Cost Management

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Cost Management

- **Cost Generators** – drives increases in costs or adds costs to the operations

- **Stickiness** – retards reduction and control of costs

- **Problems** – information often is unavailable to manage costs

- **Options** – management requirements
Cost Generators

- **Cost Structure of the Institution**
  - Fixed Assets
  - Human Capital
  - Fixed and Variable Costs
  - Inherent Inflation Rates

- **External Economic Forces**
  - Cost of Capital
  - Change in Technology
  - Substitution Effect (transfers and alternative delivery)
Cost Generators – Part II

- **Parent and Students**
  - Net Price and Demand
  - Expectations – outcomes and support

- **Government Regulations**
  - Tuition price controls
  - Graduation rates
  - Employment
  - Limits competition among institutions

- **Accreditation (regional and programmatic) Standards**
  - Determines cost of production
  - Restrains program competition
  - Increases cost of new programs
Cost Stickiness

**Why are costs ‘sticky’?**

- **Shared Governance** - Shared Decision Making
- **Boards** –
  - Minimizing conflict among competing interest groups
  - Minimal investment in limiting cost growth
  - Do not understand the cost generators
- **Accreditation and Regulations** – limits options
- **Contractual Conditions**
- **Internal and External Interest Groups**
Problems

• Most institutions do not understand the dynamics of their cost structure

• Benchmarks – assume that benchmarks are valid references

• Data are rarely collected on costs

• Higher education does not have a cost-productivity model
Actions

- **Lay-out** the cost structure of the institution
- **Develop** a cost model
  - Operational costs per unit
  - Cost related to productivity
- **Collect cost data** on operations and productivity – make it part of budgeting and annual reviews
- **Regional/National Groups** should support the development of and test of mathematical models to manage costs and productivity