

College Tuition and Offshoring – Ernest Nounou*

Along with healthcare total US college costs including dorm, food, and books have risen for decades at a multiple of the official rate of inflation (choose your index). Lacking transparency, the process of annual tuition increases from an outside perspective can be summed up as a function of four factors:

1. Operating cost increases
2. Tuition increases at peer schools
3. Well intentioned but uninformed consumers
4. What the traffic will bear

Items 2 – 4 can be summarized as follows: Tuitions are nearing \$40,000 / year at most private colleges, and the price differential between the top ranked and 300th ranked colleges are relatively trivial. The peer group is effectively all 300 schools, and regardless of location their tuitions increase in lockstep. Colleges have enjoyed a sellers' market, with demand for slots at "top" schools exceeding supply by double-digit multiples. Protestations to the contrary, panicked parents (consumers) are imbued with the notion that future success is greatly determined by the college attended.

In our globalized economy, with high-profile corporate jobs being offshored, and with graduates increasingly working at jobs offers hardly commensurate with the \$160,000 investments to obtain those degrees, rational consumers will push back at some point soon and look for viable alternatives. Alternatives certainly exist offshore, evidenced by the plethora of "Junior Year Abroad" programs on all continents.

Operating Cost Increases

The dramatic productivity increases in the US economy, enabled by technology and managerial best practices, have been largely absent in higher education. However, recent adoption of centralized purchasing and unified databases by some schools have resulted in significant savings of approximately \$100 million at Harvard and \$60 million at Penn.

Former Harvard President Derek Bok in his recent book "Universities in the Marketplace" laments the commercialization of higher education, particularly in sports programs. The reality is that the 21st century University will have to be managed like a commercial enterprise rather than an ivory tower to survive. Otherwise, universities will become preserves of the wealthy, as costs escalate and are simply passed on. That said, a huge opportunity exists to reduce tuitions, while increasing revenues for the schools via offshoring.

Offshore Freshman and Sophomore Years

If Junior Year Abroad programs are acceptable staples of most college curriculums, a second year abroad should not be a major leap. To appreciate the magnitudes involved consider the following assumptions and scenario:

Assumptions:

- US College Tuition: \$40,000/yr – Total 4 years: \$160,000
- Class Size: 1,000
- Freshman & Sophomore years are largely core curriculum
- Junior and Senior years focus on “major” curriculum
- Offshore Tuition at Junior Year Abroad colleges: \$5,000/yr average
- Availability of resources at offshore colleges plentiful and capable to meet demand
- US College to double class size to 2000
- Charges: Freshman and Sophomore years: \$10,000/yr; Junior and Senior Years: \$40,000/yr
- US College pays offshore college \$7,000/yr/student for freshman and sophomore years

**Chart 1
Offshoring - Benefit to Student**

	No Offshoring Class Size 1000	Offshoring Class Size 2000	Net Saving	Discount (%)
Tuition - 4 yrs	\$160,000	\$100,000	\$60,000	37.5%
Annual Tuition	\$40,000	\$25,000	\$15,000	37.5%

Benefits to Students include:

- Total savings of \$60,000 over four years, representing a 37.5% discount from current plan
- Benefits of two years study abroad include cultural experiences and exposure to students who will be future competitors for jobs
- Students will be proximate to and have first hand view of likely job markets

**Chart 2
Offshoring - Benefit to University**

	No Offshoring Class Size 1000	Offshoring – Class Size 2000	Net Gain	Premium (%)
Total Revenue/yr	\$160,000,000	\$172,000,000	\$12,000,000	7.5%
Discount to Students	-0-	\$120,000,000	\$120,000,000	
Total Revenue & Discount	\$160,000,000	\$292,000,000	\$132,000,000	82.5%

Benefits to the university include:

- Total revenues increase by \$12 million per year without the need to increase facilities or infrastructure.
- Offshoring enables the university to offer a tuition discount of 37% per student over four years at no out-of-pocket cost to itself. Equivalent resources required to do so would be \$120 million per year.
- Total Revenue and benefits accruing to the university are equivalent to an 82.5% gain over the status quo.

Conclusions

Some American universities may lack the means or will to pursue productivity increases enabled by technology and managerial best practices, including offshoring. Others may resist offshoring on the grounds it would dilute their image and brand. Perhaps, but those are marketing choices, and the same universities cannot also lament their ever higher tuitions.

Universities will increasingly be exposed to economic forces and consequences facing inefficient companies in the private sector. Nor can they count on panicky consumers to pay any price of admission, especially as jobs cannot be guaranteed in a globalized economy. Additionally, more parents and students will simply calculate the better cost/benefit alternative is to do all four years of college offshore at a total cost of \$40,000. College tuition, meet the future.

Ernie Nounou is a founder of www.thethinktank.biz. A Wharton graduate he is a Founding Partner of The Catalytic Group, Inc., a New York based Technology firm. Prior to that he was with the International Division of Manufacturers Hanover Trust (now JP Morgan Chase) and a member of the Board of Directors of UMB Bank and Trust in New York. He can be reached at ernie@catalyticgroup.com.