A photograph of several graduates in black academic gowns, each holding a rolled-up white diploma tied with a red ribbon. The graduates are in a line, and the focus is on the hands and diplomas in the foreground, with the background slightly blurred.

2013 Higher Education Industry Outlook Survey

**Institutions Consider Transformative
Strategies Amid Challenging
Operational Environment**

kpmg.com/us/higheredindustry

KPMG

cutting through complexity



RAW

DISCUSS ON BUY MATER

OUTSOURCER

NEW SYSTEM?

PROCESS?



PROBLEM?

CONSTRUCTION

SUPPORT

DRIVE VOLUMES

INCREASE ROI

M



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Institutions Consider **Transformative Strategies** Amid Challenging Operational Environment

We are pleased to present findings from KPMG's 2013 Higher Education Outlook survey, which polled more than 100 higher education leaders during May and June 2013. The survey reflects perspectives from U.S. higher education leaders on the outlook for various topics, including enrollment, staffing, emerging trends, and major challenges for institutions of higher education.

This year's survey shows that many higher education leaders, from both private and public institutions, are concerned about their ability to maintain current enrollment levels. The inability to pay tuition was cited as the top factor impacting enrollment, and this concern was more pronounced among private institutions. Parents are facing tighter underwriting standards for loans, and many families still face a sluggish economy. Higher education leaders are keenly aware of this reality and the fact that the economic downturn left many parents with lower credit scores.

What's more, rising costs and a poor labor market are pushing many students—especially those from immigrant or minority families—to defer college or look for less expensive options such as community college. Some are even foregoing higher education altogether. Adding to these pressures, institutions face cuts to federal and state funding while they are under pressure to hold tuition increases. As parents and students struggle to keep up with tuition costs, higher education leaders are thinking critically about steps they can take to make college more affordable and accessible without compromising quality.

As part of this effort, institutions are spending more to keep up with changes in technology and making more course offerings available online. Notably, while more private institutions say they will spend more to keep up with technology, public institutions say they will make more course offerings available online. Private institutions may be more concerned about their brand and the perception that online courses will dilute the traditional, small liberal arts classroom experience. By contrast, public colleges seem more likely to accept online education because they generally face greater cost pressures and may have mandates to educate more students, build more expansive campuses, and house a larger student population.

While there is a clear recognition of the importance of exploring alternative methods for educational delivery, very few not-for-profit colleges and universities have radically changed their business model. The challenge for higher education leaders is to leverage these innovative changes without diminishing their brand and the quality of education they offer. Those institutions that can figure out how to strike an appropriate balance between online and campus-based learning will be the most successful.

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Survey highlights

Maintaining enrollment



Almost three quarters (71 percent) of institutions of higher education are concerned about their ability to maintain current enrollment levels, and more than a third (37 percent) said they are very concerned, up from just 23 percent in 2012. Similarly, 35 percent of respondents from private institutions and 39 percent from public institutions said they are very concerned about maintaining enrollment, up from just 25 percent and 23 percent, respectively, in 2012.

Rising tuition concerns



More than half (58 percent) identified the inability of parents and students to pay tuition as the top factor affecting enrollment, up from 49 percent in 2012. The concern was more pronounced among private institutions. Additionally, more than a third (38 percent) cited changing U.S. demographics as another major factor. This factor was also more prevalent among private institutions.

Technology and innovation



In response to recent trends in the educational marketplace, institutions of higher education are spending more to keep up with changes in technology (61 percent) and making more course offerings available online (50 percent). Noticeably, the top choices were split between public and private institutions. More private institutions (65 percent) said spending to keep up with technology was their top priority, while public institutions (63 percent) said making more courses available online was their top priority.

Cuts in federal and state funding



More than half (51 percent) said they are considering raising tuition as a response to cuts to federal and state funding. More than a third (36 percent) said they are offering more online courses as a result of cuts, while another 36 percent said they are delaying capital projects.



Detailed findings

Enrollment

Concern for maintaining current enrollment

The vast majority (71 percent) of institutions of higher education are concerned about maintaining current enrollment, up from (66 percent) in 2012.



Q: How concerned are you about maintaining current enrollment at your college/university?

	Total	Private	Public
2013			
Very concerned	37%	35%	39%
Somewhat concerned	34%	34%	34%
Not at all concerned	27%	31%	22%
Don't know/not applicable	2%	0%	5%

2012

Very concerned	23%	25%	23%
Somewhat concerned	43%	52%	37%
Not at all concerned	29%	20%	34%
Don't know/not applicable	5%	3%	6%

Respondents from both private and public institutions reflected this sentiment, with 35 percent of respondents from private

institutions and 39 percent of respondents from public institutions saying they were very concerned, both up from the previous year.



Due to rising costs and a poor labor market, many students – especially those from immigrant or minority families – are deferring college or looking for less expensive options, such as community college. Some are foregoing higher education altogether, so concerns about enrollment levels are likely to persist among higher education leaders.



— Milford McGuirt, National Audit Sector Leader, Higher Education, Research & Not-for-Profits

Impacts on enrollment

The overall condition of the economy is impacting higher education, as 58 percent of respondents identified the ability to pay as a main issue affecting enrollment, compared with 49 percent in 2012.



Q: What are the major factors affecting enrollment at your institution?

	Total	Private	Public
2013			
Parents' and or students' inability to pay tuition	58%	63%	50%
Changing U.S. demographics	38%	51%	20%
Competition from peer/competitor school	38%	37%	40%
Inability to provide sufficient financial aid	38%	33%	47%
Inability to offer competitive tuition	22%	26%	17%
Students not seeing us as a "hot" institution	19%	21%	17%
Curriculum not matching job market	15%	12%	20%
Other	5%	7%	3%
2012			
Parents and or students inability to pay tuition	49%	48%	49%
Changing U.S. demographics	37%	26%	46%
Competition from peer/competitor school	38%	35%	41%
Inability to provide sufficient financial aid	43%	42%	43%
Inability to offer competitive tuition	21%	23%	19%
Students not seeing us as a "hot" institution	22%	26%	19%
Curriculum not matching job market	19%	19%	19%
Other	3%	0%	5%

(Multiple responses allowed)

The concern was more pronounced among private institutions, which rose to 63 percent in 2013 versus 48 percent in 2012. Additionally, 38 percent of respondents cited changing

U.S. demographics as a second major factor, but there is a dichotomy between public and private institutions.

Addressing cost, quality, and access through innovation

Institutions are concerned about maintaining quality while reducing costs. They also realize they need different approaches than they've used in the past.



Q: Many institutions, under pressure from policymakers, are embarking on organizational transformations to try to address issues such as cost, quality and access. Which of the following apply to your institution?

2013	% in Total	% in Private	% in Public
More focus on innovative approaches	59	55	66
Improve retention/graduation rates	54	56	51
Reassess curriculum to prepare grads for workplace	43	45	39
Eliminate low-demand academic programs	39	29	54
Address conflict of quality rankings v. efficient education delivery	21	23	20
Co-source certain programs with other institutions	17	21	12
Other	2	2	2
Don't know/not applicable	7	10%	2%

(Multiple responses allowed)

Notably, 59 percent of institutions said they would focus on innovative approaches to address cost, quality, and access, up from 41 percent in 2012. This response was substantial in both private and public institutions. Also notable, more than half

(54 percent) of public institutions said they would eliminate low demand academic programs, compared to only 29 percent of private institutions.



Q: In response to a variety of pressures, many institutions are embarking on or have made significant progress toward organizational transformations to try to address issues such as cost, quality and access. Which of the following apply to your institution?

2012	% in Total	% in Private	% in Public
More focus on innovative approaches	41	35	45
Improve retention/graduation rates	61	58	65
Reassess curriculum to prepare grads for workplace	41	35	44
Eliminate low-demand academic programs	NA	NA	NA
Address conflict of rankings v. efficient education	26	30	24
Co-source certain programs with other inst.	NA	NA	NA
Other	0	0	0
Don't know/not applicable	4	5	3

(Multiple responses allowed)

“
Education leaders are thinking critically about steps they can take to make college more affordable and accessible without comprising quality.”

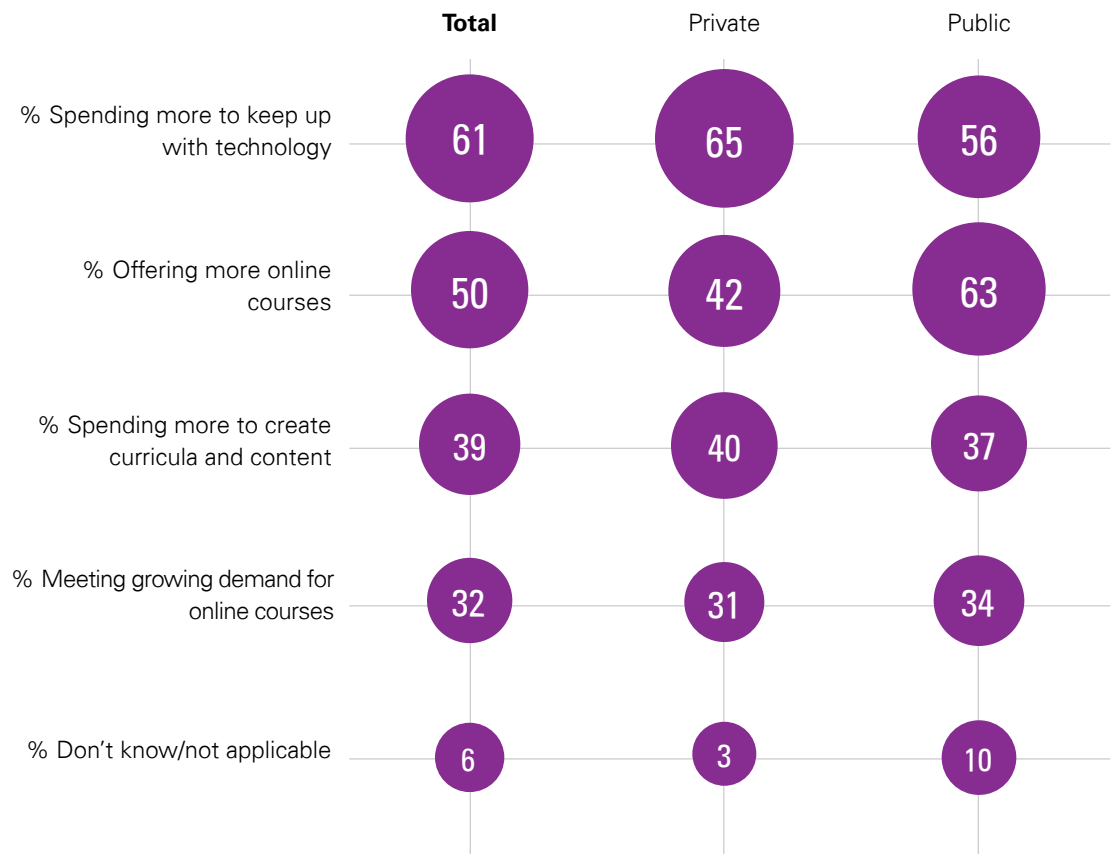
— *Milford McGuirt, National Audit Sector Leader, Higher Education, Research & Not-for-Profits*

Responding to market pressures

Interestingly, investing in technology (61 percent) and increasing online course offerings (50 percent) are the top changes institutions are making to respond to market pressure.



Q: A number of broad trends have emerged in the educational marketplace, e.g., increased use of technology, consumer demand for more innovative educational delivery models, pressure to reduce tuition costs, etc. In response, many institutions are modifying their business models. What changes are your institutions making to respond to these trends?



(Multiple responses allowed)

More private institutions (65 percent) are spending on technology than public institutions (56 percent), while more public institutions (63 percent) are spending on online course offerings than private institutions (42 percent). Public institutions are likely favoring

more online education because they generally face greater cost pressures, have larger campuses, and have a larger student population compared to private institutions.

A woman with dark curly hair, wearing a red textured sweater, is shown in profile from the chest up, holding a white folder. She is looking towards a group of students seated at desks in a classroom. The students are out of focus, with one woman in a blue top and glasses being the most prominent. The background shows a window with natural light.

“

Those institutions who can determine how to strike the appropriate balance between on campus and online experiences will be most successful.”

*—David Gagnon, Northeast Area Leader,
Higher Education, Research & Not-for-Profits*

Federal and state funding cuts

Response to funding cuts

When asked to identify the measures being adopted or considered as a result of cuts to federal and state funding, 51 percent of respondents cited rising tuition rates.



Q: As a result of cuts in federal and state funding for higher education, which of the following measures have you adopted or are you considering?

	% in Total	% in Private	% in Public
Increasing tuition	51	48	56
Delaying capital projects	36	42	27
Offering more online courses	36	42	27
Evaluating/eliminating programs and disciplines that are in less demand	35	26	49
Offering accelerated degree programs	18	24	10
Replacing full-time faculty with part-time and adjunct	18	13	27
Freezing faculty salaries	17	16	17
Privatizing campus services	13	15	10
Layoffs of faculty and staff	13	10	17
Don't know/Not applicable	8	8	7

(Multiple responses allowed)

However, increasing tuition applied to slightly more public institutions (56 percent) than to private institutions (48 percent). In addition, more than one-third of respondents

said that as a result of cuts they are offering more courses online, delaying capital projects, and evaluating/eliminating programs with less demand.

Impact of federal budget pressures on research funding

The impact of the federal budget on research funding was split, with 29 percent not anticipating a change in funding and 27 percent expecting to retain their proportionate share of funding.



Q: Looking ahead five years, how will federal budget pressures impact your institution's research funding? Over the next five years, we expect to:

	<i>Total</i>	<i>Private</i>	<i>Public</i>
2013			
Gain research funding	13%	11%	15%
Retain proportionate share of funding	27%	29%	24%
Lose research funding	18%	10%	32%
Don't anticipate change in funding level	29%	40%	12%
Don't know/not applicable	13%	10%	17%
2012			
Gain research funding	23%	25%	23%
Retain proportionate share of funding	35%	32%	35%
Lose research funding	32%	33%	32%
Don't anticipate change in funding level	NA	NA	NA
Don't know/not applicable	10%	10%	10%

Respondents expecting to grow their research funding declined from 23 percent in 2012 to 13 percent in 2013. This reflects the declines in American Recovery and

Reinvestment Act (ARRA) stimulus funding as well as federal budget sequestration concerns.

Adjustments to changes in research funding

When asked what adjustments they anticipate in response to changes in the availability of research funding, the top answers were increasing tuition, applying for funding for new/different programs, and increasing pursuit of non-governmental research sponsors.



Q: What adjustments do you anticipate you will make in response to changes in the availability of research funding?

	% in Total	% in Private	% in Public
Increasing tuition	35	42	24
Applying for funding for new/different program	32	29	37
Increasing pursuit of non-governmental research sponsors	31	31	32
Looking to other revenue sources	30	27	34
Delaying capital projects	27	34	17
Reengineering administrative processes	24	24	24
Freezing faculty salaries	18	16	22
Layoffs of faculty and staff	15	10	22
Other	3	3	2
Don't know/Not applicable	16	15	17

(Multiple responses allowed)



Top initiatives

Fundraising and student recruitment are the top initiatives over the next year, reflecting both the effects of the economic recovery and the competition for students.



Q: Looking ahead over the next year, on which initiatives is your institution's leadership likely to spend significant energy, time and resources?



(Multiple responses allowed)

Notably, 40 percent of private institutions are concerned about building their brand, compared to only 22 percent of

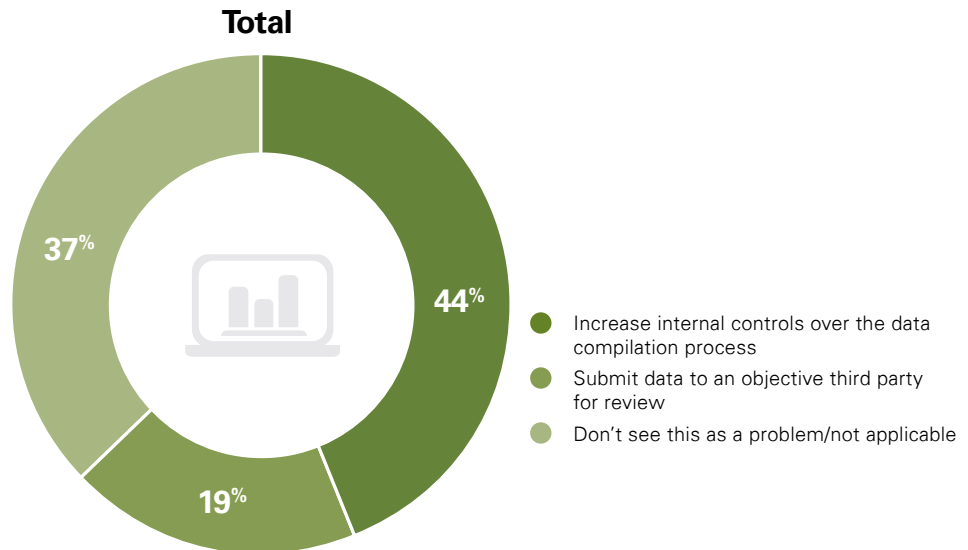
public institutions. In addition, 39 percent of public institutions said technology enhancements would be an important focus.

Ensuring integrity and consistency of national ranking data

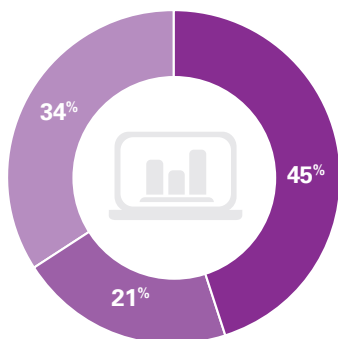
While almost half (44 percent) said they would increase internal controls over the data compilation process, more than a third (37 percent) did not see this as a problem.



Q: Recognizing that some institutions have experienced highly publicized issues related to national quality rankings, which of the following steps do you think are appropriate to help ensure the integrity and consistency of such data?

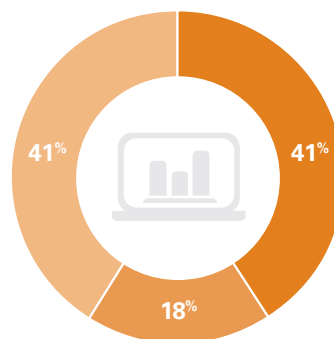


Private



- Increase internal controls over the data compilation process
- Submit data to an objective third party for review
- Don't see this as a problem/not applicable

Public



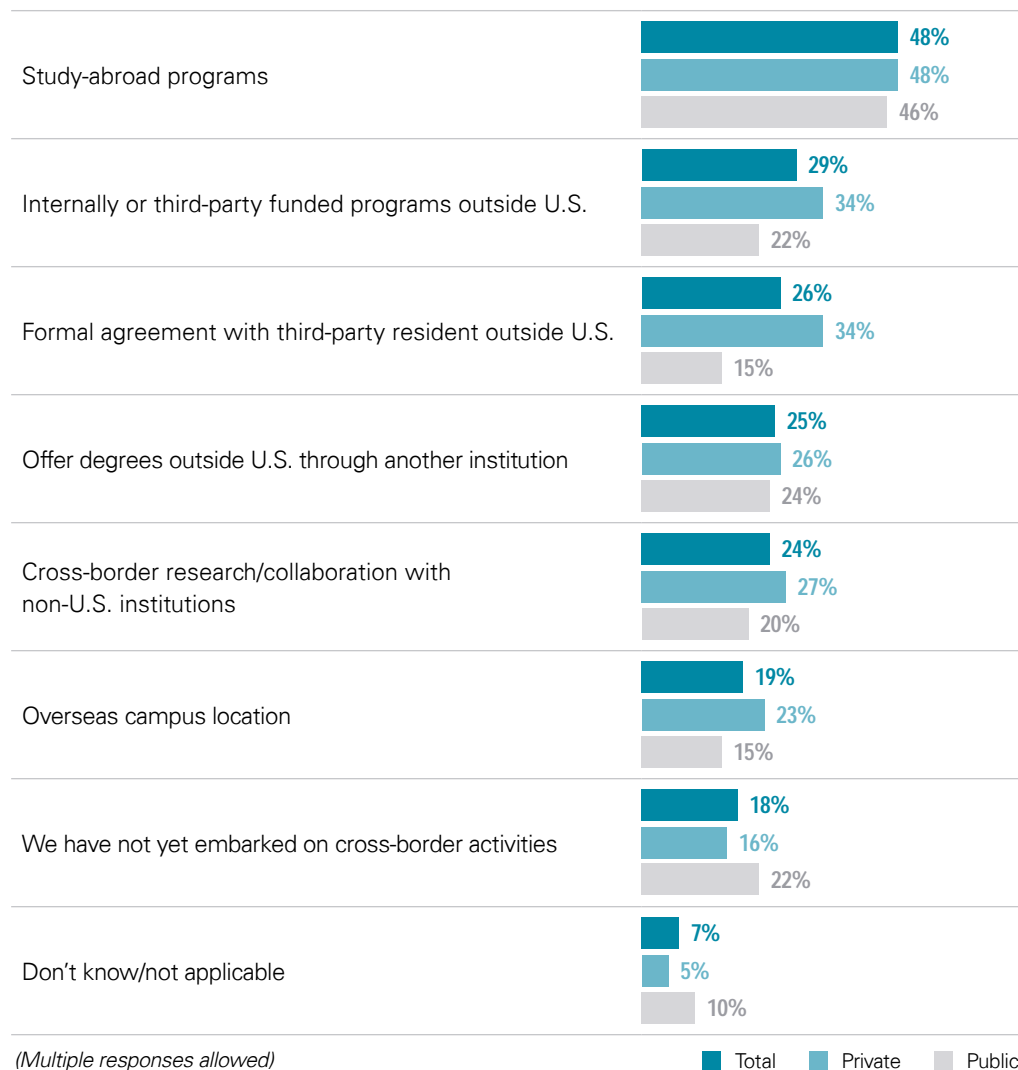
- Increase internal controls over the data compilation process
- Submit data to an objective third party for review
- Don't see this as a problem/not applicable

Global initiatives

Study-abroad programs remain the top global expansion initiative. Higher education leaders recognize the importance of incorporating global activities to enhance the student experience and attract talented faculty.



Q: On which of the following global initiatives is your institution focused?



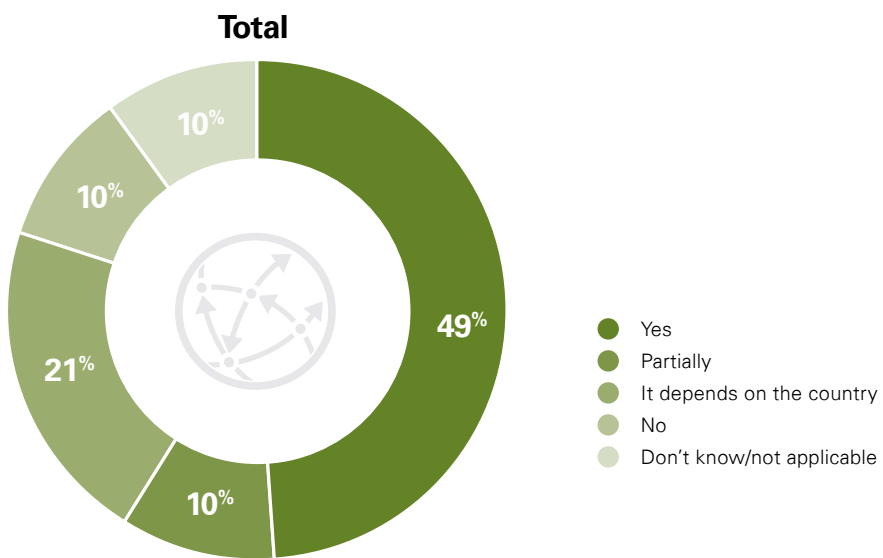
Overall, private institutions are ahead of public institutions in their use of overseas initiatives, possibly reflecting a greater emphasis on brand expansion.

Understanding risks of doing business overseas

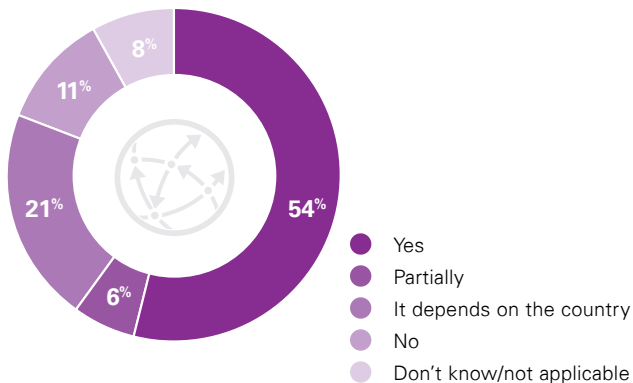
Almost half (49 percent) of institutions say they adequately understand the risks of doing business overseas, the same as in 2012.



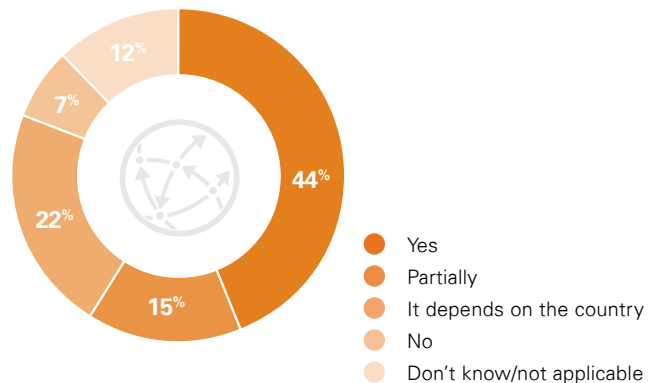
Q: Do you believe that your institution adequately understands the risks of doing business overseas, including reputational, compliance, tax, financial, and other operational risks?



Private



Public



Private institutions are more confident at 54 percent, compared to 44 percent for public institutions.

Faculty

Faculty staffing levels

Nearly half (45 percent) of institutions are looking to maintain the current size of their faculty.



Q: Looking ahead at faculty staffing levels over the next five years, which statement applies? During the next five years, we intend to:

2013	% in Total	% in Private	% in Public
Expand our faculty	28	32	22
Maintain current size of faculty	45	48	42
Reduce full-time, but increase adjunct	16	10	24
Reduce faculty size	2	2	2
Don't know/not applicable	9	8	10
2012			
Expand our faculty	36	42	32
Maintain current size of faculty	51	43	57
Reduce full-time, but increase adjunct	NA	NA	NA
Reduce faculty size	9	10	8
Don't know/not applicable	4	5	3

Those who said they would expand their faculty fell to 28 percent in 2013 from 36 percent in 2012. Notably, those who said they

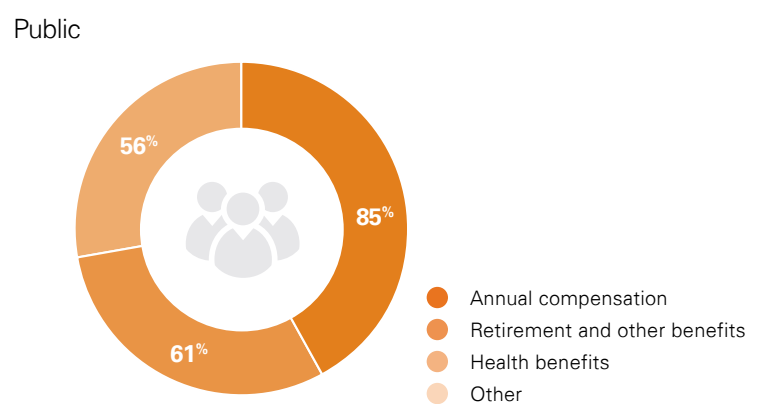
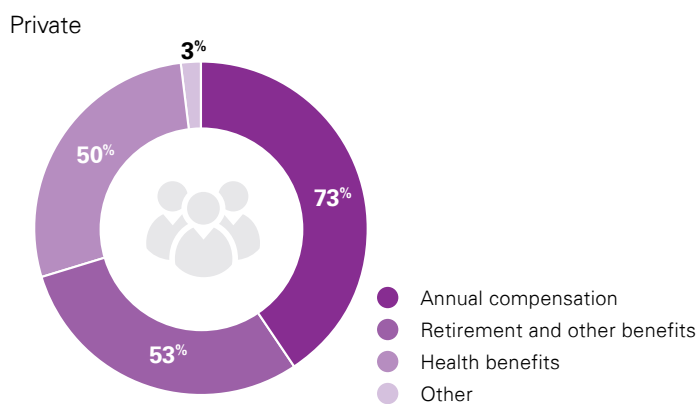
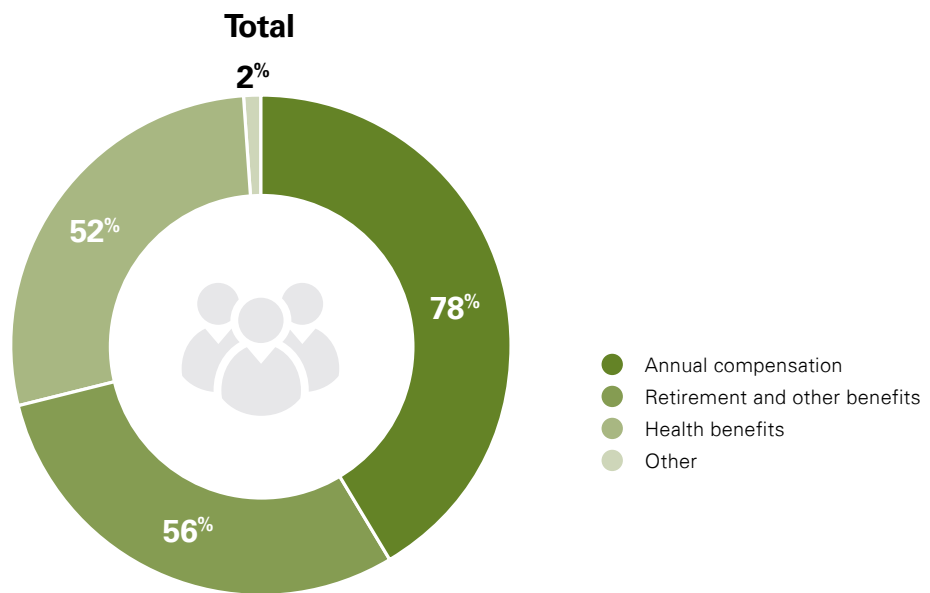
would reduce faculty size fell to only 2 percent in 2013 from 9 percent in 2012.

Faculty attraction and retention

Not surprisingly, annual compensation is the top factor impacting faculty attraction and retention over the next five years.



Q: What factors do you see impacting faculty attraction and retention over the next five years?



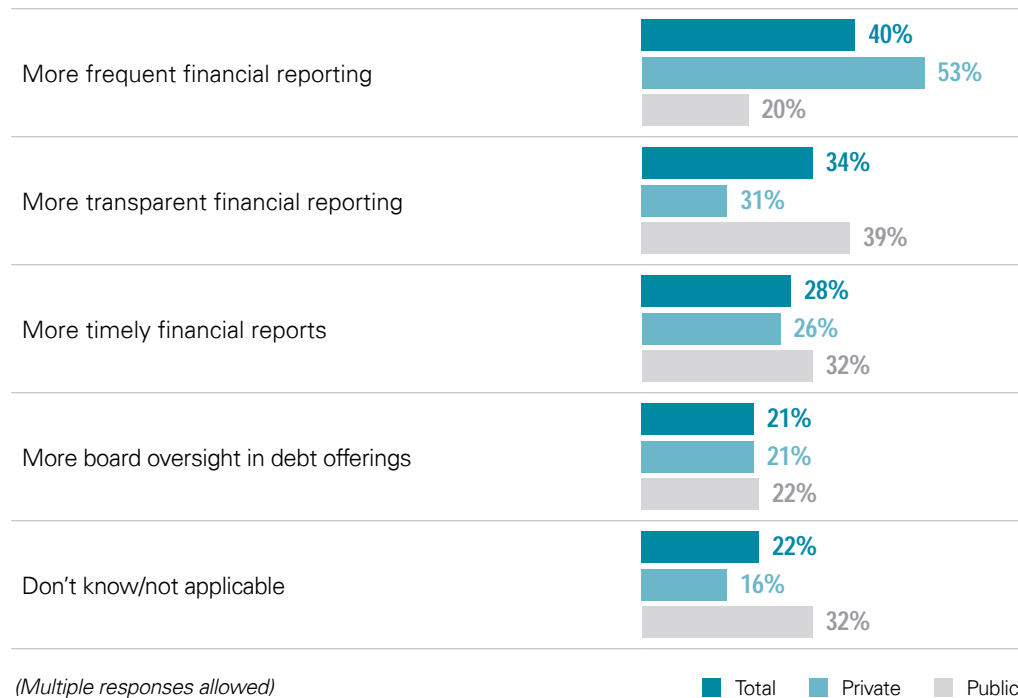
(Multiple responses allowed)

Anticipated changes in financial reporting

When asked how they would respond to SEC oversight of tax-exempt debt markets, respondents said they would have more frequent financial reporting (40 percent) and more transparent financial reporting (34 percent).



Q: In July 2012, the Securities and Exchange Commission (SEC) issued new considerations regarding enhanced oversight of tax-exempt debt markets. Assuming these, or similar measures, are ultimately adopted, what types of changes do you anticipate you might employ regarding financial reporting, interim financial reporting, timing of reports, financial disclosures, etc.?

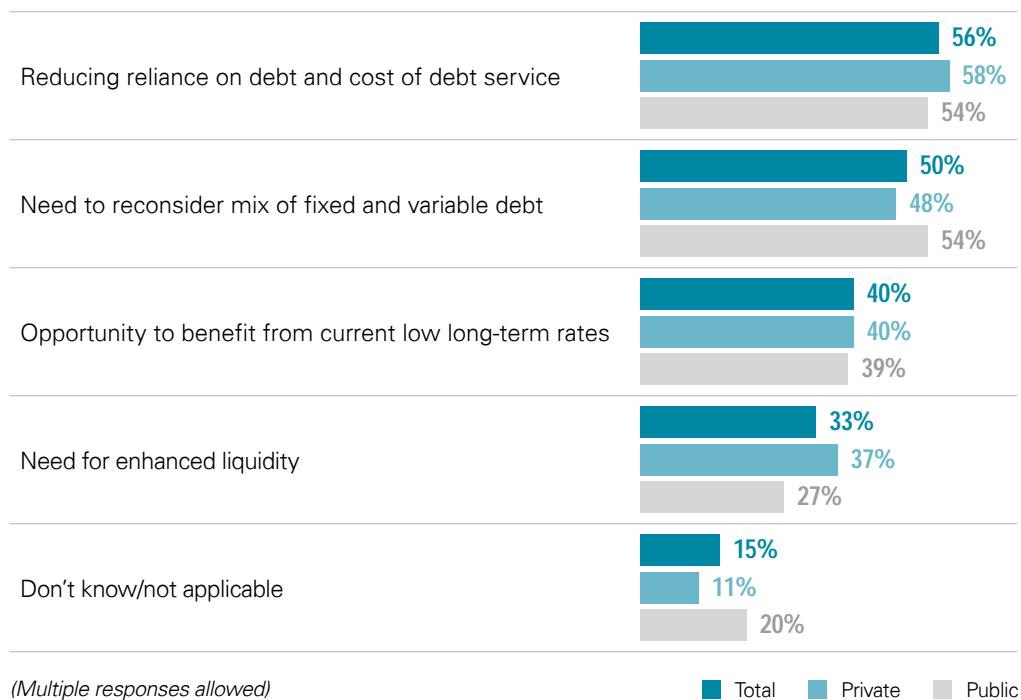


Drivers for changes in debt strategy

Institutions are reassessing how they use debt. More than half (56 percent) said they would reduce their reliance on debt and cost of debt service over the next five years, and half said they need to reconsider their mix of fixed and variable debt.



Q: Over the next five years, which of the following will be drivers for changes in your debt strategy?



Technological challenges for higher education

Almost two-thirds (62 percent) indicated that leveraging social media to better communicate with current and prospective students was on their technology agenda.

Q: Technological change and innovation are major challenges for higher education. Which of the following apply to your institution?

Notably, more private institutions (69 percent) are leveraging social media than public institutions (51 percent). However, more public institutions (61 percent) are investing in better information assurance and data integrity than are private institutions (52 percent). The results suggest that the high profile and state and local mandates of public institutions may cause them to be more risk-averse than private colleges and universities about leveraging social media.



62%

Leveraging social media
Private: 69% | Public: 51%



55%

Investing in better info. assurance/data integrity
Private: 52% | Public: 61%



48%

Leveraging cloud-based solutions
Private: 52% | Public: 41%



45%

Major ERP system to student data and business support
Private: 47% | Public: 41%



26%

Disaster recovery and business continuity planning
Private: 26% | Public: 27%



6%

Don't know/not applicable
Private: 2% | Public: 12%



3%

Other
Private: 3% | Public: 2%

(Multiple responses allowed)

Problems from social media

Institutions noted that online harassment/cyberstalking, online postings that compromise campus security, and theft of personally identifiable information (PII) have been the top three social media issues at their institutions. Notably, 41 percent of public institutions cite theft of PII as a major challenge compared to only 15 percent of private institutions.



Q: Social media outlets used by college students can cause unforeseen problems for institutions and their students. Which of the following has been an issue at your institution?

	Total	Private	Public
2013			
Online harassment/cyberstalking	31%	26%	39%
Online postings that compromise campus security	29%	31%	27%
Theft of PII	25%	15%	41%
Damaging leaks to news media outlets	12%	6%	20%
Flash mobs/student protests	11%	13%	7%
Don't know/not applicable	46%	52%	37%
2012			
Online harassment/cyberstalking	37%	43%	34%
Online postings that compromise campus security	29%	28%	31%
Theft of PII	30%	30%	31%
Damaging leaks to news media outlets	23%	15%	29%
Flash mobs/student protests	15%	8%	19%
Don't know/not applicable	26%	23%	27%

(Multiple responses allowed)

Consolidation, shared services, and outsourcing

Not surprisingly, IT and facilities management are the top prospects for shared services or outsourcing solutions.

Q: If your institution has initiated or is considering consolidation, shared services, or outsourcing, which of the following functions may be impacted?



44%

Information technology

Private: 48% | Public: 37%



41%

Facilities management

Private: 45% | Public: 34%



30%

Human resources

Private: 31% | Public: 29%



30%

Marketing and communications

Private: 35% | Public: 22%



16%

Finance and accounting

Private: 16% | Public: 15%



15%

Procurement

Private: 15% | Public: 15%



23%

Don't know/not applicable

Private: 15% | Public: 37%

(Multiple responses allowed)



Top priorities for board of trustees

Fundraising was the top priority for boards of trustees of private institutions, while maintaining or improving academic quality was the top priority for public institutions.



Q: Which of the following are the top priorities for your institution's board of trustees?

	% in Total	% in Private	% in Public
Fundraising	42	50	29
Maintaining or improving academic quality	40	34	49
Strategy development	35	34	37
Student wellness and safety	33	35	29
Protecting the institution's brand	27	27	27
Ensuring effective programs	26	23	32
Financial reporting and internal controls	24	24	24
Compliance with laws and regulations	17	11	27
Succession planning	11	13	7
Enterprise risk management	10	6	15
Information privacy and security	7	8	5
Other	1	2	0

(Multiple responses allowed)

Focus on athletic programs

High-profile athletic programs are becoming a significant focus area for colleges and universities. The unique risks and, in many cases, high budgetary impact of athletic programs are under increasing scrutiny by institutions and their boards. Public institutions expressed slightly more concern about academic progress for student athletes than private institutions.

Q: With respect to your intercollegiate athletic program, which of the following are top priorities for your Board of Trustees?

Notably, private institutions are more concerned than public institutions about improving the student experience.



46%

Student athlete academic progress
Private: 42% | Public: 51%



39%

Improving student experience
Private: 45% | Public: 29%



39%

Maintaining alumni connection
Private: 37% | Public: 41%



38%

Enhancing fund-raising
Private: 39% | Public: 37%



35%

Evaluating cost to subsidize the program
Private: 31% | Public: 41%



30%

Impact on the brand
Private: 29% | Public: 32%



13%

Don't know/not applicable
Private: 13% | Public: 12%

(Multiple responses allowed)

Conclusion

Institutions of higher education are concerned about their ability to maintain current enrollment levels, as the inability to pay tuition and changing U.S. demographics are pushing families to defer college or look for less expensive options such as community college. Parents face tighter underwriting standards for loans, and many families are still feeling the effects of the recent economic downturn.

In response, institutions are spending more to keep up with changes in technology and are making more course offerings available online. The survey responses indicate that public colleges, which face greater cost pressures, more readily accept online education. The increase in online course offerings is also a response to cuts to federal and state funding.

Despite the growing recognition of the importance of delivering education through alternative methods, few not-for-profit colleges and universities have radically changed their business model and even fewer would consider an entirely online model.

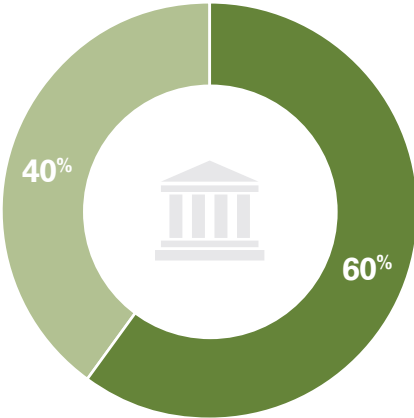
Overall, the survey indicates that finding other methods for delivering education while maintaining academic quality and reducing costs will be critical moving forward in the 21st century.



Demographics and methodology

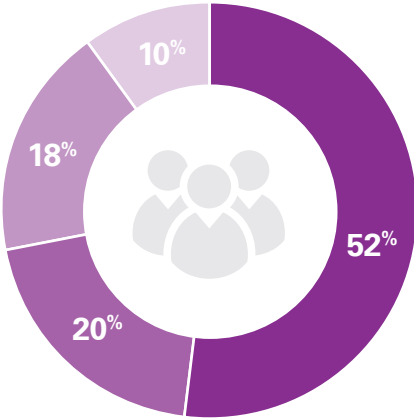
KPMG’s 2013 Higher Education Industry Outlook Survey reflects the responses of 103 senior executives from U.S. institutions during May and June 2013.

Institution type



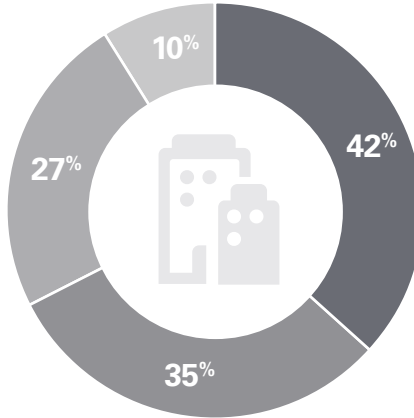
- Private college or university
- Public college or university

Role



- Chief Financial Officer
- Controller/Budget Officer
- Chief Academic Officer
- President/Chancellor/CEO

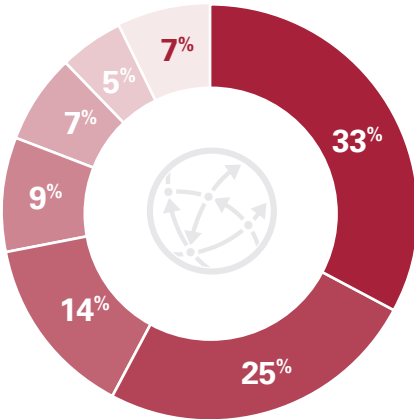
Focus Areas



- Liberal arts institution
- Multi-campus institution
- Single-campus institution
- Private research university or institution

(Multiple responses allowed)

Location



- Northeast
- Midwest
- Southwest
- South Atlantic
- Northwest
- South Central
- Other

About KPMG

KPMG LLP, the audit, tax and advisory firm (www.kpmg.com/us), is the U.S. member firm of KPMG International Cooperative ("KPMG International"). KPMG International's member firms have 152,000 professionals, including more than 8,600 partners, in 156 countries.

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