Higher education's business model is not under pressure. It is structurally failing. Enrollment is falling because students have done the math — and the ROI no longer justifies the cost. The institutions that survive the next decade will not be the ones that cut carefully. They will be the ones that finally see their economics clearly enough to act.

The Cost-to-Serve Framework for Higher Education

A transitional model evolving from Activity-Based Costing toward institutional ROI discipline.

Most higher education institutions are making portfolio decisions — which programs to sustain, which to restructure, which to close — without knowing what anything actually costs. But the cost problem is only the symptom. The underlying disease is structural: a governance model where almost anyone can say no and almost no one can say yes; tenure and union agreements that eliminate the labor flexibility every other industry takes for granted; a STEM cost structure built on labs and equipment that bears no resemblance to the arts programs it is implicitly subsidizing; and a tuition model that kept raising prices long after the value proposition stopped justifying them. Students noticed before the institutions did. Enrollment is the market's verdict.

This framework is not a diagnosis — institutions already sense what is wrong. It is a rigorous methodology for seeing the economics clearly enough to act: where the money actually goes, which programs are viable and which are being sustained by cross-subsidies that are no longer affordable, and where the constraints are real versus where they are cultural. That distinction matters enormously, because in a system where inertia is protected by governance structure, the difference between a constraint and a habit determines what change is actually possible.

WHY THIS MATTERS NOW

Five structural pressures are converging simultaneously: NIL-driven athletics revenue erosion; declining enrollment meaning fewer students to amortize fixed costs; STEM cost inflation creating differentiated cost structures; fixed labor structures (tenure, union agreements) eliminating cost flexibility; and declining government funding shifting more burden to tuition and philanthropy.

Introduction

This paper outlines a **cost-to-serve framework** tailored to the financial and operational realities facing higher education. It represents an evolution of **activity-based costing**, adapted to the structural constraints of academic institutions and the pressures reshaping the sector — including **NIL-driven athletics revenue erosion**, **declining enrollment**, **STEM cost inflation**, **fixed labor structures**, and **reduced public funding**.

The model is intentionally positioned between traditional costing methods and a full **balance-sheet ROI approach**. Its purpose is to give institutional leaders a clear view of program-level economics, cross-subsidies, and structural cost drivers, enabling more grounded decisions about academic portfolio strategy, technology investment, and long-term sustainability.

My goal in providing this paper is to demonstrate both my command of the issues and the **strategic discipline** I bring to IT and operational transformation engagements. The framework is designed to be practical, transparent, and immediately usable as a decision-support tool for institutions navigating a period of profound change.

Purpose and Positioning of the Model

- Bridge between ABC and ROI: Moves beyond traditional ABC by incorporating structural constraints unique to higher ed (tenure, unionization, accreditation, fixed facilities).
- Focus on unit economics: Defines the true cost of delivering a credit hour, a major, a program, or a student experience.
- Decision-support tool: Enables leadership to understand where the institution earns, subsidizes, or loses money — without yet requiring full capital-accountable ROI modeling.
- Strategic relevance: Addresses the current financial shocks reshaping
- 'the sector: NIL-driven athletics revenue erosion, enrollment contraction, STEM cost inflation, and declining public funding.

The Core Components

Cost Objects: Programs, departments, modalities (in-person, hybrid, online), student segments, and co-curricular units.

Cost Drivers: Faculty labor, lab intensity, facilities usage, student services consumption, advising load, compliance requirements.

Fixed vs. Variable Cost Mapping: Tenure, union contracts, facilities, accreditation requirements, and minimum staffing levels — the constraints that make higher education structurally different from every other sector.

Revenue Attribution: Tuition, fees, grants, philanthropy, auxiliary services, athletics, and government appropriations — mapped to programs, not just institutions.

Cross-Subsidy Identification: Which programs subsidize others — and whether those subsidies are strategic (mission-aligned) or accidental.

The Five Sector Pressures the Model Must Address

1. **NIL and athletics revenue erosion.** NIL reduces the institution's ability to monetize star athletes. Athletics becomes a net cost center unless restructured — requiring transparent allocation of coaching salaries, facilities, travel, and compliance.
2. **Declining enrollment.** Fewer students to amortize fixed costs. Discount rates rising; net tuition revenue falling. Programs with high fixed instructional costs become disproportionately expensive as enrollment drops.
3. **STEM cost inflation.** Lab and equipment intensity, consumables, safety compliance, specialized equipment. Faculty scarcity as industry salaries outcompete academia. STEM programs require differentiated costing models — they cannot be benchmarked against humanities or social sciences.
4. **Fixed cost structures.** Limited flexibility to scale faculty up or down with enrollment. Contractual minimum staffing levels, step increases, and work-rule constraints. Fixed costs must be allocated proportionally to programs, revealing true economic viability.
5. **Declining government funding.** Reduced per-student appropriations shift more cost burden to tuition and philanthropy. Programs previously sustained by public subsidy now require internal cross-subsidy or restructuring.

> *"Cost-to-Serve reveals the economics. Balance-sheet ROI reveals the capital consequences. Together, they form a two-stage transformation model."*

Methodology for Calculating Cost-to-Serve

I. Identify and Classify Costs

- Direct instructional costs: Faculty salaries, adjuncts, lab techs, teaching assistants.
- Direct program costs: Labs, equipment, accreditation, clinical placements.
- Shared services: Advising, registrar, IT, libraries, student services.
- Facilities and overhead: Classroom utilization, lab space, athletics facilities, utilities.

II. Allocate Costs Using Activity-Based Principles

- Time allocation: Teaching load, research load, service obligations.
- Space utilization: Lab hours, classroom hours, specialized facilities.
- Student consumption patterns: Advising intensity, tutoring, mental health services, career services.

III. Calculate Unit Economics

- Cost per credit hour
- Cost per major
- Cost per student segment
- Cost per program completion

IV. Compare Unit Costs to Revenue

- Net tuition revenue by program
- Auxiliary and grant revenue attribution
- Cross-subsidy mapping

V. Strategic Insights the Model Enables

- Which programs are structurally profitable vs. structurally loss-making
- Where fixed costs create unavoidable drag
- Which subsidies are strategic (mission-aligned) vs. accidental
- Where enrollment declines create existential risk
- Where STEM investment is justified vs. unsustainable
- How athletics must be restructured post-NIL

VI. How This Model Sets the Stage for Your Balance-Sheet ROI Framework

- Cost-to-Serve reveals the economics;
- Balance-sheet ROI reveals the capital consequences.
- Together, they form a two-stage transformation model:
    1. Understand the true cost of delivering education.
    2. Align capital, labor, and strategy to maximize institutional viability.

What the Model Enables

The framework surfaces: which programs are structurally profitable vs. structurally loss-making; where fixed costs create unavoidable drag; which subsidies are strategic vs. accidental; where enrollment declines create existential risk; where STEM investment is justified vs. unsustainable; and how athletics must be restructured post-NIL.

Unit economics are calculated at the program level: cost per credit hour, cost per major, cost per student segment, cost per program completion — compared to net tuition revenue by program, auxiliary and grant revenue attribution, and cross-subsidy mapping.

KEY TAKEAWAYS

→ Institutions are making portfolio decisions — sustain, restructure, close — without knowing what anything costs. This framework solves that.

→ Cross-subsidy identification is the core strategic insight: which subsidies are mission-aligned vs. accidental determines where restructuring must begin.

→ STEM programs require differentiated costing models — they cannot be benchmarked against humanities or social sciences.

→ NIL transforms athletics from a revenue contributor to a net cost center in most institutions unless explicitly restructured.

→ Cost-to-Serve reveals the economics. Balance-sheet ROI reveals the capital consequences. Neither alone is sufficient for institutional strategy.

PLATEAU STRATEGY

Capital Efficacy Series

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Four continents. Multiple capital cycles. I've watched brilliant CFOs get blindsided — by vendors selling certainty, by organizations caught in politics, by leaders advancing careers ahead of the balance sheet.

We work alongside CFOs so they walk into every room ready for the conversation that defines whether they keep the seat.

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