

Cost Management

Michael Townsley, Ph.D.

Stevens Strategy

Website: stevensstrategy.com

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