SYNERGIS EDUCATION

Change, Disruption and Success in Higher Education

Change continues to be a constant in higher education. The declining fortunes of formerly dominant for-profits, the emergence of non-profit institutions as leaders in providing affordable online education, as well as national political and economic trends all suggest that institutions unwilling to change are ripe for disruption from more nimble competitors. With risk comes reward and with stagnation comes replacement.

The players that once dominated higher education enrollments have seen significant change recently: University of Phoenix went private, EDMC was sold to a non-profit, and Corinthian closed. Grand Canyon, perhaps trying to avoid a similar fate, attempted to become a non-profit and instead just decided to act like one. All of this is happening with a new administration that is expected to be more lenient for the industry. The decline in enrollment for players that once dominated the online post-secondary education industry creates opportunity for brands that can offer students value and vision.

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Value

Perceived value is a key driver in student choice, and includes not only characteristics like educational quality and career relevance, but also factors such as institutional reputation, accessibility, and services. In terms of career relevance, data suggests a problem for college graduates. In January, the Department of Education released a memo declaring three-year loan repayment rates, which includes students who haven't defaulted and paid off at least $1 of student debt, are actually 41%, not the previously believed 61%[1]. Education needs to offer a return on investment for students, and if over half are not able to start repaying debt within three years, there is an issue with educational ROI. The factors contributing to perceived ROI ebbs and flows: at one point, students saw value in newfound flexibility that allowed non-traditional students to return to school while managing a career and family. In 2010, the University of Phoenix and its parent company Apollo Group had nearly a $5 billion business consisting of roughly a half million enrolled students. But now, Apollo has barely $2 billion in revenues, with over 20% coming from international markets. The University of Phoenix is now pairing down its programs and offerings to focus on a few programs that are still driving enrollments while letting other institutions like ASU Online and Grand Canyon grab market share.

Arizona State University (ASU) has made a big bet that students will find value in a quality online program supported by a well-known brand from a Power 5 athletic conference. The institution continues to add online offerings in a wide variety of programs at an affordable price. The most economical option being the Global Freshman Academy offering in partnership with edX, where students can participate in ASU classes and pay only $600 per class after they demonstrate that they are able to earn a "C" or better.

Why would a student go to University of Phoenix when ASU Online is an option? The answer seems to be that they probably won't: according to the National Center for Education Statistics (NCES), for profit enrollments peaked in 2010 at 9.6% before declining to 7.7% of all enrollment in the Fall of 2014. This change was driven by more than a few negative news articles regarding the bad apples in the industry. In addition, there is an enduring public bias toward non-profit institutions, and some of these not-for-profits reworked their offerings to include the convenience of accelerated formats that had previously been the domain of the for-profit players.

Vision

Michael Crow, Arizona State's president, has been driving a vision of education from a different perspective since he took office in 2002. Nothing seems sacred, including the tenure process which Crow attacked early on in his term. Crow has shown to be anything but typical in his approach to redefining ASU's online program, even though he nearly perfectly reflects the average American College President: white, 61 and male, with a past as a full-time faculty

[1] Robert Kelchen, "How Much Did A Coding Error Affect Student Loan Repayment Rates?" https://kelchenoneducation.wordpress.com/2017/01/13/how-much-did-a-coding-error-affect-student-loan-repayment-rates/

member and an entire career in higher education[2]. While Crow has brought a progressive mindset to drive growth, his peers have struggled to do so. And we may assume a more traditional mindset will remain the norm: the average age of a college president has gone from 52 in 1986 to 61. In 1986, only 13% of presidents were over the age of 60, with over 58% now over this mark.

While a more mature leader at the helm offers more experience to support decision making, it could be questioned whether institutions are properly aligning their own goals with those of their Presidents. If a President is looking to retire in three years, does it make sense to try a risky project that may fail or just maintain the status quo until new leadership takes charge? This conservative mentality prevents aspiring progressive institutions from implementing impactful policies. Keeping the status quo fosters an environment that is ripe for disruption from without, and will likely yield the exact outcome that institutions are attempting to avoid with the timid behaviors. With risk comes reward and with stagnation comes replacement.

ASU has made its mark in the West, but there are strong East Coast brand offerings as well, with UMass Online enrollment exceeding 50,000 and University of Maryland University College approaching the same mark. Penn State and Washington State aren't far behind in locking down online in their respective geographic regions. Four Florida based institutions (University of Central Florida, University of Florida, University of South Florida and Florida Internal University) combined to exceed 100,000 online enrollments over three years ago. Texas A&M has over 20,000 online students. Public institutions are pushing into the online education arena and are now able to offer the same convenience that previously was limited to the likes of University of Phoenix, with brands that are likely to receive a warmer reception from peers and future employers. BYU and Liberty continue to attract online students who are drawn to a more religious focused education experience. While most universities are pushing into online in one way or another, it only takes a few large players to reach scale and absorb the enrollments that in the past went to for-profit universities; the map is starting to fill in with strong players who already have a foothold in their geographic area.

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Over the next five years, the winners of the public institution race to fill the for-profit void will be obvious, and they will be able to support the traditional side of the school that struggles with increasing costs and budgetary pressures related to state funding. One of the little-known secrets of online programs is that they have been used by not-for profit institutions for the last

[2] Bryan J Cook "The American College President Study: Key Findings and Takeaways" http://www.acenet.edu/the-presidency/columns-and-features/Pages/The-American-College-President-Study.aspx

decade or more to fund traditional on-campus programs that are struggling to break even despite ever increasing tuitions prices. While tuition has been increasing at rates double inflation for years, not-for-profit private schools are also dealing with having to offer discounts of nearly 50% for first-time freshman, a possible signal of perceived return on investment by students.

The large public entrance being made by the likes of Arizona State and Penn State will only make it more difficult for the thousands of smaller institutions that are struggling to keep their heads above water. About 150 nonprofits had a program with an online program management company in 2011, while this jumped to 350 in 2015 and is expected to reach 500 in 2020[3].

The Need for Change

After Sweet Briar's 2015 dance with death despite an endowment of nearly $100M, Moody's released a report predicting that small college closures would triple in 2017 to as many as 15. Even with declining enrollment, it still comes as a surprise to the surrounding community and faculty alike that a renowned institution could be on the brink of extinction, as our education system has failed to mature and grow with technology to the degree that other parts of the economy and industry have advanced.

There are opportunities available for institutions that are willing to think outside the box and embrace change. The time where this was as simple as a school putting its MBA online has come and gone. Top 20 program's like UNC Chapel Hill that can charge nearly $100,000 and enroll over 700 students are the exception rather than the rule. Even highly needed programs like the RN to BSN that offer students a clear path to earnings growth have now saturated the market and can only be looked at as a piece of successful online healthcare-oriented program rather than a shining star unto itself. Schools will need to embrace more specialized, technical programs in both online and hybrid environments to meet the demand of the student in the next five years, as student debt for no- or low-return casts a malaise over the potential student masses.

Education is still clearly the path to a more stable future for young adults, where those ages 25 to 34 with a bachelor's degree are earning 66% more than their counterparts who only completed high school ($49,900 vs $30,000) and exhibit an unemployment rate of just three percent[4]. The question for institutions becomes where do they fit into this changing environment? Affordable options for online programs like ASU's Global Freshman Academy on top of community college offerings for less than $100 per credit are difficult to compete against for institutions with significant legacy overheads. In addition, new program offering

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[3] Eduventures

[4] "The Condition of Higher Education", US Department of Education, page xiii and 25

start-up costs can easily run into the millions. Marketing costs for student acquisitions will continue to rise as more players jump into the game. High usage rates for adjuncts and school consolidations will persist, but the shuttering of institutions that have been mainstays in communities for decades is a reality that will affect smaller regional brands that have not broken into high demand specialized areas like healthcare, engineering, computer science and analytics.

Institutions crafting a strategy for long-term viability will need to ensure that they provide students with value. Colleges and universities must have a vision for sustainability that breaks with old practices and seeks to balance quality with efficiency. Above all, they must confront the grim statistics in higher education today and act to break out of the status-quo thinking that can lead to stagnation and, ultimately, replacement.

The Author

Colin Malchow is a finance professional that graduated from the University of Arizona. A future return to Tucson is in doubt after praising an intrastate rival that may have previously best been known as a party school that suffered an infamous point shaving scandal in 1994 which included an investigation by the FBI.