



Education
Advisory
Board

Academic Affairs Forum

A Business Model Under **Threat**

Understanding the Enrollment Downturn

The EAB “MOOC Mania” Tour

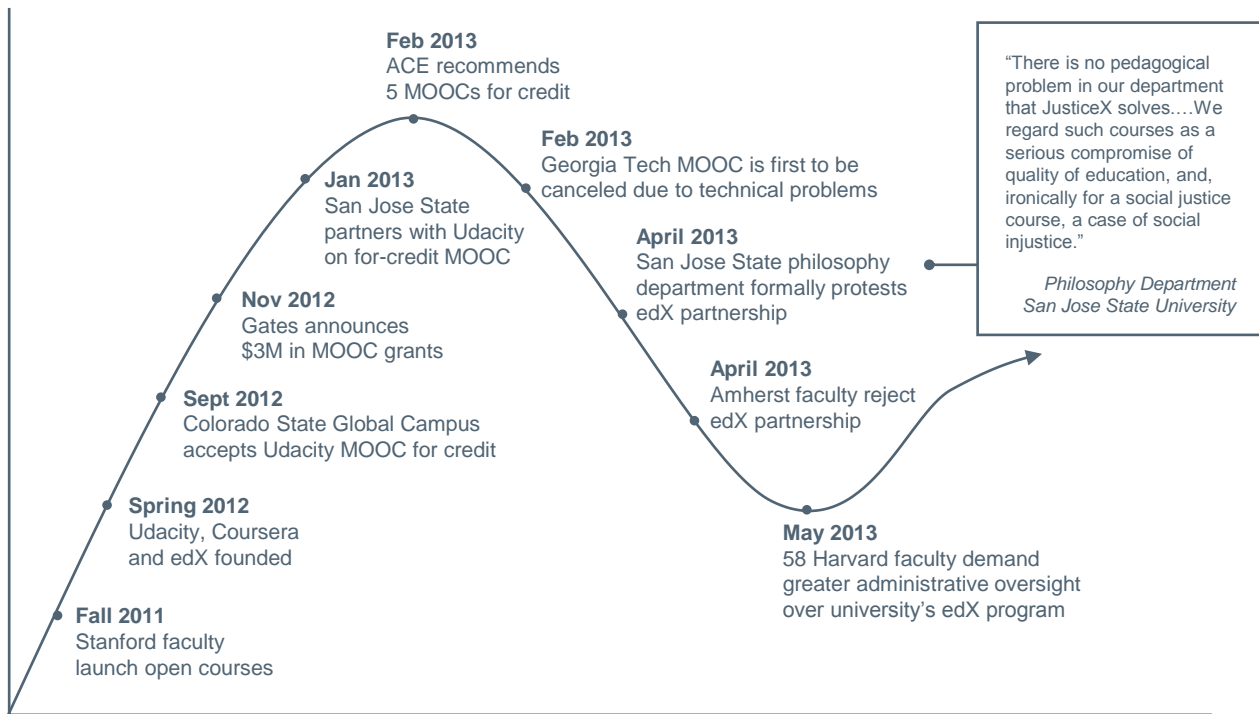
The Hottest Topic on Campuses Across North America





Hitting the Trough of Disillusionment

Another Confirmation of the Technology Hype Cycle



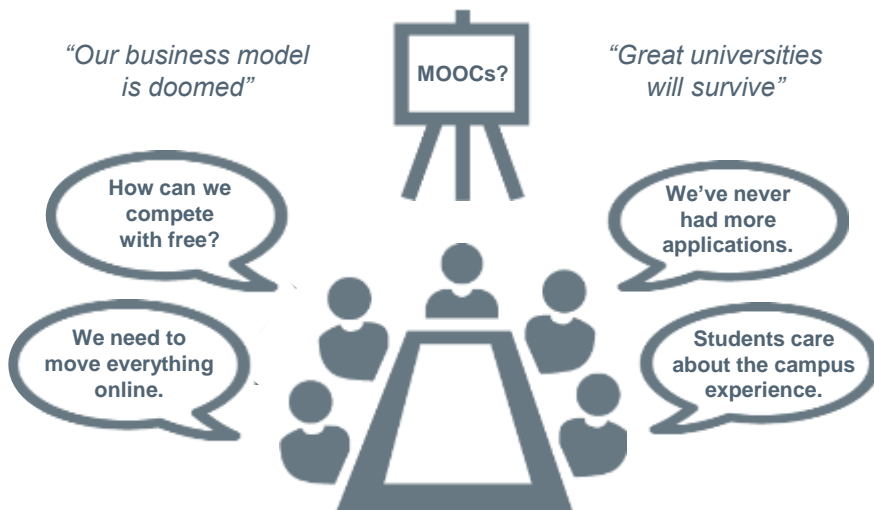
Disruption Revisited: A Dialogue of Extremes

Senior Leaders Divided between Alarmism and Complacency



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The Disruption Debate at Many Board Retreats



The Question Behind the Question



MOOC Questions Highlight Uncomfortable Issues for Higher Education

Why People Love MOOCs

What's Wrong with Higher Education

Open

How can we improve racial and socio-economic diversity?

Large-Scale

How can we overcome capacity bottlenecks?

Free to
Students

Are we becoming unaffordable to most students?

Low Cost to
Provide

Is it possible to bring down cost per student?

Global
Audience

Are we trapped by regional demographics?

Elite

How will we ever compete with wealthier, higher ranked universities?

The Bigger Issues Behind “MOOC Mania”

Critical Strategic Concerns for Institutional Leadership



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The Current MOOC Debate



Governors

“Can we use MOOCs as low cost alternatives?”



Administrators

“Will we fall behind if we don’t do a MOOC?”



Boards

“Will students abandon us for MOOCs?”



Faculty

“Will MOOCs make us expendable?”

The True Agenda

1 Sustaining Tuition Revenue

- Declining public funding
- New student markets
- Evolving student preferences
- Challenges to affordability
- New types of competitors
- Student success challenges

2 Building an Online Strategy

- Innovative program designs
- Improved instructional quality
- Economies of scale
- Regulatory risk
- Faculty development
- Student support services



Impressively Resilient

Non-Profits Outperform For-Profits and Two-Years in the Recession

Annual Percentage Change in Total Enrollment by Sector, 2010-2013

4-Year Publics

Faced moderate declines compared to other sectors

4-Year Privates

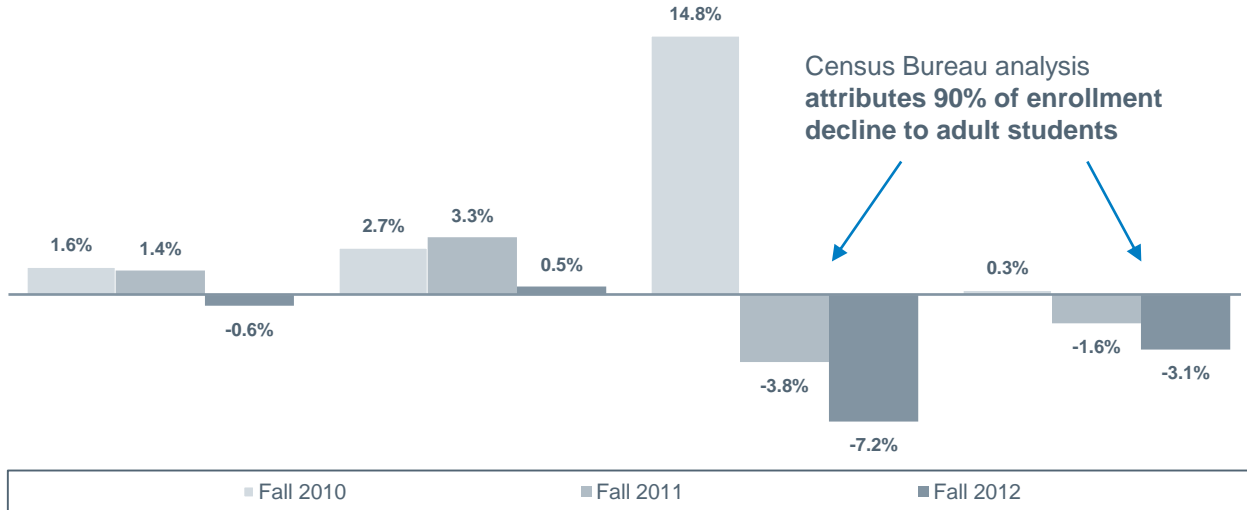
Have continued to grow despite high cost

4-Year For-Profits

Plummeting figures after 2010 political controversy

2-Year Publics

Restricted by funding cuts and capacity constraints



Source: National Student Clearinghouse Research Center, Term Enrollment Estimates, Fall 2012; U.S. Census Bureau, "After a Recent Upswing, College Enrollment Declines, Census Bureau Reports,"; Education Advisory Board interviews and analysis.

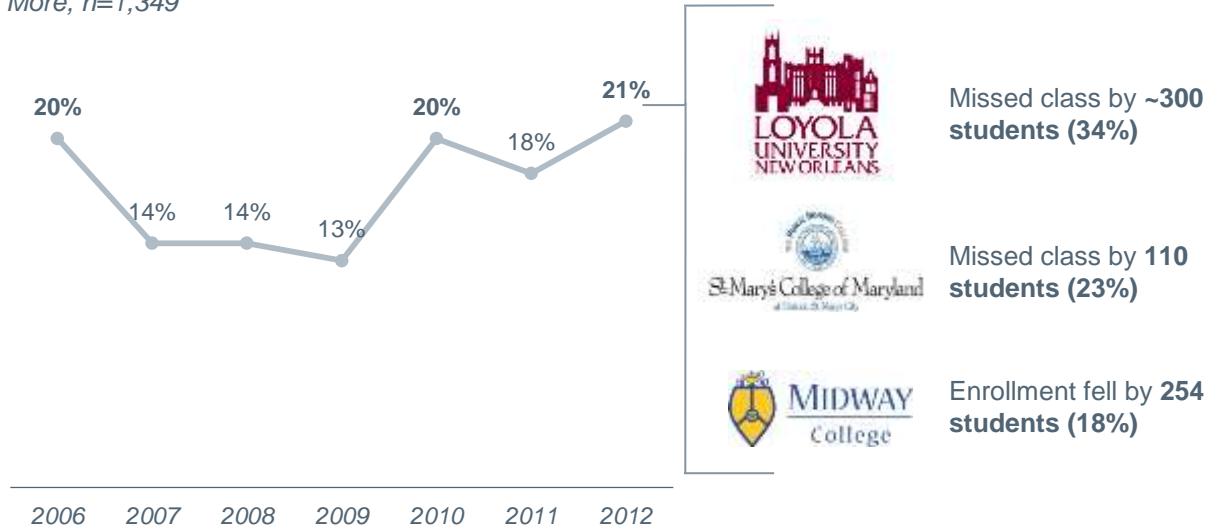


Blip on the Radar or the New Normal?

Despite Steady Aggregate Numbers, Greater Volatility for Many Institutions

More Colleges Missing Their Class Than Ever

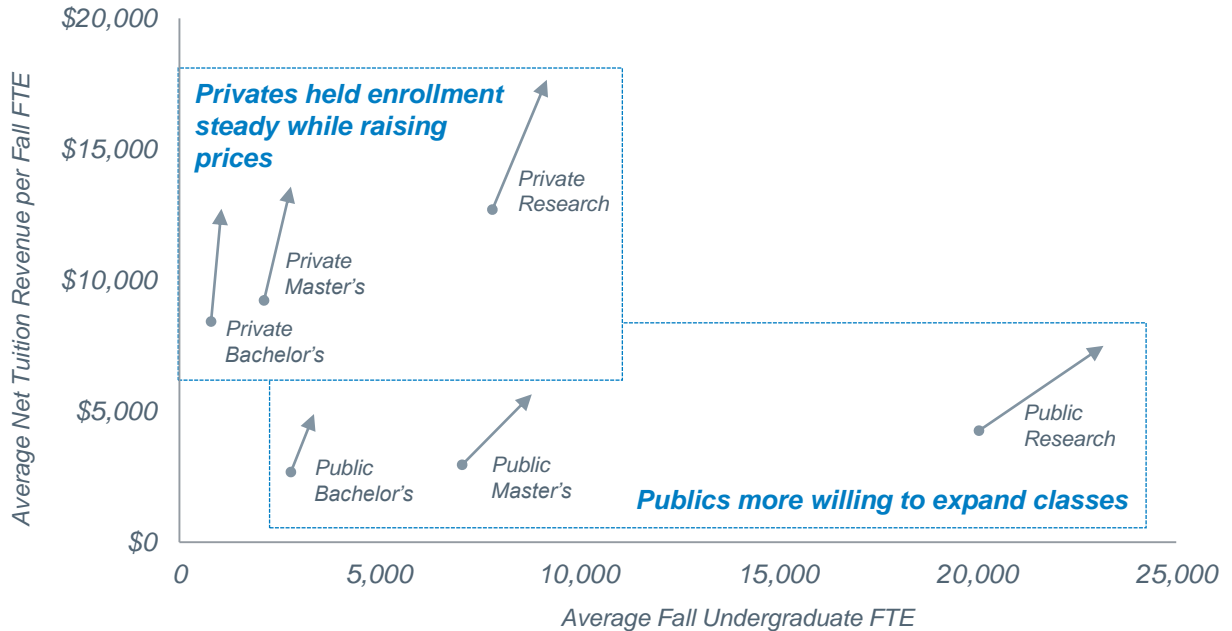
Four-Year Institutions with Enrollment Shortfalls of 10% or More, n=1,349



A Good Run While It Lasted

Privates Leveraged Price, Publics Expanded Headcount

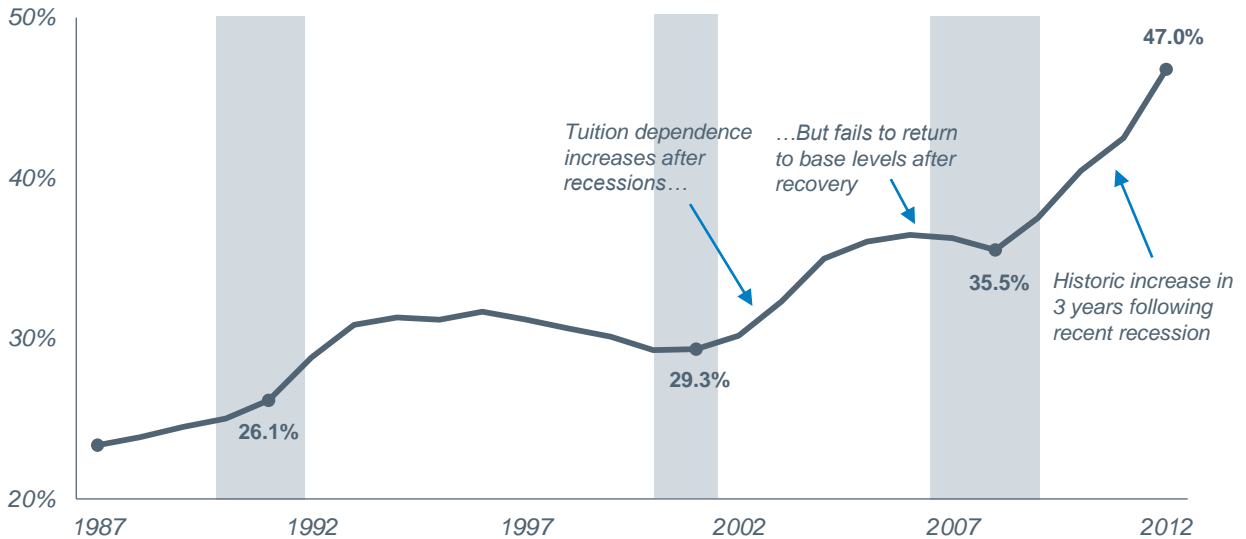
Growth in FTE Enrollment and Net Tuition Revenue per FTE, 2002-2010



The Flip Side of Enrollment Growth

An Unprecedented Jump in Tuition Dependence

Tuition as a Percentage of Educational Revenues for Public Universities, 1986-2012



1) Shaded areas indicate recessions

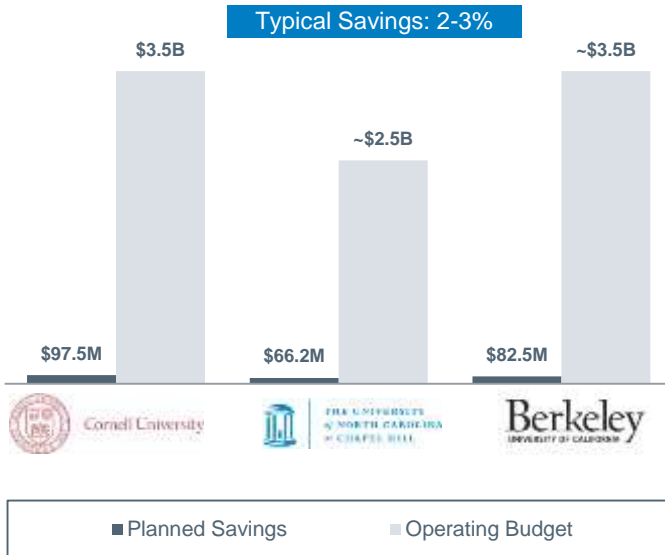
Source: SHEEO, "State Higher Education Finance FY 2012"; Education Advisory Board interviews and analysis.

Blood From a Stone

Cost-Savings Measures a One-Time Windfall, Not a Panacea



Prominent Consulting Engagements Achieve Savings...



... But Not a Long-Term Solution



“Cost containment is an important issue, but **once you’ve achieved it, you won’t become more efficient every year.** At some point there has to be revenue growth.”

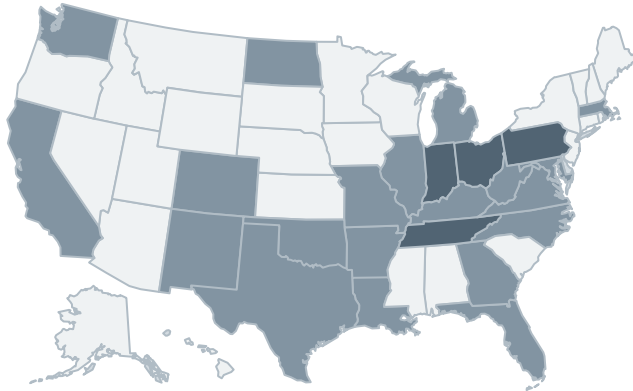
*Higher Education Analyst
Credit Rating Agency*



Performance-Based Funding 2.0

State Funding That Remains Will Have More Strings Attached Than Ever

Performance Funding Spreading Across Nation (Again)



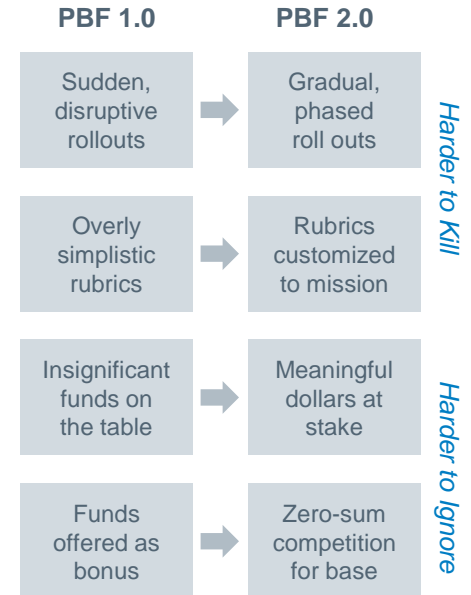
■ Before 2010:

- Pennsylvania
- Indiana
- Tennessee
- Ohio

■ After 2010:

24 states (and counting) have now approved or are currently planning new funding models

Why This Time May Be Different



Downgrading the Entire Sector

Moody's Highlights Threats to Revenue

MOODY'S INVESTORS SERVICE

“For 2013, Moody’s revises its outlook for the entire US higher education sector to negative... The new sector-wide negative outlook reflects mounting pressure on all key university revenue sources... The sector will need to adjust to the prospect of prolonged muted revenue growth.”

Pressure and Uncertainty Around All Revenue Sources

- Household income and wealth
- Philanthropic support
- Investment returns
- State appropriations
- Federal research funding
- Medicaid and Medicare
- Pell grants



Elite Schools Not Immune

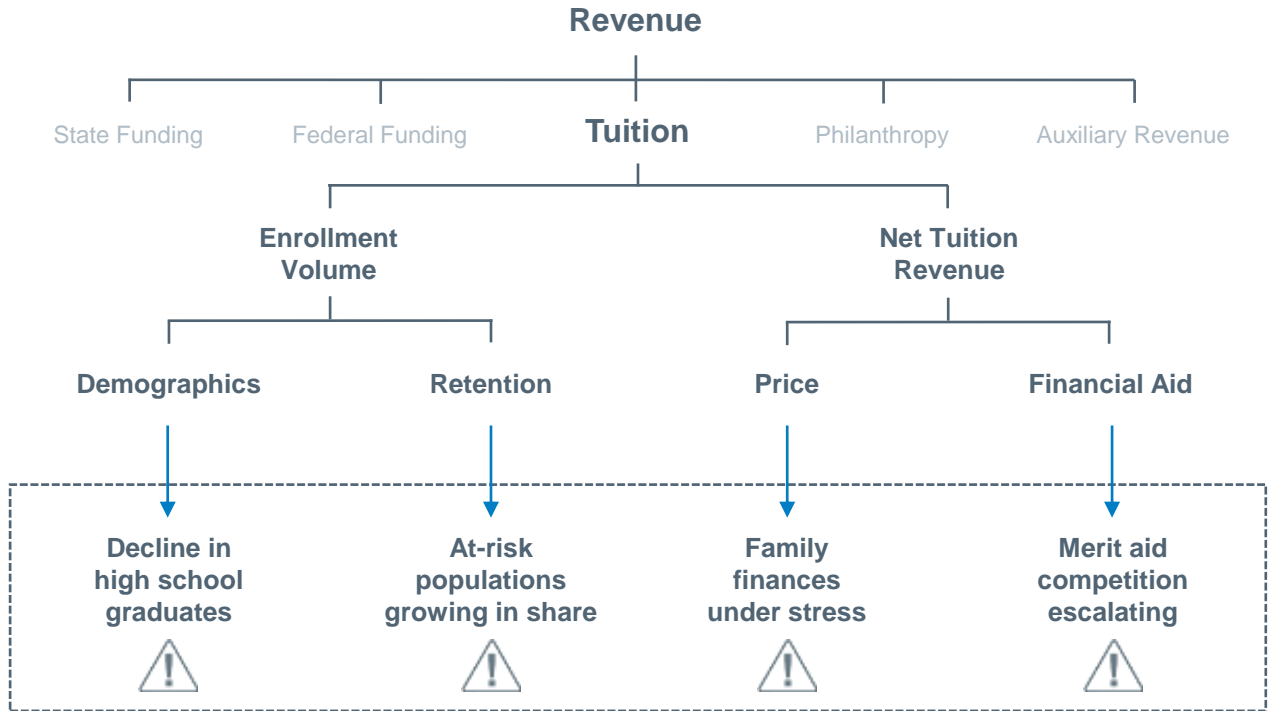
“Over the past year and a half, the credit ratings of several prestigious liberal arts colleges have been downgraded or assigned a negative outlook by Moody’s Investor Service... These are institutions – **Haverford College, Morehouse College, Oberlin College, and Wellesley College** – that top students seek out...”

Ry Rivard, Inside Higher Ed



What Got Us Here Won't Get Us There

Revenue “Tailwinds” Can't Be Relied On Going Forward

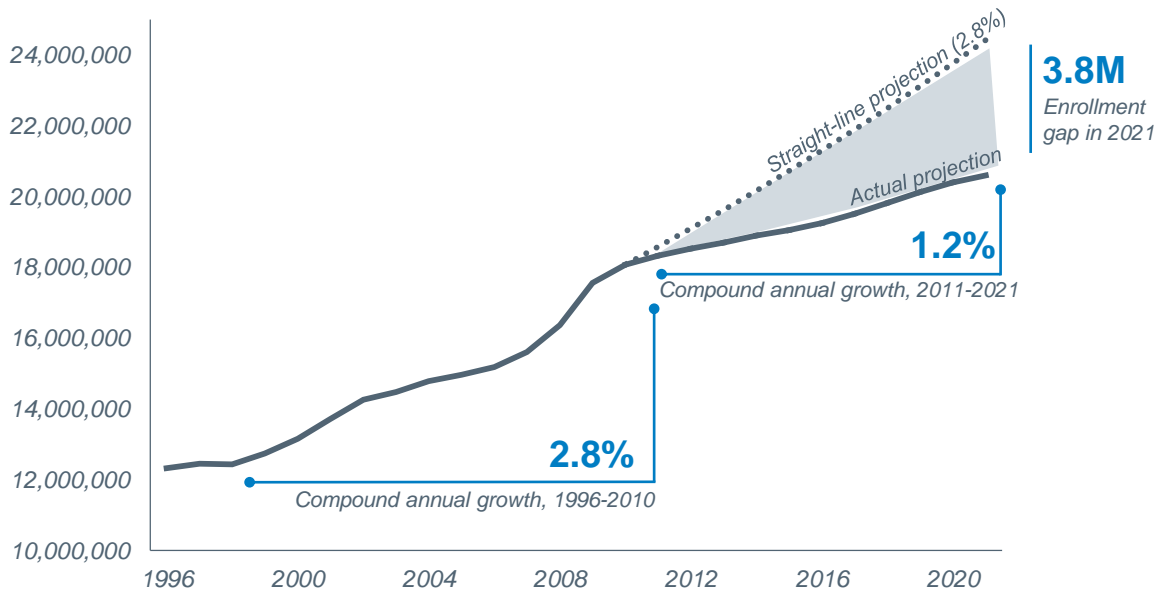




Mind the Gap

Enrollments Will Continue to Grow, But at a Slower Rate

Total Fall Enrollment, 1996-2021 (projected)



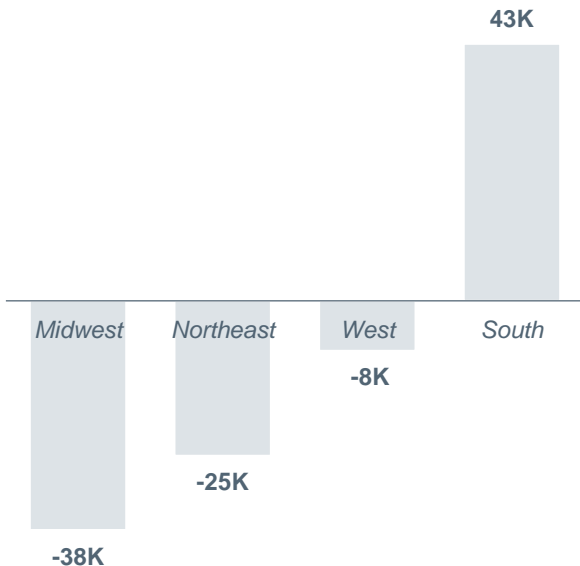
Source: National Center for Education Statistics, Projections of Education Statistics to 2021, Jan 2013; National Center for Education Statistics, "Table 214," Digest of Education Statistics; Education Advisory Board interviews and analysis.



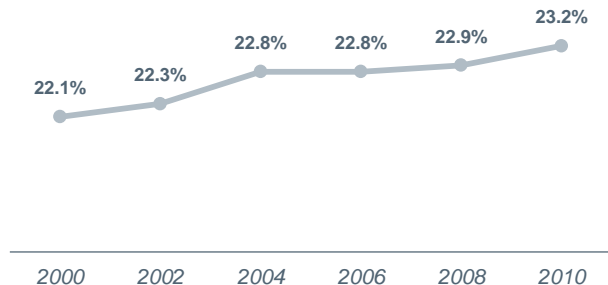
Location Matters, Still

But Some Regions Will Face Significant Demographic Headwinds

Net Change in High School Graduates, 2012-2022



Percentage of Freshmen Studying Out of State, 2000-2010



1) Percentage of freshmen studying out-of-state was calculated across nonprofit four-year institutions that reported student residence and migration data to NCES in each listed year.

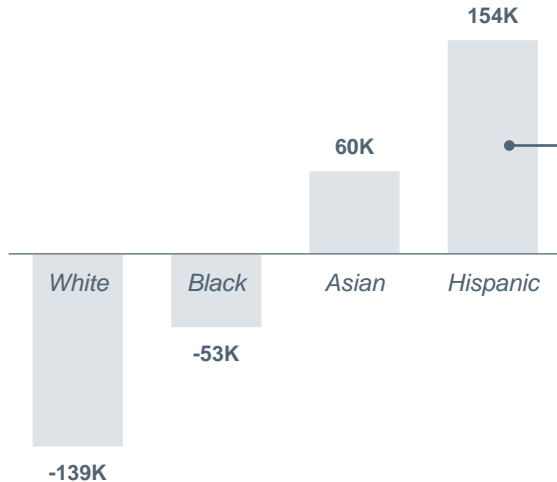
Source: WICHE, "Knocking at the College Door," Dec 2012; National Center for Education Statistics, IPEDS Data Center; Education Advisory Board interviews and analysis.



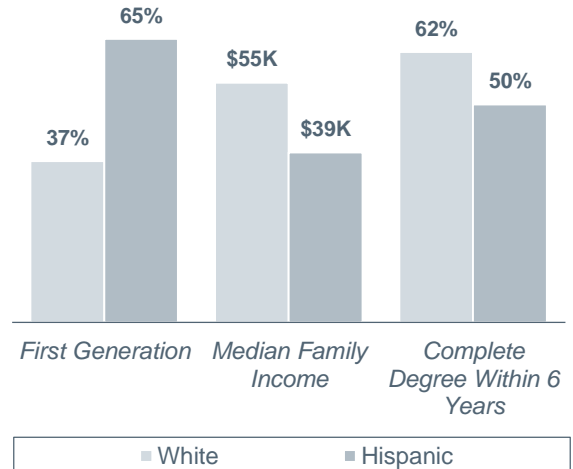
Shifting Student Mix

Demographics Will Require Greater Investment in Student Success

Projected Net Growth in High School Graduates by Race, 2011-12 to 2021-22



Distinct Challenges Facing Hispanic Students

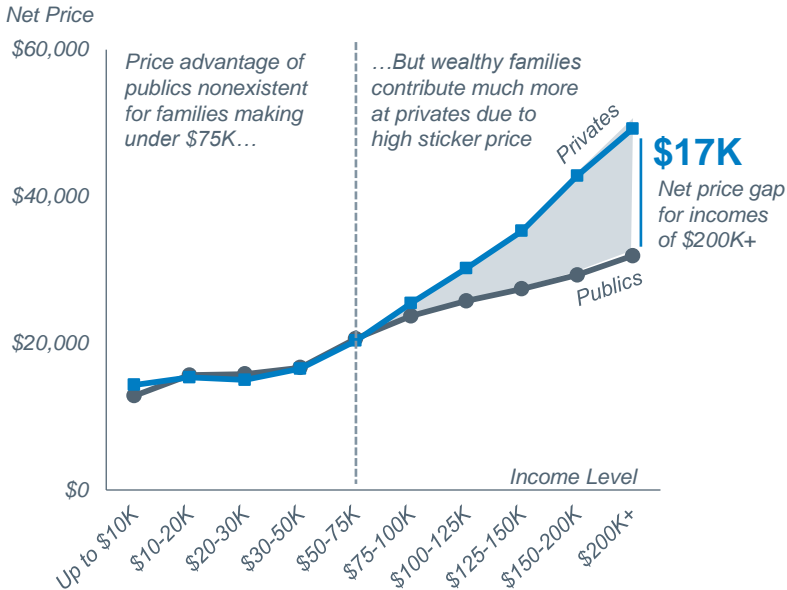




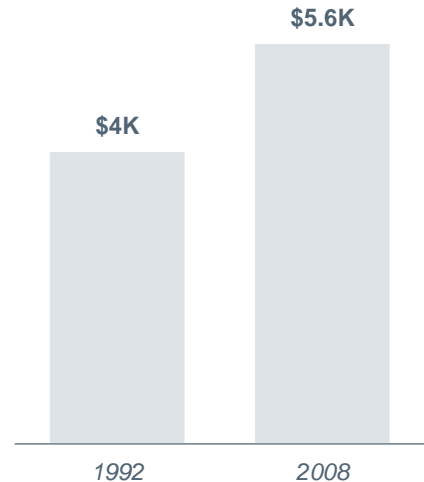
The Art of Price Discrimination

Even Publics Increasingly Rely on Full-Pay Students

Net Price by Income Level for Public and Private Institutions, 2012



Difference in Net Tuition at Publics for Highest and Lowest Income Brackets



1) Data comes from 318 public and private institutions.

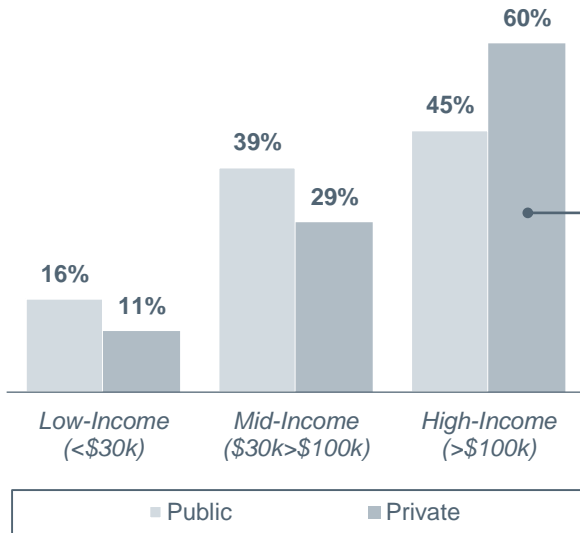


More Reliant Than We Knew on the 1%

Declining Wealth of High-Income Households Threatens Tuition Revenue

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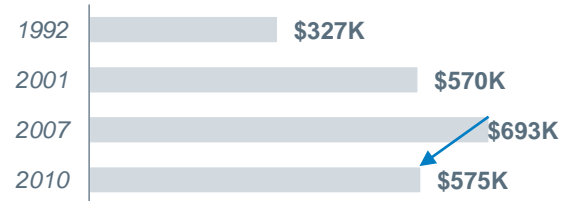
Share of Average Net Tuition Drawn from Each Income Bracket, 2012



Median Income Falling for High-Income Households



Median Net Worth Falling for High-Income Families



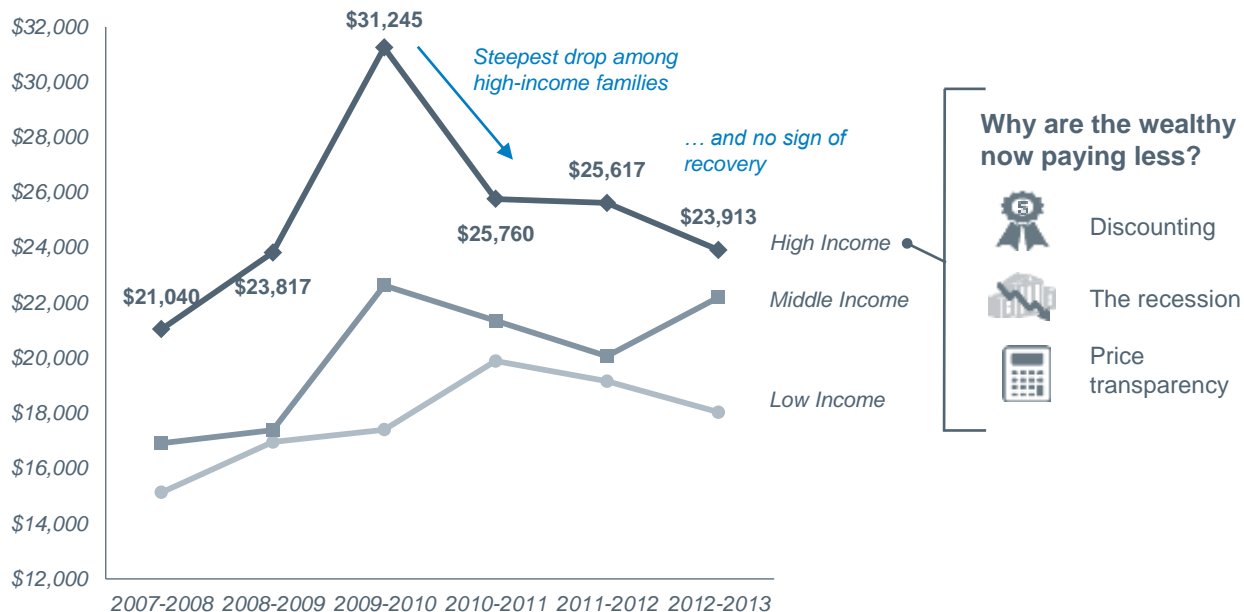
1) For the purpose of household income and net worth calculations, "high-income" refers to households with more than twice the national average income. Median household income is adjusted for household size.

Source: Greg Peretto, "Landscape of Higher Education: Net Price," Presentation at Middle States Regional Forum, 2/13/2013. Scott Jaschik, "Clashes of Money and Values: A Survey of Admissions Directors," *Inside Higher Ed*, September 21, 2011. Pew Research Center, "Fewer, Poorer, Gloomier: The Lost Decade of the Middle Class," August 2012; Education Advisory Board interviews and analysis.

High-Income Families Cut Back

Falling Family Income Threatens Ability to Pay

Average Amount Paid for College by Income Group, Year-over-Year

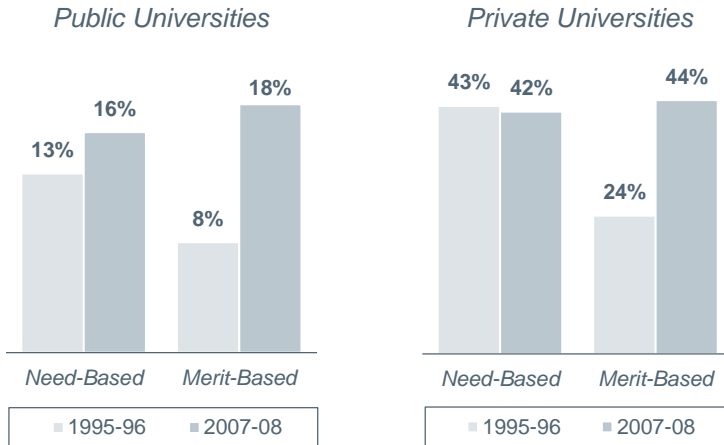




The Merit Aid Arms Race

The Unintended Consequences of the High Tuition, High Aid Model

Proportion of Students Receiving Need-based or Merit Aid



- More publics moving to high tuition, high aid model
- Out-of-state students have significantly higher incomes
- Perception that out-of-state students are crowding out minorities

- 19% of freshmen with SAT scores below 700 receive “merit” aid
- 12+ institutions charging Pell students over \$20K
- Net tuition falling despite price increases



Revenue Over Mission?

“Rather than **compete for students based on educational quality** or the extent to which institutions were effectively meeting their stated missions, usually oriented toward public service and equitable opportunity, colleges and universities competed by developing a variety of **strategies with prestige and revenue concerns at the forefront.**”

*Scott Schulz and Jerome Lucido,
Enrollment Management, Inc.*

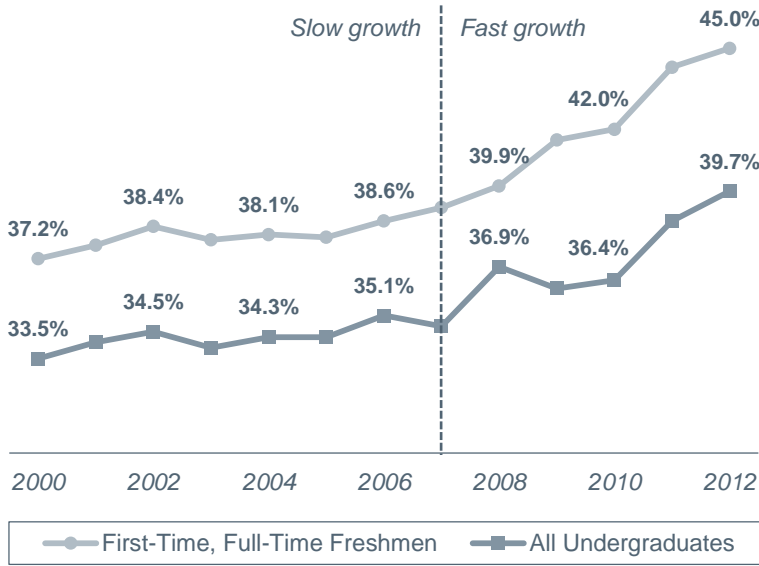
Source: Stephen Burd, “Undermining Pell: How Colleges Compete for Wealthy Students and Leave the Low-Income Behind,” May 2013; Scott Schulz and Jerome Lucido, “Enrollment Management, Inc.,” Jan 2011; Education Advisory Board interviews and analysis.



How High Can It Go?

Tuition Discount Rate Continues Its Ascent

Average Discount Rate at Private Institutions



Higher at Small Schools

Average Freshman Discount Rate by Institution Type

- 46.2%** Small Institutions
- 41.4%** Research Universities
- 40.0%** Comprehensive and Doctoral Universities

How We're Responding

Delaying the Demographically Inevitable

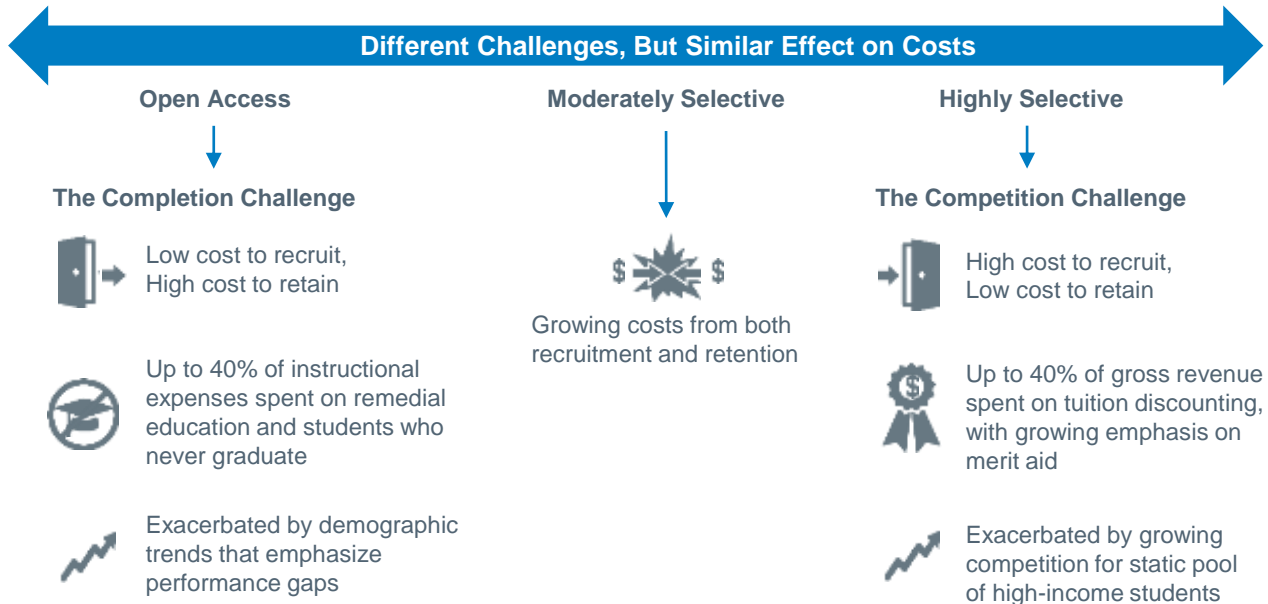


The Rising Costs of Traditional Students

Enrollment Costs Rising at Both Selective and Non-Selective Institutions

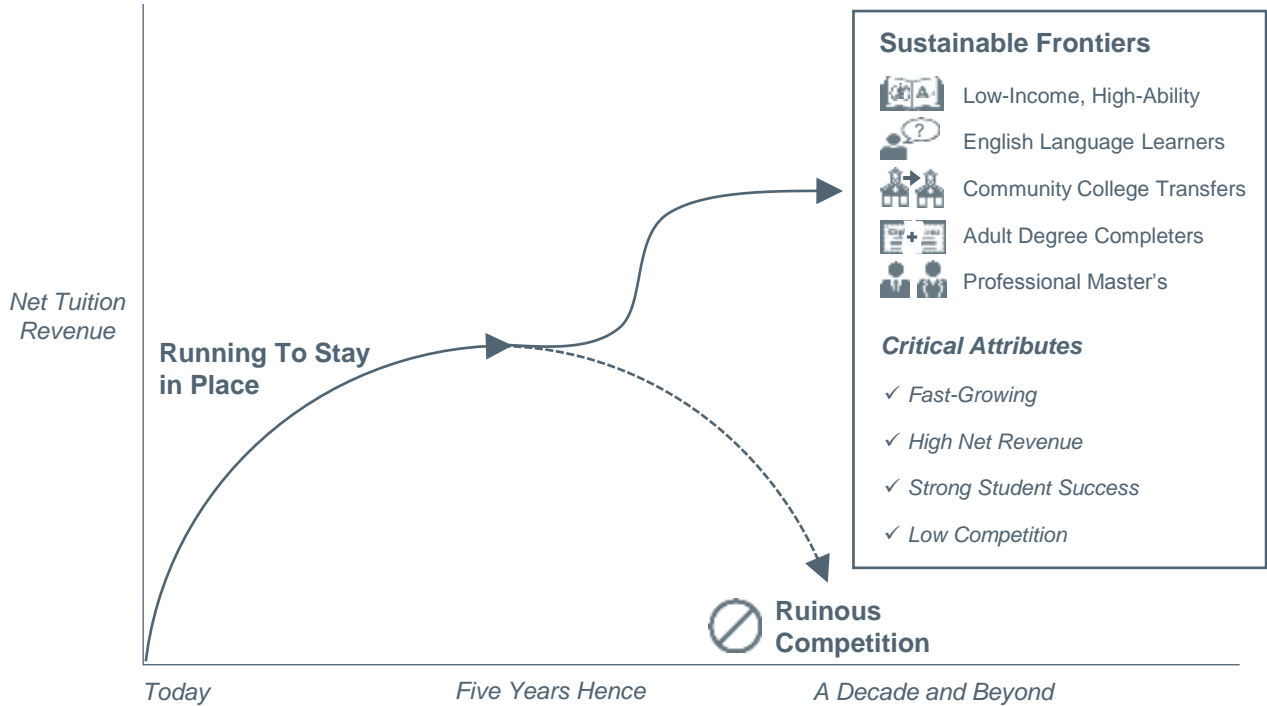


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Seeking Sustainable Frontiers

Diversifying Today to Reach Students of Tomorrow



Finding High-Growth Adjacencies

Peripheral Markets More Promising Than Core

