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## Transforming the Future Through Effective Cost Management

Increased Financial Pressures Call for a Greater Emphasis on Controlling Spend in Higher Education

There's no denying it: Today's higher ed administrators are facing enormous financial challenges. As tuitions have steadily increased, revenue from the state and federal government has continued to drop. Student loan debt has reached epic proportions, eclipsing the \$1 trillion mark in 2011. According to The Princeton Review, college affordability is now one of the primary concerns of high school seniors. The competition to attract students is intense, and the demand to retain those students and increase graduation rates is fierce.

In vying for both students and resources, institutions need to be more vigilant than ever before with regard to justifying spend and ensuring their tuition and state revenues are being used effectively. This emphasis on effective cost management is critical to an institution's prolonged sustainability.

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The good news is, there's hope. We think there's tremendous opportunity to achieve significant savings through more effective practices, cooperation and leverage.

Look at it this way: About one-third of an institution's operating expenses is allocated for goods and services. By leveraging spend effectively, colleges and universities have an opportunity to put a significant dent in that one-third. Considering the total spend of higher ed is more than \$400 billion, we project that translates into an "affectable spend" (in areas other than staff, payroll, benefits, etc.) in excess of \$100 billion. That's a big deal, and it's currently being tackled by a number of institutions very effectively.

One example is the University of California (UC'S) P200 project. This innovative program focuses on facilitating collaboration between all campuses systemwide, to build an integrated, sustainable procurement framework. By developing and utilizing competitive contracts, innovative supply chain strategies, and robust reporting and analytics, UC's goal is to recapture the \$200 million annually currently lost through sub-optimal purchasing contracts and practices, redirecting these funds to support the university's core missions of teaching, research and public service.

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In an effort to generate more revenue and enhance operational efficiencies, the Texas A&M University System recently privatized building maintenance services, landscape management, custodial services and dining services. This included migrating nearly 1,000 people off its payroll and onto the payroll of a professional support services company. In the process, virtually all employees have kept their jobs, and the A&M System realized significant savings by drastically changing their business model.

Another great example is the State University of New York (SUNY) Chancellor's Challenge for Operational Excellence. Part of this effort has included identifying improvements and inefficiencies to fully maximize the system's assets. SUNY was dividing its \$20 million MRO spend between 6,400 vendors. By consolidating some of this spend under one E&I contract, SUNY saved millions while maximizing MWBE participation.

The financial forecast for higher ed institutions may seem ominous, but it isn't all doom and gloom. There's considerable elasticity concerning spend, and a lot of successful work that's being done to provide greater efficiencies. The reality is, that in order to remain sustainable, many institutions will have to transform their processes at a fundamental level. We believe cooperation, leverage and cost management are the most available and sensible approaches to accomplishing that goal.



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