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When shrinkage is good

by KELLIE WOODHOUSE

Five years ago Staten Island's Wagner College was struggling to make enrollment targets.

It was shortly after the financial crisis of 2008, and not only were demographic trends unfavorable in the Northeast, but a lot of families were under immense financial strain and looking for as much of a discount as possible as their children chose colleges. Wagner's administrators realized yield, the percentage of accepted applicants who enroll, was low because peer colleges were offering much larger scholarships to admitted students in attempts to entice them to enroll -- and it was working. Yield in 2011 was 22 percent, and has since remained relatively steady, ending the slide.

Other colleges were growing as Wagner was shrinking. So Wagner's administrators had to make a decision: significantly up student aid, in many cases beyond what students might need, or lose students. The college ended up taking a conservative approach, putting it squarely among the minority of its private peers, many of which place growing enrollment among their most important goals for survival and financial health.

We made "the decision to protect quality rather than chase volume," which means Wagner was ready to "get smaller if we had to," says Richard Guarasci, Wagner's president of more than 13 years.

"A lot of yield is essentially based on discounts parents expect," he continued. Yet Guarasci chose to limit how much Wagner played into that expectation. The college made the decision not to participate in what one administrator called the "discount wars" between small and midsize private colleges that use scholarships as a way to compete for students, and instead chose to maintain selectivity and hold its discount rate relatively level -- at 43 percent, below the national average but higher than the 32 percent level it was at before the 2008 recession.

The result was a shrinking class: the college enrolls 1,752 full-time undergraduates this fall, down from 1,826 in 2011. The decline is part of an intentional decision to prioritize selectivity over growth. Yet even as the number of students shrank, Wagner's academic quality, retention and overall revenue actually increased.

"It's about choosing not to grow if growing actually weakens the institution," said Senior Vice President for Planning and Enrollment Angelo Araimo. "I don't think enough colleges are really thinking about it that way."

Half of U.S. admissions directors reported being very concerned about meeting their enrollment goals this year, and 58 percent said they did not meet their goals, according to Inside Higher Ed's 2015 Survey of Admissions Directors.

In a separate 2015 Inside Higher Ed survey of more than 400 business officers from both public and private colleges, fully 88 percent of financial officers reported that increasing enrollment has been their primary focus over the past five years.

Meanwhile, a recent study from the National Association of College and University Business Officers found that, on average, private colleges' discount rates -- institutional grant dollars as a percentage of gross tuition and fee revenue -- reached 48 percent for freshmen in 2014, up from 40 percent in 2008, the year the financial recession began.

A large number of small and midsize private colleges are using discounts as a primary method of increasing their enrollment, offering students enough of a discount to entice them to enroll -- in 2014 this was, on average, 54 percent, according to the NACUBO study -- and then gaining what revenue they can from students in their first year, as well as revenue in subsequent years (which generally increases, as aid does not usually increase with tuition).

Yet despite how widespread the practice of tuition discounting is, the 2015 Inside Higher Ed study found that a third of business officers believe their discount rates are unsustainable if their institutions are to maintain financial health.

St. Michael's College in Vermont is another college that has chosen to downplay growth and emphasize selectivity, and that has shrunk its enrollment significantly in the process. John Neuhauser, St. Michael's president, believes that rising discount rates, or "the thing that most schools tout to attract students," are just "not sustainable."

"You're spending more to build a car than you can sell it for," he said.

Why shrink?

Wagner's decision to allow itself to shrink is one that's largely influenced by its history. For much of its 152-year existence, Wagner was a commuter college. In the 1980s and '90s the college became a residential college and gradually upped its selectivity. So there were concerns that increasing enrollment would necessitate enrolling more students with weaker than average academic profiles and students who were less likely to stick around -- "because the competition was getting so intense for these students," says Araimo -- and that the college's retention rate and selectivity would suffer.

"Our decision was, do we want to go back down that hill? It took us so long to climb that hill," Guarasci said. "Are you willing to compromise to expand that pool?"

Guarasci's conservatism ended up working out for the institution. The college's first-year retention rate has increased even as its enrollment has decreased, rising from 78 percent in 2011 to 86 percent today. Meanwhile, revenue is growing -- albeit largely due to annual tuition increases of around 3 percent -- by between 1 to 2 percent a year.

Araimo said Wagner would have had to increase its discount rate to 50 percent or above in order to grow its enrollment -- yet even though enrollment would have increased, the rising discount rate would have eroded revenue gains, by his calculation. "We thought that if we actually concentrate on a smaller cohort that's better academically and ... not have to grow our discount rate, that would be doubly good because we'd have a better class and more revenue," he said.

While Wagner's discount rate is below the national average, some 90 percent of students receive some level of financial aid. The college did cut about 5 percent of staff during the initial years of shrinkage, but has since grown many of those positions back. It also cut costs by trimming some of its support and back office functions.

St. Michael's is following a similar path. The private liberal arts college plans to allow its undergraduate enrollment to decline from about 2,000 students in 2014 -- when an expected uptick in yield led to larger than normal enrollment -- to 1,850 students in the coming years. Current undergraduate enrollment is 1,921 students.

Neuhauser makes it clear the college isn't shrinking "for its own sake," but instead allowing itself to shrink "if that is what maintaining selectivity, quality and diversity compels."

The strategy, he said, has occasionally caused tension inside the campus. Some alums, he said, "don't like it because it seems defeatist." Yet it's one that's cognizant of the challenges his institution is facing, he says. After the financial crisis Neuhauser commissioned a task force to consider future strategies for the college.

The group identified a number of challenges facing the college: a shrinking number of high school graduates, applicants' growing preference for public and online education, and families' heightened price sensitivity after the recession. The task force, Neuhauser said, suggested that the college "follow the markets down" and "not sacrifice the diversity and quality of students."

"We should tighten up because it looks like there's going to be some storms colliding," Neuhauser recalls thinking. "So let's try to be very conservative in our enrollment planning."

Neuhauser said it "struck us [as] silly" that private colleges would all be "competing in what is a shrinking market." So instead of competing for overall enrollment growth, he said St. Michael's instead competes to attract the very best of its applicant pool in a quality-over-quantity approach. St. Michael's actually plans to offer students less aid in coming years. Its discount rate for freshmen sits at around 50 percent this fall, a 3 percentage point drop from last year, though still above the national average. Neuhauser wants to decrease the rate by a percentage point each year. And the approach appears to be working. St. Michael's reported GPAs and SAT scores went up this fall, even as overall enrollment declined.

The college's philosophy isn't just applied to enrollment, but to areas like financial planning and capital planning. The college cut its staff through incentivized retirement programs and attrition. About 25 faculty and 15 staff members chose to retire early, and the college has since hired 17 faculty and nine staff positions back.

"The general strategy is just to be cautious," Neuhauser said of his budget.