Case Study: Public multicampus university

Understanding the financial impact of academic programs

Academic program margin analysis

**Client background**
A public, multicampus university system retained McGladrey to collaborate with one of the universities in their system. The university has over 9,000 students from more than 40 U.S. states and over 30 countries, and offers over 100 areas of undergraduate and graduate study.

**Challenge**
The current financial landscape for higher education is challenging. State funding has decreased, private donations have diminished and enrollments have declined, yet for many universities, operational costs continue to rise. McGladrey’s client found themselves in an economic downturn with a $16 million budget deficit, and an urgent need to make strategic adjustments, but their processes and systems did not produce meaningful academic margins reporting for the various academic programs and departments to support a proper academic review.

Identifying accurate academic financial contributions can be a complex task, and it is often misunderstood within the industry. Historically difficult to calculate, McGladrey’s client needed strategic insights showing financial contributions by academic department and academic program.

**Solution**
McGladrey deployed a team with process improvement, accounting, financial modeling, data governance and higher education industry knowledge with the objective of creating an efficient and repeatable process to assess academic margins.

Through effective collaboration with university leadership, as well as staff from the business office, academic departments, registrar, admissions and financial aid, the team successfully designed a model and subsequently built a live tool to allow for academic margin analysis at the program and department levels.

Armed with this in-depth reporting, the university’s leadership was able to make intelligent decisions and perform powerful “what-if” scenarios related to program viability, student recruiting requirements, tuition adjustments, instructor needs, as well as their capacity to deliver on their academic mission.

**Findings and results**
McGladrey succeeded in developing an enhanced process and model that allowed the client to make timely and informed strategic decisions. Specifically, McGladrey delivered the following key outcomes:

- Provided contribution margins across a number of attributes, including the academic department, academic program, instructor, and student type, providing line of sight into fixed and variable costs.
- Developed a sustainable process to evaluate academic financial contributions in the future.

These data points, although one of many aspects to consider when evaluating the school’s strategy, helped to support certain immediate program adjustments, including discontinuation of certain programs.
McGladrey’s work also uncovered the following insights:

- Academic revenues were not properly tied to corresponding direct and indirect costs.
- The current methods and tools used for evaluating financial performance did not provide data for important attributes.
- A sustainable data governance program was needed to help define terminology and drive consistency across data sets and schools.

McGladrey was able to identify go-forward requirements to improve system-wide data directly supporting the core revenue and cost generating activities of the university’s academics. In addition, McGladrey provided a new perspective allowing the university to immediately identify several cost savings initiatives in academic programs and through other strategic staffing changes necessary to close their current budget deficit.