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*An Occasional Paper*

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## The 24

Understanding the Metrics That Matter Most to Trustees

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I recently had the opportunity to lead a strategic planning retreat for the board of a small Midwestern college. The retreat began with a series of PowerPoint presentations by college administrators on their respective areas. Most of the charts contained graph after graph of numbers that were both difficult to read and difficult to fathom.

At the outset, most board members conscientiously tried to follow the presentations. As time marched on, their interest clearly waned. It was during a slide on the concrete contingency fund that the board chair gave me a quick look and shook his head.

During a short break he met me with a question: “I understand all of these numbers are important, but which numbers should we, as a board, focus on?”

He went on to say, “In light of today’s tough economic challenges, what we need is a short list of metrics that we can use to consistently monitor our health and determine whether or not we are making progress.”

Over the past couple of months I have talked to a number of board members and college administrators and developed a set of 24 metrics that I believe provide the insight, particularly the financial insight, that boards need to help lead and manage their institutions. To help facilitate understanding, I organized the 24 metrics into six broad, but sometimes overlapping, categories:

- Strategy
- Financial
- Academic
- Marketing
- Recruiting and retention
- Fundraising

The majority of these metrics can be easily measured. The exception is the first category: strategy. Interestingly, while it is generally easy to identify the components of a sound strategy, it can be surprisingly difficult to isolate why some strategies fail to gain traction. However, we will frame four “insights” that should help you determine whether or not you are on the right track.

### THE 24

#### STRATEGY METRICS

Earlier I mentioned that while most metrics are quantifiable, the metrics dealing with strategy tend to be more qualitative.

#### First, is your vision compelling?

Institutions saddled with a poor vision generally have difficulty attracting the resources—students, donors, faculty and staff, and trustees—they need to not only survive, but flourish.

First, not all metrics can be precisely premeasured. However, I know that great visions attract resources. If enrollment is off, the alumni are not giving, and the capital campaign has stalled, I can conclude, at least at one level, that the vision is not compelling.

Second, it is important to monitor your metrics over time. A one-time look is a snapshot—interesting, but often lacking context. Far more useful is a movie—a look at a consistent data point over time.

Third, focus on a single, small set of peer institutions. As a trustee, you know that colleges love cohorts, benchmarks, and peer groups. A problem arises when a college uses multiple cohorts. For example, you might use one set of schools to compare recruiting costs, another to compare staff salaries, and a third to compare the size of the library collection. Settling on a single cohort of institutions will help make your comparisons more meaningful. These comparisons, coupled with longitudinal data, give you a rich sense of both place and progress.

### **Second, does your vision differentiate you from your competitors?**

This is pivotal. Too often, colleges make strategic decisions—in the pursuit of more and better—that actually make them more like their competitors rather than different from their competitors. A lack of meaningful differentiation is one the biggest challenges facing higher education.

### **Third, has the senior team identified and developed a plan to deal with the five obstacles that are preventing you from achieving your vision?**

For the most part, this is the purpose of the strategic plan. Of paramount concern is that your strategic plan be short, clear, focused, and funded.

### **Fourth, have you quantified institutional success?**

Some common indicators include a balance of positive cash flow, graduation rates, retention of faculty and staff, and strong and increased giving.

## **FINANCIAL METRICS**

A colleague and college board member, Lucie Lapovsky<sup>1</sup>, believes the financial metrics that matter most typically involve a blend of ratios and single point indicators.

### **First, what is the ratio of revenue to expenditures?**

The goal, of course, is a healthy and predictable budget surplus. A rule of

thumb would be for this ratio to equal between 105% and 110%. This would equate to a surplus of 5% to 10% of the institution's operating budget. Of course, there are two ways to achieve this ratio. The preferred method is to grow revenue while containing costs. Unfortunately, many colleges are finding they are unable to increase revenues and are cutting costs below sustainable levels. This approach, over time, will erode quality and morale.

### **Second, what is the ratio of long-term debt as a percentage of endowment?**

Perspective on this ratio likely will involve both longitudinal data from your institution and a look at comparative data from a carefully selected set of cohort schools. The goal is to manage the debt trend line down.

### **Third, what is your net tuition revenue per student?**

Many schools focus solely on the tuition discount rate, but more important than the discount rate is the net tuition revenue per student because this is the driver for the majority of revenue to support the budget. One note: it is sometimes helpful to calculate this metric in the aggregate and by student cohort to give you a better sense of which type of student is contributing financially. This is not to say that some students are more valuable than others. Rather, it acknowledges that you need students who pay more to often offset students who must pay less.

<sup>1</sup> Lucie Lapovsky is a principal of Lapovsky Consulting. Lapovsky Consulting specializes in strategic financial consulting, governance work, and search for CFOs and related positions.

Fourth, never use cohort and benchmark data to make your institution more like your competitors. This flies in the face of one of your most important strategic goals: meaningful differentiation from your competitors. In particular, do not use competitor data to help you decide which academic programs to offer. Instead, use marketplace, student interest, and employer interest to help guide those decisions.

Fifth, as a board member, you must have confidence in the number. That's why you must fully understand how the number was calculated and insist that the administrative team use the same methodology each year. In fact, as part of full disclosure, I would insist that the calculation be included as a footnote to the metric.

Finally, strike a balance between too many metrics and too few. Often, in an attempt to fully understand something, we keep adding layers of data. These layers often give us a false sense of security and cause us to lose track of the truly important numbers. Focus on the round-up numbers—the major metrics that summarize the performance of sub-metrics.

**The final metric is directly related to the others: your level of unrestricted, non-endowment cash reserves. A sufficient pool of these dollars should be on hand for emergencies, contingencies, and to fund bold, blue-ocean initiatives.**

## **ACADEMIC METRICS**

Probably no area of higher education has more metrics than the academic side of the house. Not surprisingly, many of these metrics focus on some aspect of academic quality (student-faculty ratio, endowed dollars per student, number of books in the library). My goal is to focus on four metrics that link academic programs to revenue.

**First, how many credit hours are generated by each faculty member?**

To be most telling, you want to take this metric one step further: how do these credit hours translate into dollars?

**Second, what is the tuition revenue generated by academic program?**

The goal of these entwined metrics is to measure the financial contribution that faculty make. Of course, faculty contribute in many ways beyond revenue. However, it is increasingly important to gauge which faculty and programs are your cash cows because a sufficient number of these programs are needed to underwrite faculty and programs that do not generate revenue greater than their cost.

**Third, are you continually investing in existing programs with growth potential and adding new programs with growth potential?**

Less a metric and more a mindset, this is all about enhancing tuition revenue. Too often we allocate dollars away from successful programs to support programs that are less successful. The danger, of course, is that the cash cows starve over time and quit producing.

**Fourth, what are your job and graduate school placement rates?**

There are two primary reasons for collecting these data. First, students, families, and state and federal governments are increasingly interested in outcomes. Second, there is a correlation between program quality, student satisfaction, and job and graduate school placement.

It is important to recognize that numbers can only tell part of the academic story. A friend of mine, John Gredy, is provost at Cedarville University. He mentioned, "Academic leaders must constantly be evaluating programs with an eye to the future to be able to make hard decisions about which programs to resource and grow and which programs to discontinue. This process of continuing improvement, strengthening the core business, and eliminating those programs that do not further the strategic focus of the university will be the mark of a well-led institution."

## **MARKETING METRICS**

While there is no shortage of marketing metrics to consider, I want to focus on four.

### **First, is our tuition price elastic or inelastic?**

Elasticity refers to the relationship between tuition increases and changes in market share. Your price is elastic if changes in price cause market share to go down. Your price is inelastic if changes in price do not negatively impact share. Elasticity is a key indicator of brand value. Institutions with strong brand value are generally inelastic. Institutions with weak brand value are generally elastic.

### **Second, have we developed key student and donor segments, and are we monitoring performance in each segment?**

Market segmentation—one of the most powerful of all marketing tools—means breaking a larger heterogeneous population into smaller populations that are more homogenous. This has two important benefits. First, it allows you to develop customized marketing strategies that are more focused and generally more effective than a one-size-fits-all strategy. Second, it allows you to monitor marketing effectiveness within those segments.

For example, your admissions office might report that you successfully hit your overall recruiting goal. However, your segmentation data shows that while you were able to recruit students who graduated in the middle one-third of their high school class, there was a distinct softening of students from the top one-third.

It is important to set up segments that help you monitor the student and donor demographic and psychographic variables that you value most, the variables that will continue your ability to shape your class and grow your donor pools.

### **Third, do we consistently measure the return on our marketing investment?<sup>2</sup>**

Removing the link between the amount of money spent on a marketing activity and the revenue generated by that activity leads to an accounting mentality that marketing is a cost and not an investment. Savvy trustees, however, know that the

amount spent on marketing is only half the equation, and generally the less important half. Of much more importance is how well that investment performed.

Let me illustrate that point. Many people mistakenly believe that the marketing advantage enjoyed by the University of Phoenix is the size of its marketing budget. Rather, Phoenix's real marketing advantage is that they have created a set of tools that allows it to carefully measure the return on each marketing dollar it invests.

Savvy institutions invest in marketing; they don't spend on marketing.

**My final metric isn't a true metric but really a measure of a larger understanding about the power and importance of integrated marketing. Institutions that have a true integrated marketing mindset typically have brand, recruiting, and fundraising strategies that are linked in a single plan with a common budget and set of measurement metrics.**

## **RECRUITING AND RETENTION METRICS**

As you will see, the recruiting and retention metrics are relatively easy to monitor because they are highly quantifiable.

### **First, what is our tuition discount rate?**

Monitoring your tuition discount rate is a pivotal metric for three reasons. First, institutions with high discount rates (compared to your competitor set), or discount rates that are trending upward, are almost always institutions that are facing significant other financial challenges. Second, if you have a high discount rate it is highly likely that you will have insufficient cash to build a quality institution over time. And third, a high discount typically means low brand value. In other words, your brand does not attract the students it needs. As a result, you must "buy" these students via discounted tuition.

**Second, are you meeting your enrollment goals?**

This metric is both macro and micro. Are you meeting your broad number goal, but are you also meeting your tuition revenue goal and student mix goals? Mix often refers to issues of diversity (ethnic, economic, and geographic) as well as academic ability and academic interest.

**Third, what is the debt load of our graduates?**

Prospective students are increasingly wary of debt. Many students who have historically attended privates are now starting at publics or two-year institutions because of their concerns about cost...and debt. We also know that students with significant debt often do not engage with the institution as alumni at least until that debt is paid off.

**Fourth, are our first-year to second-year and four- and five-year graduate rates improving?**

Strong retention is a significant indicator of institutional health. It means that you are recruiting students who are a good “fit,” that students are highly satisfied with their decision to attend your institution, and that students believe you are a good value. It also means that these students will likely become engaged alumni.

**FUNDRAISING METRICS**

Like the recruiting and retention metrics outlined above, the final four metrics are highly quantifiable.

**First, is the percentage of alumni who give and the average size of the annual gift increasing?**

A growing, giving alumni base indicates that a lot of things are right with an institution. At the same time, an alumni giving base that is stagnate, or even shrinking, is highly problematic.

**Second, are we expanding our pool of major donors?**

Too often, schools return again and again to a small number of major donors. Schools must expand their pool of major donors either by adding new donors or moving smaller donors up the giving pyramid. Again, this is a sign of a healthy fundraising strategy.

**Third, are we consistently raising more money through capital giving, planned giving, foundation, and grant writing?**

Earlier, I mentioned the need to grow alumni giving. At the same time, you want to closely monitor and grow the other three sources of dollars: capital giving, planned giving, foundation, and grant writing. Over time, consistent growth in these areas will help reduce tuition dependency and strengthen the institution.

**Fourth, and this may strike a little close to home, are faculty, staff, and trustees consistently demonstrating their financial support for the institution?**

Increasingly, potential donors, including foundations, look to see whether an institution’s stakeholders are financially supporting it. Their reasoning is simple: if faculty, staff, and trustees are not supporting an institution, why should we?

**CONCLUSION**

A basic truism applies here: what gets measured is what gets managed. In these turbulent times, these metrics will help trustees better manage one of the most important aspects of a college or university...its financial health.

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**Author’s Note:** If you would like a copy of an Excel spreadsheet I have developed that tracks all of these metrics, please drop me an e-mail at [bob.sevier@stamats.com](mailto:bob.sevier@stamats.com).