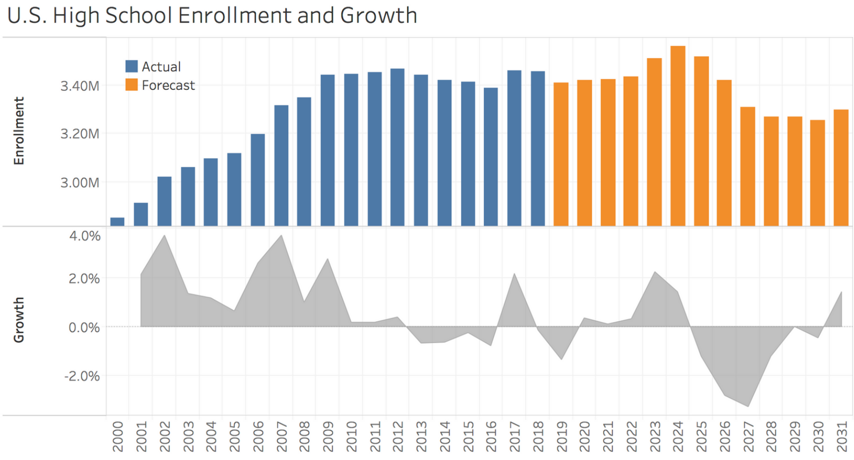
HIGHER EDUCATION'S FUTURE CHALLENGES AND OPPORTUNITIES: HOW WILL YOUR INSTITUTION RESPOND?

Higher education institutions are facing increasingly unstable revenue streams and fluctuating costs, this puts pressure on them to become more flexible and proactive in the way they manage enrollment, expenditures, and planning. Technology for institutions has advanced drastically, become less expensive with faster implementation cycles, and allowed institutions to gain better insight into their financial health and effectively manage risks for the future in recent years. Within this paper, we will discuss what the environmental challenges within Higher Education are, what causes them, what opportunities have materialized as a result, and how institutions can effectively manage and capitalize on these opportunities through updating processes, methodologies and leveraging technology.

OVERVIEW OF THE CHALLENGES

Higher Education has seen dramatic changes in multiple areas since the great recession and these trends look to continue over the long term. Demographics regionally and across the country threaten the absolute number in students and change the profile of high school graduates and potential enrollees. International students used to be a steadily growing group, but recently this group has shown declines putting further pressure on enrollment and revenues. Escalating costs, increasing price sensitivity, changing demand profile of students, and an expanding number of alternatives for education have continued to pressure institutional financial health. In subsequent sections we will further illustrate the following challenges facing institutions:

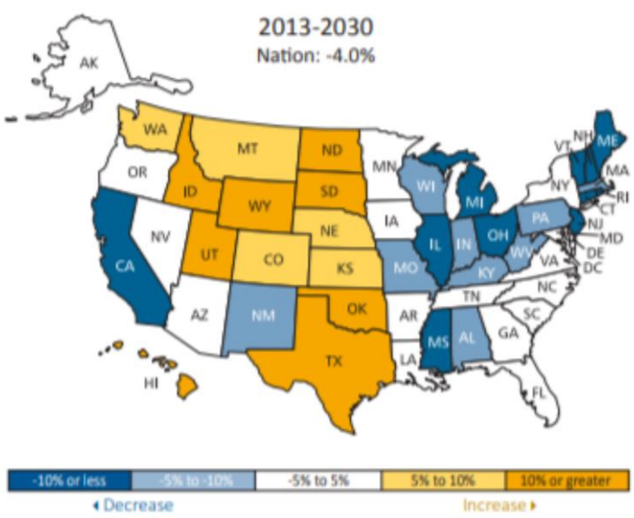
* Changing US Demographics
* Changing Student Profiles and Ability to Pay
* Changes to Alternative Education Options and Demand
* Falling International Student Enrollees
* Legacy Cost Structures



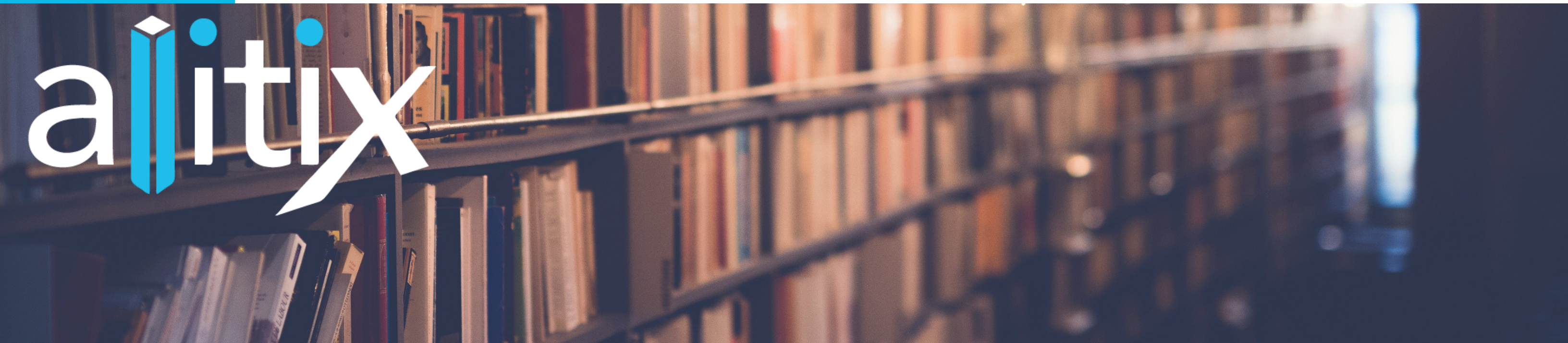
US DEMOGRAPHICS

Having grown reliably for the better part of two decades, high school graduation rates have essentially plateaued -- and starting in 2025, graduates are expected to drop significantly until 2030. Longer term, the demographic trend does not appear to be improving, as birth rates have continued to be stationary or drop and have not shown a return to the long term statistical average. This drop results in a national high school graduate pool that will decrease by ~9% and ongoing demographic headwinds cause significant risk to revenue of institutions across the country.

With this information, institutions need to understand that the trends significantly vary across the nation and will be amplified in certain regions. This can cause an issue due to the concentration of schools within the geographic areas expected to experience the greatest declines, as for most institutions, enrollment pools are typically local. Where an institution is located may mean significant changes to recruitment strategies for all, even those in growth areas or institutions in regionally tough environments need to alter and refocus their recruiting efforts. Schools with little leeway for error, such as those without the ability to drive revenue from other avenues or those that do not act nimbly, will find the environment particularly difficult.



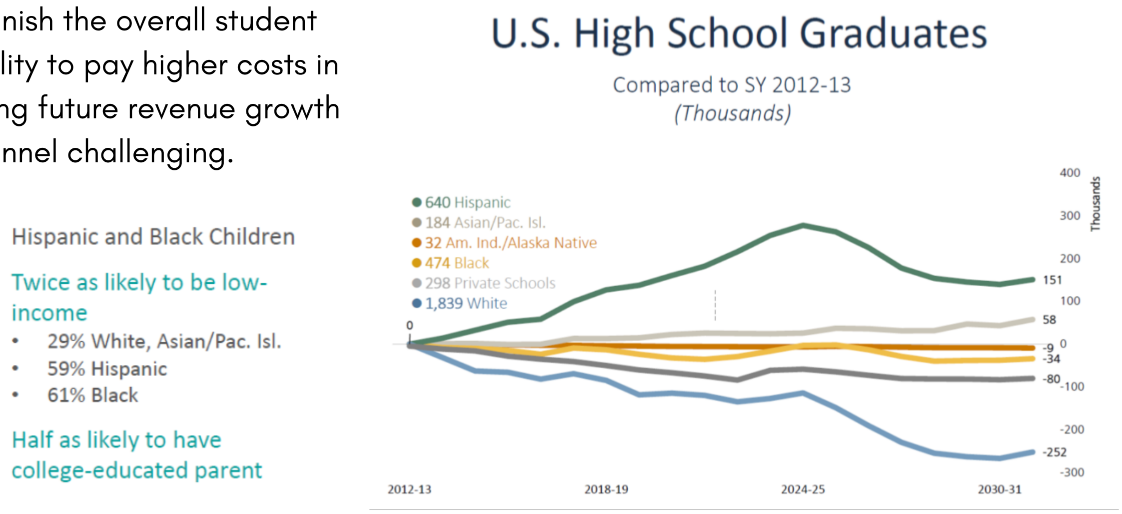
Now, much of this information is not new. Changes in demography are one of the few relatively known variables for institutions. For institutions skewed towards the traditional four year student, the numbers are relatively straight forward to extrapolate given the known timeline and variables impacting the potential enrollment pool. However, assumptions made for enrollment numbers could easily change as the profile of high school graduates changes significantly. For example, surveys have found many institution leaders have assumed a growing percentage of high schoolers will go to college and that trend will continue. If that percentage were to plateau, or slide in the wrong direction, it could reduce the number of potential enrollees and significantly impact institutions. The ability of the institution to plan effectively, set strategies and priorities, allocate resources, and make investments with the highest return will determine their success in this shifting landscape.



CHANGING STUDENT PROFILE AND ABILITY TO PAY

While institutions have continued to increase tuition costs, price sensitivity looks to limit the ability of many institutions to continue to increase tuition sticker prices. This combined with significant discounting for certain student subsets has effectively allowed institutions to recruit students that can pay a greater share of full price, while supporting those with the most need, with the net effect being higher revenue. The ability to continue doing this appears to be coming to an end. Schools are now beginning to test changes to their tuition pricing strategies to differentiate themselves by lowering the tuition price and discount rate to increase enrollment and revenue.

While all of this has been happening, there has been increased scrutiny on student loans, decreasing state appropriations, stagnant family incomes and decreases in international students. To date, effective tuition discounting has worked to grow revenue for institutions. However, changing demographics nationwide are causing a greater share of enrollment to come from more diverse, lower income, first-to-college groups and away from more affluent groups able to pay higher tuition rates. Each of these factors continue to diminish the overall student population's ability to pay higher costs in the future, making future revenue growth through this channel challenging.

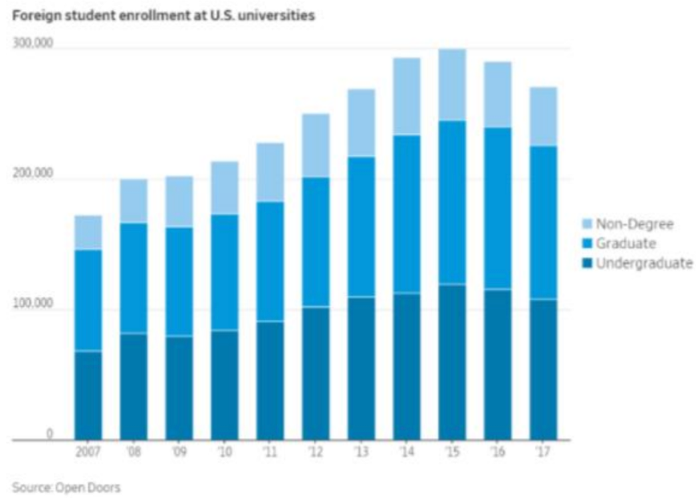


ALTERNATIVE EDUCATION OPTIONS & DEMAND

Due to changes in technology and demand for different, non-traditional programs, institutions are competing with an ever-growing list of education options. Pair the increase in alternatives with a quickly changing student profile, and this leads to full time students starting to be replaced with older, part-time and/or remote students. This changes the student mix and increases revenue variability while also putting pressure on auxiliary revenue for many institutions. The culmination of all of this means increased stress on institutions that are not able to adjust to changing demand, student profiles and the financial impacts downstream from this.

INTERNATIONAL STUDENTS

International Students spend more than $42B in the US and are essential to enrollment and revenue for many institutions. For the second year in a row, institutions in the US saw a decline in enrollment for international students. Declines of 3.3% in 2016-2017 and 6.6% in 2017-2018 greatly impact most institutions. International students do not typically qualify for need-based aid and are typically full price tuition payers, or close to it. There are multiple causes for this decline; For example, visa/immigration changes, perception by foreign students, a strong US dollar making education more expensive, and a more competitive global environment for education. Some of these causes may be transitory in nature, but the latter looks to persist as institutions in multiple countries continue to offer a more competitive product in their home markets. Foreign institutions have been steadily working their way up the rankings and other countries have taken steps to make themselves an inviting destination for students. These factors will continue to evolve and put pressure on international student enrollment.



LEGACY COST STRUCTURE

Over time, institutions have continued to grow and evolve. In doing so, they have been left with a relatively fixed cost structure. This ranges from the impacts rising interest rates have on outstanding debt, to increasing maintenance costs, as well as contracts and productivity of professors. While many institutions have changed what it means to be a tenured professor (despite the benefits to the institution), this still leaves many institutions with a relatively fixed cost structure, reducing the flexibility of the college or university to adapt to changes. Another factor reducing flexibility is that most institutions are, in effect, "mini-cities" requiring large capital outlays to build and maintain the campus as well as service the debt. This has been amplified in recent years by the construction and renovations of buildings and campuses seen prevalent across the country, as institutions have taken advantage of the low interest rates used to finance them. Current management of position planning, faculty mix, maintenance and capital projects often leave room for process improvement to help more adequately manage and analyze these items on an ongoing basis.

HOW TO ADDRESS THESE CHALLENGES

It is clear that while these challenges are great, they can be overcome and institutions can prosper. Universities can capitalize on opportunities born out of these challenges by anticipating the future, analyzing the past, efficiently allocate resources, and proactively planning. Experience in Higher Education has shown that nimble institutions, making the right investments based on data driven decisions, can succeed through these turbulent times. To achieve this, institutions must make suitable investments, set new processes which enable stakeholders to make strategic decisions, increase transparency and support ongoing analysis throughout the year and over multi-year horizons. In ensuing releases, we will discuss in further detail how institutions can capitalize on these opportunities through updating the following processes and leveraging technology:

1. **Build a Comprehensive Strategic/Long Range Financial Plan** – Tie strategic objectives, resources allocations, and capital outlays to financial outcomes and proactively monitor metrics and impacts/results of spending.
2. **Update the Budget Model and Budget Development Process** – Work to provide transparency in the process, tie budget requests to strategic objectives, and allow various areas of the institution to drive revenue or cut costs where applicable.
3. **Fully Understand Costs and Rebalance Schools / Departments / Programs** – Understand the contribution and profitability of various groups in the institution and rebalance towards higher growth/lower cost programs in the future while maintaining mission.
4. **Manage Costs** – Efficiently manage positions, faculty, and adjuncts to provide the most cost effective staffing, while maintaining quality and flexibility. Incorporate partnerships, especially auxiliary enterprises, to allow the institution to defray costs and risks. Allow for maneuverability in a quickly changing environment.
5. **Manage Recruitment, Enrollment and Retention More Strategically** – Leverage models to manage revenue and retention. Better understand how students are recruited and matriculate through the institution. Continual outreach and engagement throughout a graduates career.

ABOUT ALLITIX

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- We are focused on people.
- We help you stay one step ahead.
- We are in this together.

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