



Education
Advisory
Board

Business Affairs Forum

Efficiency and Effectiveness Initiatives

What Business Leaders Should Know About Higher
Education's Million-Dollar Consulting Engagements

Research Briefing

A Booming Business for High-End Consultants

Once unheard of, dozens of colleges and universities have retained external consultants to conduct extensive efficiency audits since 2008. Across the industry, the recent recession triggered state funding cuts, declines in giving and research funding, and increased tuition dependence. The resulting internal and external pressure to shore up costs and operations led some university leaders to seek outside help for the first time, costing institutions millions of dollars.

Interestingly though, many of the consultancies called upon to examine all-campus operations lacked any formal higher education practice only a few years before. But several quickly grew their industry presence to meet burgeoning demand.

So far, **results are mixed**. No doubt, the increased scrutiny and extra effort led to real savings at many institutions that would have otherwise not been realized. Yet savings have also proven much tougher to achieve than consultants expected, and most schools have fallen short of initial goals.

This briefing outlines the key lessons from these consultant engagements. All colleges and universities can learn from these initiatives, both successes to emulate and mistakes to avoid. The goal of this report is to provide business leaders guidance on where the majority of potential savings lie and tactics to pursue them, and more importantly, eliminate the need for an extensive (and expensive) outside audit.

Detailed Analysis of 21 Unique Engagements

This research briefing is based on consultant engagements and resulting cost-reduction initiatives at 21 distinct colleges and universities. Throughout, we highlight financial data, cost reduction targets, and implemented savings tactics, but do not attribute data to individual institutions. However, a full list of the 21 colleges and universities, the consultants they utilized, and the scope of their respective engagements can be found starting on page 18.

Key Lessons Learned from the Million-Dollar Consulting Engagements





Consultants' Recommendations Highly Similar Across Institutions

Different campuses, different financial circumstances, different consultancies—yet only one playbook. Across dozens of engagements, each of the consultants' final reports offered highly similar guidance on how much could be saved and where to focus.

The vast majority of identified savings at each institution came from the same five administrative functions and one opportunity (organizational redesign) that cuts across all central administration. Dollar estimates for these areas were also relatively consistent across campuses. As an example, the charts on the facing page highlight three similar-sized universities and identified “base case” savings provided by their respective consultants. While certainly not identical, the dollar figures are surprisingly similar given unique campus conditions and different starting points.

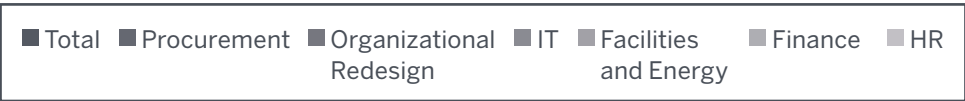
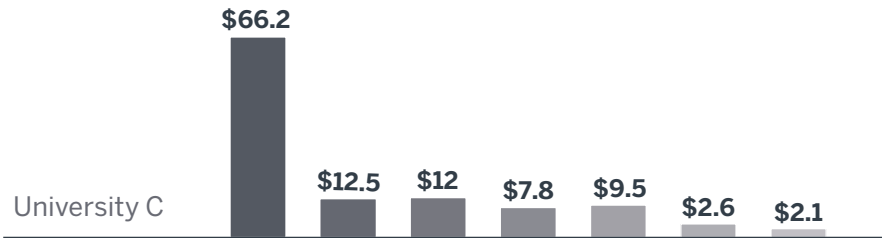
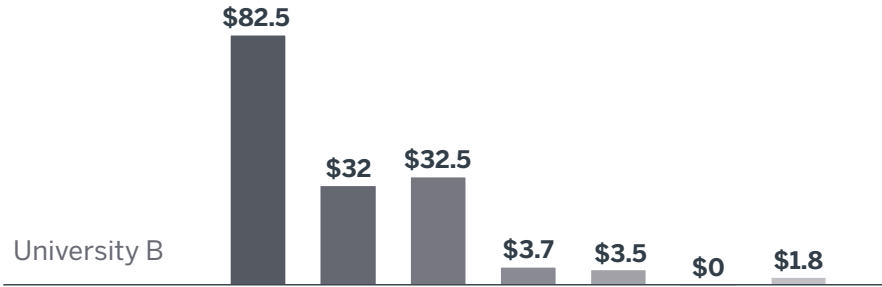
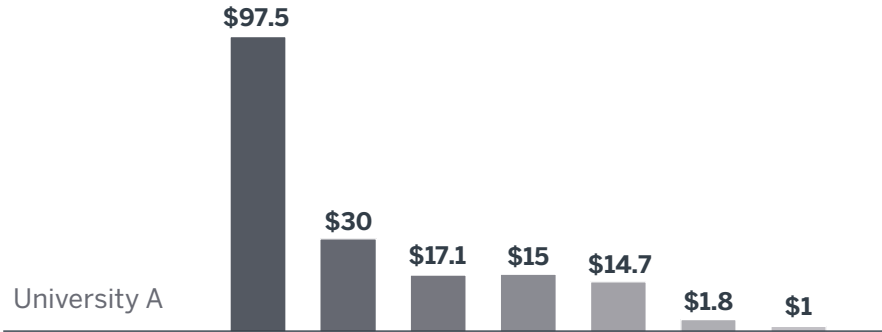
Moreover, consultants offered essentially the same set of tactics to achieve these savings. For instance, nearly all final reports contained recommendations to automate HR processes, consolidate preferred vendor contracts, centralize particular IT services, and retrofit equipment to reduce energy consumption.

Comprehensive Efficiency and Effectiveness Diagnostic

The self-diagnostic and complete list of tactics can be found starting on page 24 of this report.

Therefore, institutions can gain much of the same benefit of an external audit by simply assessing themselves against this common battery of tactics. Cost-reduction strategies listed in the consultants' reports are organized into a **single diagnostic** in this briefing. University leaders can examine this list of tactics to determine where they are performing ahead of industry and where they may have further opportunity.

Consultants' Identified "Base Case" Savings (in Millions)



*Items do not add up to total column due to a hidden "other" category.

LESSON #2

Savings Meaningful, but **Less Than Promised**

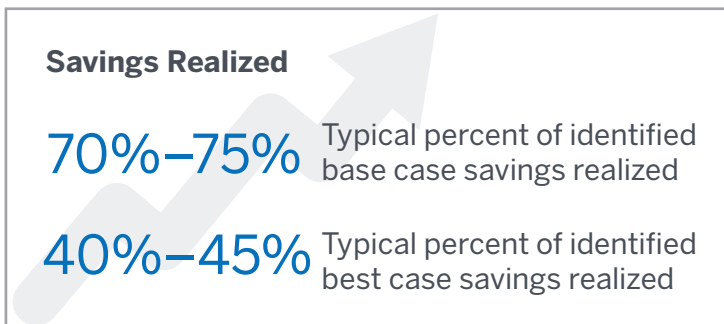
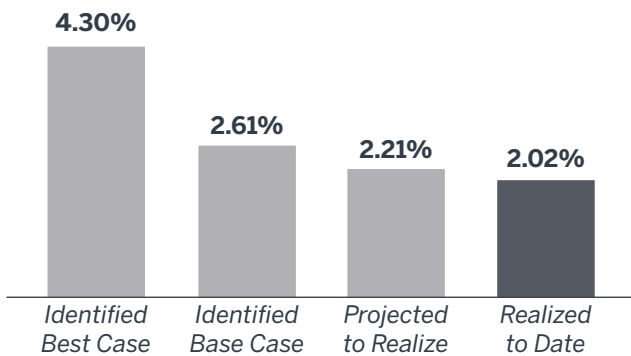
Following consultant-led efficiency and effectiveness audits, all 21 colleges and universities implemented some combination of recommended tactics and realized meaningful savings. Actual dollars saved varied by institution, but most schools reduced costs by approximately 2% of their total operating budget. Taking into account projections for initiatives still under way, most institutions anticipate savings will rise to 2.2% of operating budget—unquestionably a worthwhile goal.

By comparison, though, consultants typically provided base case savings estimates near 2.6% of operating budget, meaning most institutions have realized only 70% to 75% of identified savings. Moreover, “best case” savings estimates were approximately 65% greater than base case and more than 4% of operating budget. So, institutions have achieved only about 40% of best case estimates.

In fairness, each consultant advised their clients that estimates represented ceilings, and institutions were unlikely to realize the entire figure. However, it became clear that consultants did not fully appreciate the complexities of higher education. For example, consultants sometimes targeted “savings” attributable only to grants, which obviously would not impact the bottom line. Institutions could not implement other recommended savings tactics at all because of regulatory constraints, such as consolidating state-controlled research centers.

Similarly, many institutions report consultants did not understand the political difficulties of some of their recommendations. For example, consolidating or centralizing departments is much easier to accomplish in the corporate settings consultants are accustomed to, but much more difficult in the shared governance culture of higher education.

Aggregate Savings as a Percentage of Operating Budget



Labor Comprises Vast Majority of Identified Savings

Labor is 65% to 70% of the operating budget at most colleges and universities. Not surprisingly, labor comprised an equally large proportion of potential savings identified by external consultants. Across the institutions analyzed, approximately 60% to 65% of all identified savings opportunities depended on reducing labor costs in some way.

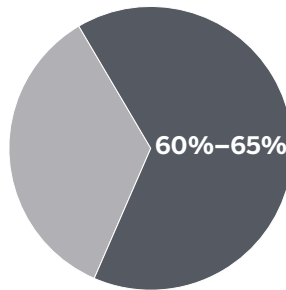
In fact, recommended savings tactics in essentially all functions touch on labor. In IT, for example, only a portion of savings stemmed from actual technology changes such as server updates or hardware maintenance. Instead, most centered on consolidating staff and offices, reducing hours, and migrating to shared-service clusters.

In back-office functions such as HR, finance, and accounting, consultants identified automation as a key driver of potential cost reduction. But of course, automation only leads to immediate savings if it supplants labor that previously performed the same work manually.

Even most of the savings in research centers and institutes, identified as an area of opportunity for some institutions but not all, depend on labor changes. Leaders can shed some costs by simply reducing central subsidies to research centers. The bulk of potential savings, though, would come from consolidation and elimination of support staff.

Notably, there are two exceptions to this trend. Savings tactics in procurement and energy are mostly independent of labor. Not coincidentally, institutions have pursued these two opportunities more aggressively than others, avoiding the potential political challenges of adjusting labor.

Percentage of Identified Savings That Depend on Reducing Labor Costs



Labor-Related Saving Strategies by Function



IT

- Central staffing pools
- Service clusters
- Call center hour reduction



Finance

- PeopleSoft automation
- Staff co-location
- Shared service center



HR

- Payroll automation
- Integration with student services
- Shared service center



Facilities

- Zone management system
- Integration with housing operations
- Overtime reduction



Procurement



Energy

Little dependence on labor costs

LESSON #4

Savings Closest to Faculty Hardest to Achieve

While most institutions have realized close to 70% to 75% of identified savings overall, success rates within individual functions vary much more widely. Somewhat expectedly, initiatives closest to faculty's day-to-day activities have fared the worst.

Many consultants failed to account for the political realities of shared governance, but faculty resistance has greatly impacted progress so far. Some business leaders earnestly began savings initiatives as proposed by consultants, but later ran into severe resistance and internal pressure. Other leaders shied away from certain strategies from the beginning, anticipating internal resistance would eventually hamstring efforts.

The graph on the facing page demonstrates the close connection between impact on faculty and ability to realize savings. Recommended changes to the back-office functions of finance and HR touch faculty the least, and institutions have realized more than 80% of base case estimates for both.

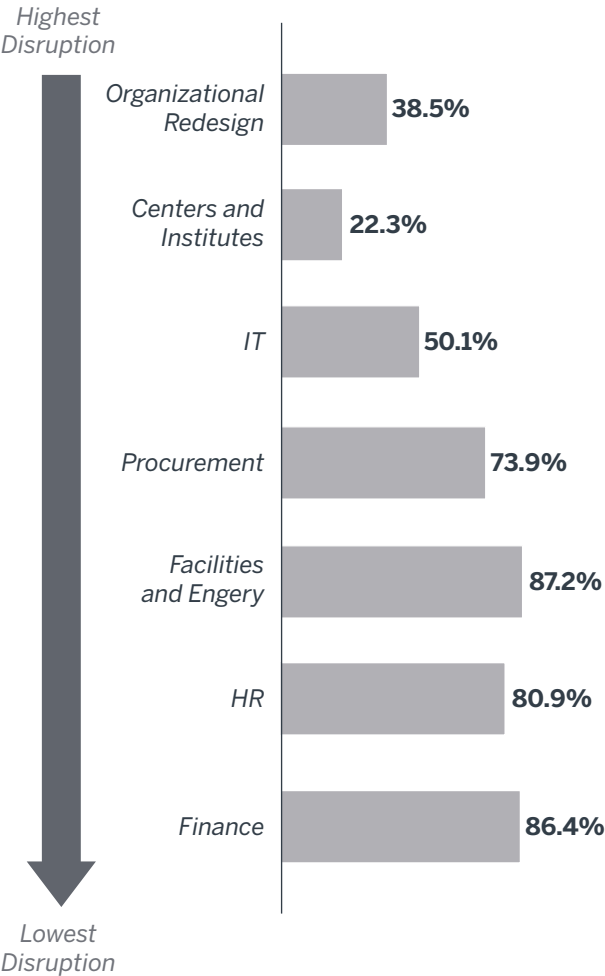
Efforts in facilities and energy have been the most successful, with the 21 colleges and universities realizing nearly 90% of identified savings. Institutions have pursued energy-efficient retrofits or migrated to zone management systems, often without faculty noticing.

On the other end of the spectrum, research centers and institutes remain a third-rail issue. The two largest opportunities are reducing central subsidies and creating shared support services across centers. So far, institutions have struggled to do either, realizing less than a quarter of identified savings.

Finally, organizational redesign would have the greatest impact on faculty and staff, and institutions have struggled to achieve associated savings. Note, the aggregate performance is not the lowest of all opportunities, partially because a few institutions have aggressively pursued this approach.

Aggregate Percentage of Identified Savings Realized by Function

Rated by Disruption to Faculty



Organizational Redesign Offers Largest Savings, but Is Unpalatable at Most Institutions

For almost all of the 21 colleges and universities, consultants identified organizational redesign as the largest savings opportunity. While somewhat broad, these recommendations boiled down to two types of strategies:

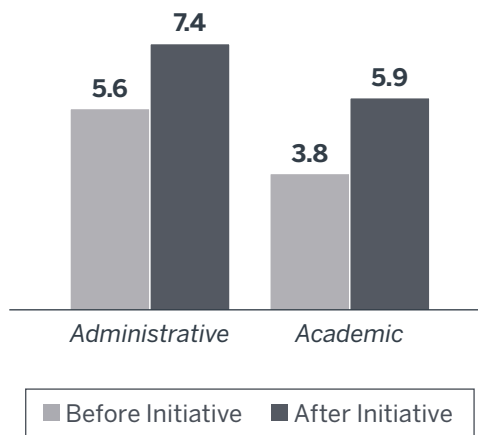
- **Shared Services.** Institutions create centers or clusters of staff serving multiple colleges or departments to provide administrative services previously performed by generalists within colleges. Potential savings come from consolidation of staff and economies of scale.
- **Spans and Layers Analysis.** Institutions reorganize management staff to increase spans of control and reduce number of management layers. Potential savings come from more efficient use of staff and reduced management costs.

Most institutions have not pursued these areas as intensely and, as a result, have realized only a portion of the identified savings.

There are exceptions, however. One university in particular implemented a spans-and-layers initiative, with noteworthy success. In contrast to across-the-board cuts, the approach provided a single span of control standard for like units to work toward. This allowed already lean units to make only moderate adjustments, while less efficient units worked hard to streamline operations.

Ultimately, this university increased spans of control by almost a third in administrative units and by more than half in academic units, resulting in \$19.3 million annual savings. This demonstrates that, while not right answer for every institution, this approach is applicable in higher education and can lead to significant savings.

Span of Control Ratio at Select University



Results of Spans-and-Layers Initiative

\$19.3M Annual savings from reorganization

78% Percent of managers with three or more direct reports

Procurement a Prime Opportunity at Nearly All Institutions

Likely not news to most college and university business leaders, consulting engagements confirmed that procurement is a ripe opportunity for cost savings. Notable findings include:


- **Top Two in Potential Dollars.** Consultants typically identified procurement as the second largest base case savings opportunity, behind only organizational redesign. And at a few institutions, procurement was actually the largest identified savings.
- **Number One in Real Dollars.** More importantly, procurement accounts for 33% of realized savings, more than any other function or opportunity.
- **Achievable Savings.** Institutions have realized approximately 74% of the savings attributable to procurement, one of the highest “return rates” among administrative functions.
- **Relatively Quick Return.** Some institutions fell below their first-year targets in procurement. But most exceeded targets in the second and third years, more than making up for shortfalls in year one.

Beyond these specific findings, changes in procurement have only moderate impact on faculty’s day-to-day activities and do not require labor cost reductions. For these reasons, we recommend all business leaders aggressively pursue procurement savings at their institution.

Successful institutions have largely pursued two strategies to realize procurement savings. First, in the preferred vendor strategy, the institution and vendor cooperate to channel as much volume as possible to the single, preferred vendor. This maximizes business for the vendor and discounts for the college or university. Second, in the competing vendors strategy, institutions encourage vendors to compete against each other for lowest price.

Leaders need not apply either strategy en masse across campus, and should instead utilize different strategies for different types of items. More detail is provided below.

Two Strategies to Negotiate Lower Pricing from Vendors

Strategy	 Preferred Vendor Strategy	 Competing Vendors' Strategy
Capsule Description	Vendor and institution cooperate to channel volume to preferred providers	Vendors compete with each other to offer buyers the best price
Items Best Applied To	Commodity goods (such as office supplies) where purchase mandates can shift volume	Preference items (such as scientific equipment or computers) where mandates are less effective but buyers are cost conscious
Required Market Share	Existing market share for goods to be sourced must exceed 75%; this allows the institution to credibly claim they can shift spend toward winning vendor	Spend for good should be consolidated across three vendors or fewer per category
Required Technology	Requires ability to track spend patterns on campus by category to monitor contract compliance	Requires pricing-enabled eCatalog (e.g., SciQuest) with pricing data feeds from all category suppliers

Inventory of Analyzed **Consulting Engagements**





Inventory of Analyzed Consulting Engagements

The following pages detail the 21 colleges and universities analyzed across this report, the consultancies they utilized, and the scope of their respective initiatives.

Advancement
Athletics
Centers and Institutes
Dining
Enrollment Management
Facilities and Energy
Finance and Accounting
Financial Aid
Housing

Accenture

Indiana University								
Miami University of Ohio					✓	✓	✓	
University of Maryland System					✓	✓	✓	
University of Michigan, Ann Arbor						✓	✓	

Bain & Company

Cornell University		✓	✓	✓		✓	✓	
University of California, Berkeley						✓	✓	
University of North Carolina, Chapel Hill			✓			✓	✓	

Ernst & Young

University of California, San Francisco			✓				✓	
University of North Carolina System							✓	✓

HR IT Legal Libraries Marketing and Communications Organizational Redesign Parking and Transit Payroll Procurement Public Safety Student Services

✓				✓			✓			✓
	✓				✓			✓		
✓	✓							✓		
	✓				✓			✓		

✓	✓			✓	✓			✓		
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		✓					✓	✓		✓

Advancement
 Athletics
 Centers and Institutes
 Dining
 Enrollment Management
 Facilities and Energy
 Finance and Accounting
 Financial Aid
 Housing

The Hackett Group

Central State University							✓		
University of Toledo							✓		

Huron Consulting Services

Drexel University	✓				✓	✓	✓	✓	
Ohio University							✓		
University of California, Los Angeles	✓		✓			✓			
University of Illinois							✓		
University of Kansas			✓		✓	✓	✓		
University of Minnesota									
University of Wisconsin, Madison			✓			✓	✓		

McKinsey & Company

University of Connecticut		✓				✓	✓		
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PricewaterhouseCoopers

University of Manitoba			✓			✓			
University of Saskatchewan									

HR IT Legal Libraries Marketing and Communications Organizational Redesign Parking and Transit Payroll Procurement Public Safety Student Services

	✓									

✓	✓							✓		✓
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				✓				✓		

Comprehensive **Efficiency and Effectiveness** Audit





Comprehensive Efficiency and Effectiveness Audit

The following diagnostic consolidates the recommendations of multiple consultant engagements, largely supplanting the need for an external audit. College and university leaders should examine this list of tactics to determine where they are performing ahead of industry and where they may have further opportunity for improvement.

Centers and Institutes

Savings Tactic

Difficulty¹

Migrating Toward Shared Administration

Create shared research equipment pool	2	<input type="checkbox"/>
Hire a dedicated center launch specialist	2	<input type="checkbox"/>
Organize grant writers into single central pool	2	<input type="checkbox"/>
Consolidate center and institute back-office infrastructure	3	<input type="checkbox"/>

Reducing Center Subsidies

Conduct formal inventory of all centers to determine which merit certification	3	<input type="checkbox"/>
Create mechanism for sunseting centers	3	<input type="checkbox"/>
Develop policies for seed funding expiration	3	<input type="checkbox"/>
Recalibrate criteria for institutional support of centers and institutes	4	<input type="checkbox"/>

1. Implementation difficulty rated on scale of 1 to 4, with 4 representing the most difficult tactics to implement. This measure includes time and resources required as well as potential internal political challenges.

Facilities and Energy

<i>Savings Tactic</i>	<i>Difficulty</i>	
Managing Energy Utilization		
Implement seasonal adjustments and temperature set points	1	<input type="checkbox"/>
Recommission buildings (e.g., steam traps, dampers, ventilation)	2	<input type="checkbox"/>
Upgrade lighting and HVAC (e.g., sensor controls, chillers, variable frequency drives)	2	<input type="checkbox"/>
Reorganizing Facilities Staff & Service Delivery		
Adopt work order software and mobile technologies	2	<input type="checkbox"/>
Establish dispatch function that prioritizes jobs	2	<input type="checkbox"/>
Implement productivity standards to increase worker deployment and productivity	2	<input type="checkbox"/>
Redesign project management and work process to increase productivity	2	<input type="checkbox"/>
Consolidate maintenance teams to increase spans of control and reduce management layers	3	<input type="checkbox"/>
Implement zone management system	3	<input type="checkbox"/>
Optimizing Space Utilization		
Track classroom and office space use and productivity	2	<input type="checkbox"/>
Centralize management of classroom space	3	<input type="checkbox"/>
Develop office space standards	3	<input type="checkbox"/>
Create space “chargeback” to spur most efficient use	4	<input type="checkbox"/>
Reduce unnecessary section offerings to increasing classroom utilization	4	<input type="checkbox"/>

IT

Savings Tactic

Difficulty

Consolidating IT Supply

Create central software distribution portal to increase usage of licensed applications	1	<input type="checkbox"/>
Create application development standards	2	<input type="checkbox"/>
Define common good bundle	2	<input type="checkbox"/>
Implement single, standardized product for webpage design and maintenance	2	<input type="checkbox"/>
Move to single identity management system	2	<input type="checkbox"/>
Standardize classroom technology that IT configures and supports	2	<input type="checkbox"/>
Consolidate servers and storage	3	<input type="checkbox"/>
Consolidate email and calendar systems	3	<input type="checkbox"/>
Create shared printer pools	3	<input type="checkbox"/>
Move to single course management system	3	<input type="checkbox"/>

Reorganizing IT Staff & Service Delivery

Create fractional staff pools	2	<input type="checkbox"/>
Implement flexible supervisory spans	2	<input type="checkbox"/>
Reduce off-hours IT support	2	<input type="checkbox"/>
Centralize IT capital planning	3	<input type="checkbox"/>
Formalize IT governance	3	<input type="checkbox"/>
Migrate desktop and server support for subscale units to shared service center	3	<input type="checkbox"/>

Organizational Redesign

Savings Tactic

Difficulty

Rightsizing Administrative Staffing Levels

Centralize position control and vacancy review for administrative positions	3	<input type="checkbox"/>
Develop local-central partnerships for management of local staff	3	<input type="checkbox"/>
Deploy unit-level span-of-control target	4	<input type="checkbox"/>
Migrate to administrative shared service centers	4	<input type="checkbox"/>

Procurement

Savings Tactic

Difficulty

Aggregating Demand and Negotiating Better Prices

Develop minimum-order policies (e.g., office supply minimum order of \$50)	1	<input type="checkbox"/>
Expand inventory of preferred vendor contracts	1	<input type="checkbox"/>
Develop common purchasing standard for commodity goods	2	<input type="checkbox"/>
Implement staff-only purchasing mandates for commodity goods	2	<input type="checkbox"/>
Launch cross-functional strategic sourcing teams	2	<input type="checkbox"/>
Develop purchasing alliance with other institutions	3	<input type="checkbox"/>
Utilize reverse auctions to source commodities	3	<input type="checkbox"/>
Reduce number of vendors and consolidate purchases to increase negotiation leverage	4	<input type="checkbox"/>

LEARN MORE

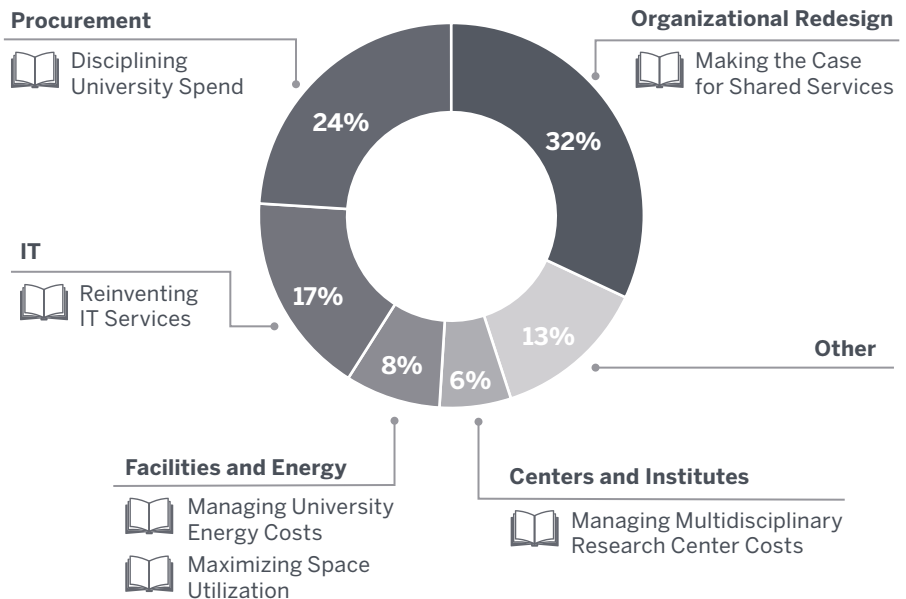
The Business Affairs Forum's Efficiency and Effectiveness Library

To further assist members in achieving meaningful savings, we offer a host of resources on administrative efficiency and effectiveness. Our library contains extensive research on each of the identified savings opportunities, with detailed best practice solutions and implementation guidance to realize greater efficiencies, service, and cost savings.

Members can electronically access or order hard copies of any of these materials at eab.com. To learn more about our research or services, please contact your dedicated advisor.

Typical Breakdown of Identified Savings by Function

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