



# ARETE NEWS UPDATE

Arete (Gk.):  
pursuit of  
excellence,  
mountaintop

## COST & BUDGET ISSUE

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### **GOVERNMENT to face fiscal crisis**

New York State failed to take advantage of the booming economy of the past five years to achieve budget stability. As a result, major budget shortfalls loom, beginning in 2002 as new spending programs initiated with surplus taxes outpace projected revenues. The State Comptroller, Carl McCall, and private fiscal watchdogs

### **BOE bureaucracy bloating again**

The New York City Board of Education, which downsized central personnel to 2,500 in 1994 following years of complaints about bureaucratic bloating, has burgeoned to half again the size. The staff at 110 Livingston St., widely viewed as costly and meddlesome, has added 1,200 positions in the past five years, reversing the trend toward streamlining.

### **NONPROFIT agencies imperiled**

Corresponding to vastly increased competition for grants and contracts, the nonprofit sector is in a period of consolidation. Small agencies — which in pure numbers comprise the vast majority of the sector and tend to serve needy groups in the outer boroughs of New York City — are especially vulnerable. Poor neighborhoods often suffer most severely as small

### **COLLEGE costs continue to rise**

Colleges and universities look for ways to become more entrepreneurial in developing new revenue streams to control the rising costs of tuition. At \$80,000 - \$140,000 for a four-year education, the costs are strapping middle class families. Seeking to keep up with the times, schools juggle fiscal and educational constraints in a never-ending tug of war

### **CORPORATE mergers threaten small- and mid-cap companies**

Aggressive supply chain cost controls and heavy investment in automated systems and information management are key elements in combating blockbuster competition. Hearing the news of one proposed \$80 billion merger, the CEO of a small company said, "For us it's like Samson vs. Goliath" (*sic*).

## **IN THE NEW MILLENNIUM,**

## **NAVIGATING COST ISSUES WITHOUT LOSING YOUR SOUL**

**T**he latest news about the fortunes of government, nonprofit and private enterprise has a familiar ring. Each headline describes a recent twist on recurring themes that Arete projects have addressed. For example, **Downsizing 110 Livingston Street**, our seminal report published seven years ago, predicted that—after carrying out the required staff reductions—the New York City Board of Education would allow its bureaucratic headcount to swing upward again. At last count there were 3,700 bureaucrats at “110”—18 new high-level positions added in October 1999 alone. Inside this “Update,” we outline Arete projects over the past year and a half that relate to each of the other headlines.

**Cost issues nearly always loom around the corner.** To an organization they can seem overwhelming, raising havoc as leadership tries to hold onto the core mission. Cost controls, outcome measurement, quality service delivery, strategic planning and research for future positioning: for any agency or company operating in the competitive marketplace, these remain perennial challenges. How does an organization navigate ever-changing budgetary and economic issues without losing the soul of its mission? As we close in on Y2K, the pace of change is astonishing — a truism if there ever was one. Yet the new technologies and expertise identified with that change are crucial to the health, welfare and sometimes survival of the companies and agencies that are our clients.

### **What will the competitive horizon look like ten years from now?**

The truth: we have no crystal ball. But we do have the skills and know-how to field whatever comes up. We have the capacity to assemble and analyze the best available information, an agility with sophisticated technologies, a bank of talented experts who staff our project teams, a depth and breadth of experience, and ability to really listen to our clients to make sure we address their needs. These are the critical factors in solving the problems that arise.

***Fiscal constraints are a reality; compromising the quality of service should never be one.***

**This issue of our newsletter** highlights the cost dimension of some of our recent projects. Revenues and costs are rarely neutral factors in decision-making. At the same time, we believe it is crucial to have a deep understanding of operational goals so that budget considerations serve programmatic needs and not vice versa. Arete has worked with a wide variety of agencies, companies, schools, and associations on these issues. When skillfully handled, budgetary challenges may spur creative and positive changes whose benefits to the institution reach beyond the purely economic. Fiscal constraints are a reality; compromising the quality of service should never be one.

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## NONPROFITS

### Inter-Agency Collaboration

By 1995, repeated years of government budget cuts had battered social service agencies that provide essential services to New York's vulnerable populations. The **United Way of New York City**, along with some two dozen foundations and corporations, developed an innovative approach to encourage nonprofits to collaborate. The **Strategic Alliance Fund (SAF)** offered start-up funds for inter-agency collaboratives that would take advantage of economies of scale.

*“Arete immediately focuses on critical issues; their fine analytical skills give clients a full understanding and a clear course of direction.”*

*—Ralph Dickerson  
President, United Way of NYC*

Arete's evaluation of this program showed that its benefits were enormous. The budgetary impacts were particularly impressive: in the first two years, 35 collaboratives generated over \$4.25 million in cost savings and new income, far exceeding the \$2 million invested by the SAF. Many also launched ambitious new programs and drew on each other's expertise to enhance existing services. Most demonstrably improved services to their clients and often expanded to new populations.

Arete also learned about what makes for successful collaboration. This information is crucial at a time of increasing interest in mergers, alliances, and partnerships, in the business world and in the nonprofit sector. The right combination of objectives, dynamics, and working procedures can produce a whole greater than the sum of its parts, offering tangible benefits to every partner.

### Fund Distribution

In 1998, the **United Way of New York City** asked Arete to help revise the standards and the formula for distributing funds to their member agencies. Important goals were donor confidence, responsiveness to changing needs, a cost-effective process, and impact on the urgent human service issues facing New York City. In addition, it was important to make the system as equitable as possible. We recommended and tested components for the new formula, which United Way adopted. Since implementing the new approach, United Way is able to be more responsive to the realities of its member agencies, as well as to the city's most critical needs, while at the same time it distributes funds more equitably.

## COMMUNITY PLANNING

### Soviet Emigrés in Southern Brooklyn

Southern Brooklyn has the largest concentration in the United States of emigrés from the former Soviet Union. The **UJA/Federation of New York** is deeply concerned about the adequacy of resources to address social services of this population and about the financial health and management of two of its member agencies that serve very large numbers of former Soviets. Under the auspices of a specially formed task force, Arete assessed the management, financial, and programmatic capacities of both agencies and prepared a community needs analysis as the basis of an action blueprint.

## CORPORATE

### Logistics, Freight Cost Control

**Olivetti Office USA** asked Arete to identify the reasons for sharp increases in freight costs and to bring these under control. Our sophisticated analysis of Olivetti's operations and of its order and shipping database pinpointed several causes and solutions to this problem. Following our recommendation, the company set up a new distribution center in the Midwest, consolidated trucking contracts to leverage volume discounts, and began coordinating various functions in the supply chain operation. As a result, the freight costs are now in line.

*“Arete helped us tremendously. They opened possibilities we hadn't even thought of.”*

*—Salomon Suwalsky  
President, Olivetti USA*

## HIGHER EDUCATION

Quality and Innovation On-line

**Stevens Institute of Technology (SIT)**, a premier engineering and science college in New Jersey, decided to launch a new on-line Master's degree program for one of its departments. SIT's first concern was top-notch quality that would set their program apart from the bandwagon of colleges and universities rushing to offer on-line courses. They were also interested in reaching a new and larger market of students, and in generating a new income flow to offset the rising costs of higher education. Arete was engaged to develop a business and implementation plan.

We developed a model for testing various scenarios of revenues vs. expense, to ensure that the large investment necessary for such a high-quality program would be economically feasible. We then arrived at a set of recommendations. *Stevens adopted the Arete plan, expanding it to all divisions of the university.*

Subsequently, Arete directed **SIT's successful effort to obtain a prestigious grant from the National Science Foundation** to install the infrastructure for very high bandwidth networks (**VBNS**), informally known as "Internet 2" (second generation of the Internet). We are currently assisting SIT with a software research and development project.

*"Every project they touch is a home run. They quickly size up issues, organize us, and assemble the information we need."*

—Susan Vogt  
Vice President, Stevens

## CHILD CARE AGENDA

Action Agenda for Systemic Change

As the **United Way of New York City** re-examined its priorities in fund distribution, several target areas emerged for special focus. One of the most crucial was child care. It was clear that a significant need exists but less obvious how to distribute United Way funds in order to leverage the greatest impact.

Using surveys, interviews, and focus groups — "**Voices from the Field**" — we tapped existing expertise in New York City. In addition, we reviewed literature and reports. We invited over 150 people to speak with us and to prepare brief concept papers describing initiatives United Way might consider. We then arrived at a series of recommendations: a significant policy study, a central information network, support of education and training for childcare professionals, and a major publicity campaign. All these projects are now underway.

## POLICY RESEARCH

Service Impacts of Budget Cuts in NYC

Successive years of budget cuts in the early 1990s were variously characterized as draconian and devastating, or prudent waste reduction and overdue house-cleaning. There were differing pronouncements about the magnitude of the reductions, and the likely effects, particularly for the most needy. Little was known about how reported cuts actually affected individuals and families, or how services and community-based organizations coped with funding changes.

Arete conducted a massive study of budget changes in New York City and their impact on seven social service sectors. The result was a highly regarded report, **Winners and Losers: Impacts of Budget Changes on Social Services and on Community Districts in New York City, 1993-1996**. The report, which was the **Newsday** cover story, drew fire from the Giuliani Administration, but no evidence to rebut the findings.

*"The Arete report is an essential resource for policy and social services in New York City. Its careful research sifts out the facts amid the rhetoric."*

—Jack Krauskopf, President  
Coalition for Supportive Housing

The study contained five major sets of findings: actual budget changes by service sector; gross inequities in fund distribution across the city; changing dynamics of the social service nonprofit sector; cumulative impacts on three neighborhoods; and case studies of client/program impacts in each of the seven sectors. In some social service areas, funding actually increased, but services for children saw drastic reductions. At the same time, the geographic distribution of contracts varied dramatically, with Manhattan receiving 7½ times the per capita share of Queens. In a world of speculation and misinformation, our report documents facts and trends affecting vulnerable populations in New York City.



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...HOW TO TURN **\$\$** INTO **\$\$**

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