by college students can cause unforeseen problems for institutions and their students. Which of the following has been an issue at your institution?

- Online harassment/cyberstalking: 46%
- Online postings that compromise campus security: 43%
- Theft of PII (personally identifiable information): 39%
- Damaging leaks to news media outlets: 26%
- Don’t know/not applicable: 18%
- Flashmobs/student protests: 7%
- Other: 2%

(Multiple responses allowed)

[7] http://www.businessinsider.com/how-facebook-was-founded-2010-3#we-can-talk-about-that-after-i-get-all-the-basic-functionality-up-tomorrow-night-1
THE CLOUD AND SECURITY

Aside from social media, our respondents indicated they are focused on other areas of technological change and innovation. Forty-nine percent said their technology plans included leveraging cloud-based solutions, which includes various disruptive technologies that expand opportunities. Significantly, only 43 percent of respondents indicated that they would be investing in better information assurance/data integrity initiatives.

Q: Technological change and innovation are major challenges for higher education. Which of the following apply to your institution?

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leveraging social media to better communicate with current and prospective students</td>
<td>50%</td>
</tr>
<tr>
<td>Leveraging cloud-based solutions</td>
<td>49%</td>
</tr>
<tr>
<td>Investing in better information assurance/data integrity initiatives</td>
<td>43%</td>
</tr>
<tr>
<td>Investing in a major enterprise resource planning system for purposes of better managing student information and business support functions</td>
<td>39%</td>
</tr>
<tr>
<td>Expanding our focus on disaster recovery and business continuity planning</td>
<td>19%</td>
</tr>
<tr>
<td>Don't know/not applicable</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
</tbody>
</table>

(Multiple responses allowed)

KPMG perspectives: Owing to its popularity among young people, social media has become a major area of focus for colleges and universities as well as the source of significant potential risks. Some institutions may have jumped on the social media bandwagon without fully assessing security needs. They are now discovering that they are not as well-protected as they may have thought. It is crucial that these institutions enact policies, procedures, and systems to ensure students and systems are safe. Actively monitoring social media networks and establishing an appropriate governance framework are key elements to effective management. This effort includes implementing security policies to protect students from being harassed online to safeguarding their personal information within the school’s IT systems. Refining policies to use social media to connect the campus community, as well as promote the institution with external constituents, remains a great opportunity.
KEEPING PACE WITH THE EVOLVING LANDSCAPE

The landscape of higher education is evolving faster than ever. The 2014 industry survey demonstrates the pressure on institutions to transform to meet these environmental changes. That means transforming the business model to optimize administrative costs, exploring opportunities for alternative revenue sources, and changing educational delivery models.

To achieve this transformation, here are some key points we believe college and university administrators should consider:

- Technology remains front and center in higher education. Leveraging new technologies is key to transforming the college or university to operate at higher levels of effectiveness and efficiency. However, institutions must also remain focused on security and other risks.

- Social media offers both opportunities and challenges. It is a potent ally in communicating with students and alumni. But it is crucial that institutions enact policies, procedures, and systems to ensure students and data are adequately protected.

- Competition for students means institutions will need to determine what they do well and how they want to distinguish themselves in the marketplace. That will likely mean prioritizing those programs where there is an opportunity to be a market leader.

- Virtual learning environments are gaining in popularity as an effective approach to education delivery. Millennials are comfortable with the use of technology and will expect a learning environment that enhances their ability to attain relevant knowledge and skills to compete in the current global economic environment.

Evidence shows that educational attainment is a key factor in distinguishing an individual’s long-term socioeconomic well-being. Higher education leaders will have an important opportunity in the next several years to influence the profile of individuals as they mold the future leaders of the United States and the world. The market leaders in higher education will be those that embrace the challenge to pivot to a strategy of innovation and growth with agility and steadfast focus.

KPMG’s commitment to higher education, research, and other not-for-profit organizations began shortly after the firm was established. In fact, KPMG was the first major professional services firm to develop a Higher Education, Research & Other Not-for-Profit (HERON) practice. For decades, our dedicated HERON practice has served the higher education and not-for-profit organizations as audit, tax, and business advisers. Our Higher Education practice constitutes one of our significant industry practices, with more than 1,500 professionals nationally.

KPMG’s 2014 Higher Education Industry Outlook Survey reflects the viewpoints of 120 senior executives in the United States. The survey was conducted in July 2014.

About KPMG

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We serve more than 200 colleges and universities across the country, and our professionals have been educated throughout their careers on the issues and challenges of higher education. Our deep experience provides our professionals with valuable insights to help higher education leaders address the critical issues they face in a rapidly changing industry.