Tertiary Education in the New Market Environment: Building a Competitive Economy – The Role of the Private Sector

THE PARTHENON GROUP
Boston • London • Mumbai • San Francisco

January 19, 2011

Introduction

The Parthenon Group Overview

About Us

- Founded in 1991 as a boutique strategic advisory firm
- 200 members in 2010
- Offices in Boston, San Francisco, Mumbai and London
- The firm serves CEOs and business leaders of Fortune 500 companies, high growth companies, private equity firms and educational institutions

Practice Areas

- **Education** – world class strategy and performance improvement capabilities in the sector's longest-established practice
- **Private Equity** – strategy formulation, target analysis and due diligence services for private equity firms and portfolio companies
- **Healthcare** – over 10 years of experience in the sector - covering payers, providers, medical technology and life sciences
- **Consumer Growth** – working with leading FMCG companies and specialist retail businesses

Capability Areas

- **Corporate and Business Unit Strategy**
- **Profit Improvement**
- **Merger and Acquisition**
- **Innovation and Growth**

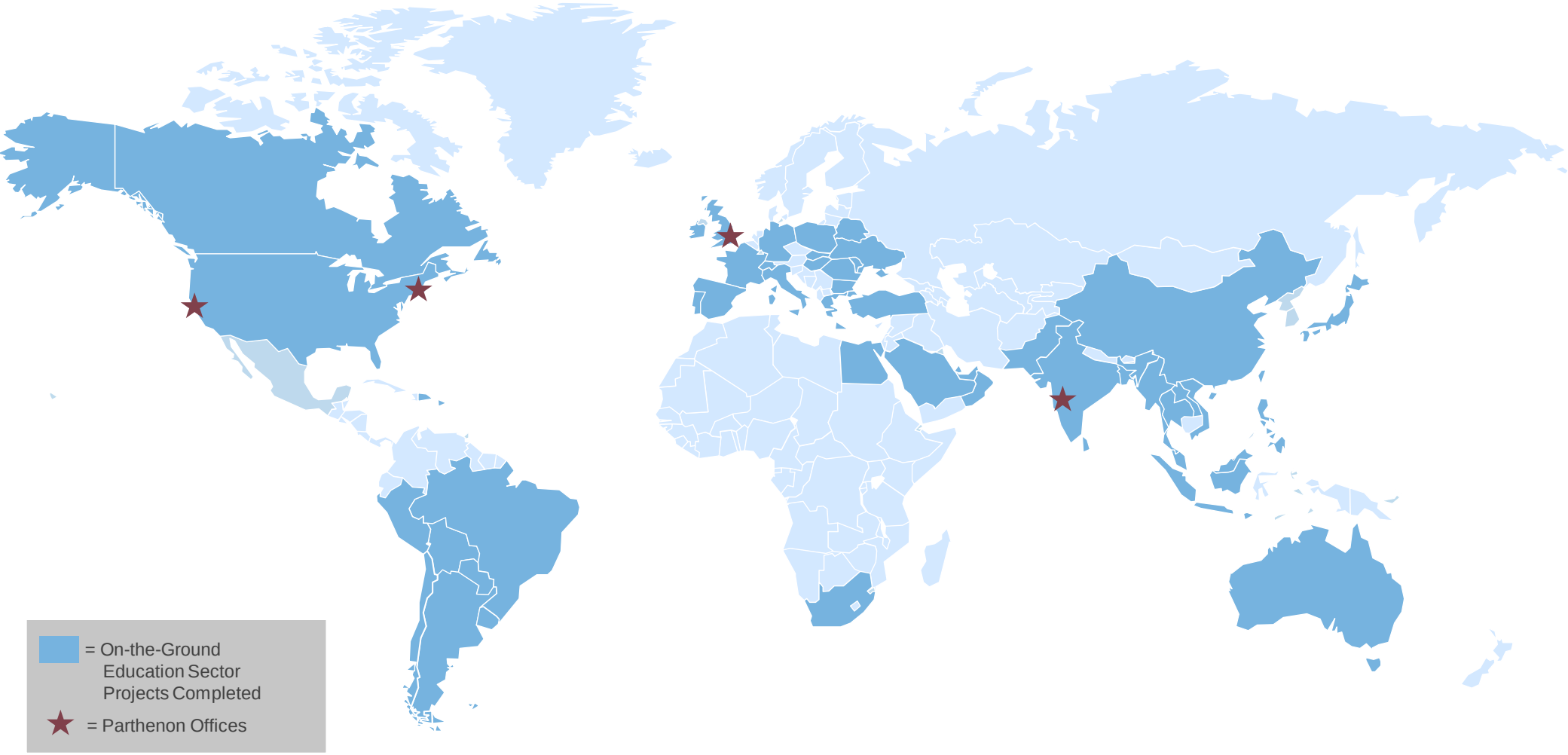
Introduction

Education Practice: Representative Education Clients

Nursery	Primary and Secondary (K-12)	Vocational and Professional	University	Support Services and Other
Disney	NYC Department of Education (Joel I. Klein, Chancellor)	Training that means business protocol skills	LAUREATE EDUCATION, INC.	RM
KinderCare LEARNING CENTERS	CHICAGO PUBLIC SCHOOLS	esg. SKILLS FOR WORKING SKILLS FOR LIVING	Bridgepoint EDUCATION	PEARSON
Busy Bees 1983 - 2008 25 YEARS DEVOTED TO CHILDCARE	FOCUS On Children Boston Public Schools	ptl Platinum Training & Development	The Open University	McGraw-Hill
	COGNITA TEACHING EXCELLENCE	PERTEMPS PEOPLE DEVELOPMENT GROUP	MANIPAL UNIVERSITY	Reed Elsevier
	NORD ANGLIA EDUCATION	BPP	StudyGroup EDUCATION SPECIALISTS WORLDWIDE	HACHETTE Livre
	Beaconhouse School System		DeVry University	Wall Street INSTITUTE
			Tuck School of Business at Dartmouth	Houghton Mifflin Company
			oxford SAID BUSINESS SCHOOL	teaching personnel
			APOLLO GROUP, INC.	BERTELSMANN media worldwide

Introduction

Education Practice: Over 400 projects since 2001



Today's Discussion: Tertiary Education in the New Market Environment

Parthenon's market orientation provides unique perspectives and tools

- The UK higher education landscape is now a marketplace, albeit with unusual features introduced through Government policy in relation to tuition fees and funding
  - Students have a poor understanding of the economics of the new system
  - Higher education institutions ('HEIs') have limited understanding of the way in which the market will evolve, and have inadequate models and tools for understanding this
  - HEIs also have a poor understanding of the nature of likely new entrants

- Parthenon has a comprehensive understanding of the most mature higher education market in the world. In the UK, we have recently:
  - Detailed the likely impact of market entry by the US private, for-profit HEIs
  - Reviewed the business model for one of the UK's largest universities and identified potential savings
  - Developed international growth strategies for a number of institutions

- Applying some market-oriented tools, we can anticipate some of the substantial changes ahead

Tertiary Education in the New Market Environment

Success depends on aligning four dynamics

Market Needs and Responses

- What are the main segments as defined by students' attitudes towards:
  - Tuition fees (i.e., price)?
  - Debt?
  - Our brand?
  - Our subject status?
  - Other credentials?
- How will these segments evolve as:
  - The market matures and new offers/ entrants emerge?
  - Customers become better informed?
- How do we communicate our brand and offering?
- How does price impact this?

Identity & Strategy

- What are we really good at – what is in our DNA?
  - Serving particular customer segments
  - Teaching mode and quality
  - Subject specialism
  - Attracting and managing great researchers
  - Commercial partnerships
- Which segments does this mean we are best placed to serve?
- Do we offer every subject, even if it is loss-making?
- Where do we invest?
- Which geographies are crucial to us?

Business Model

- What do we subsidise: research versus teaching, overseas versus domestic students, sciences versus arts?
- What is the optimal profile of teaching and academic staff cost and quality?
- What range of curriculum is required?
- How much choice and support do we give students – including mode of learning?
- Can we outsource any non-core activities?
- Can we offer services to other HEIs based on our strengths?

Organisation and Leadership

- How many business models can we operate successfully?
- What new skill sets do we need for the post-Browne landscape, including for any new business models?
- How do we resolve tensions between academic freedom and commercial pressures in our organisation?
- How do we find and/or develop senior managers with commercial instincts and credibility with academics?

Tertiary Education in the New Market Environment

There are 5 large business model clusters

Methodology

- HESA data – 160 institutions and 40 costs centres (e.g., faculties) per institution
- For each cost centre: Total spend, % of student FTEs and spend per student

Key Clusters

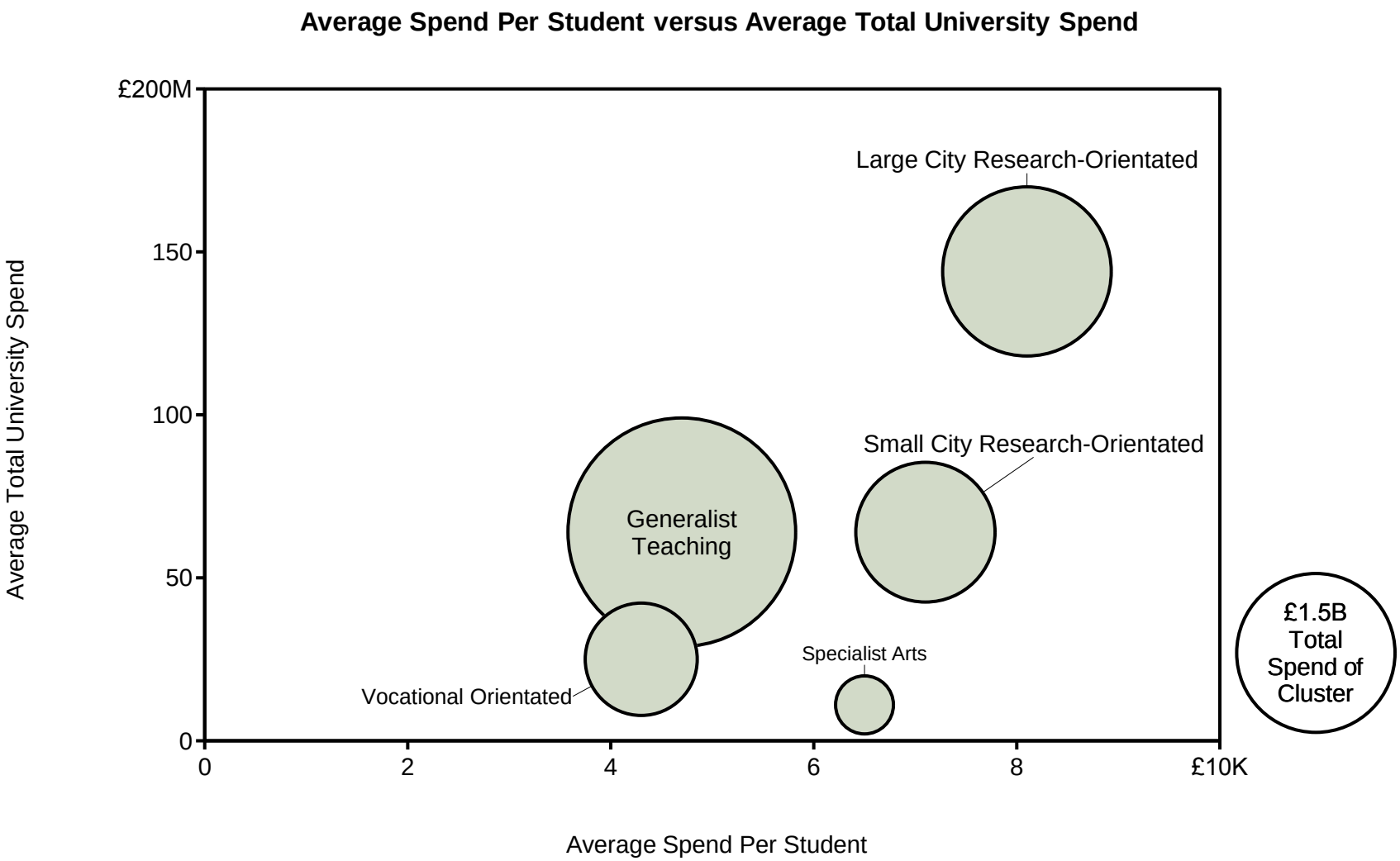
1. A large group of **Generalist Teaching** universities
2. **Vocational-Orientated** universities
3. **Large City Research-Orientated** universities
4. **Small City Research-Orientated** universities
5. **Specialist Arts** institutions

Findings

- Reasonable correlation between Mission Groups and business models, but plenty of exceptions
- Little relationship between spend per student and the Guardian university rankings
- Limited or non-existent economies of scale in teaching – budget-based versus market-based business models
- Strong reasons to believe some business models are or will be under much greater pressure than others

Tertiary Education in the New Market Environment

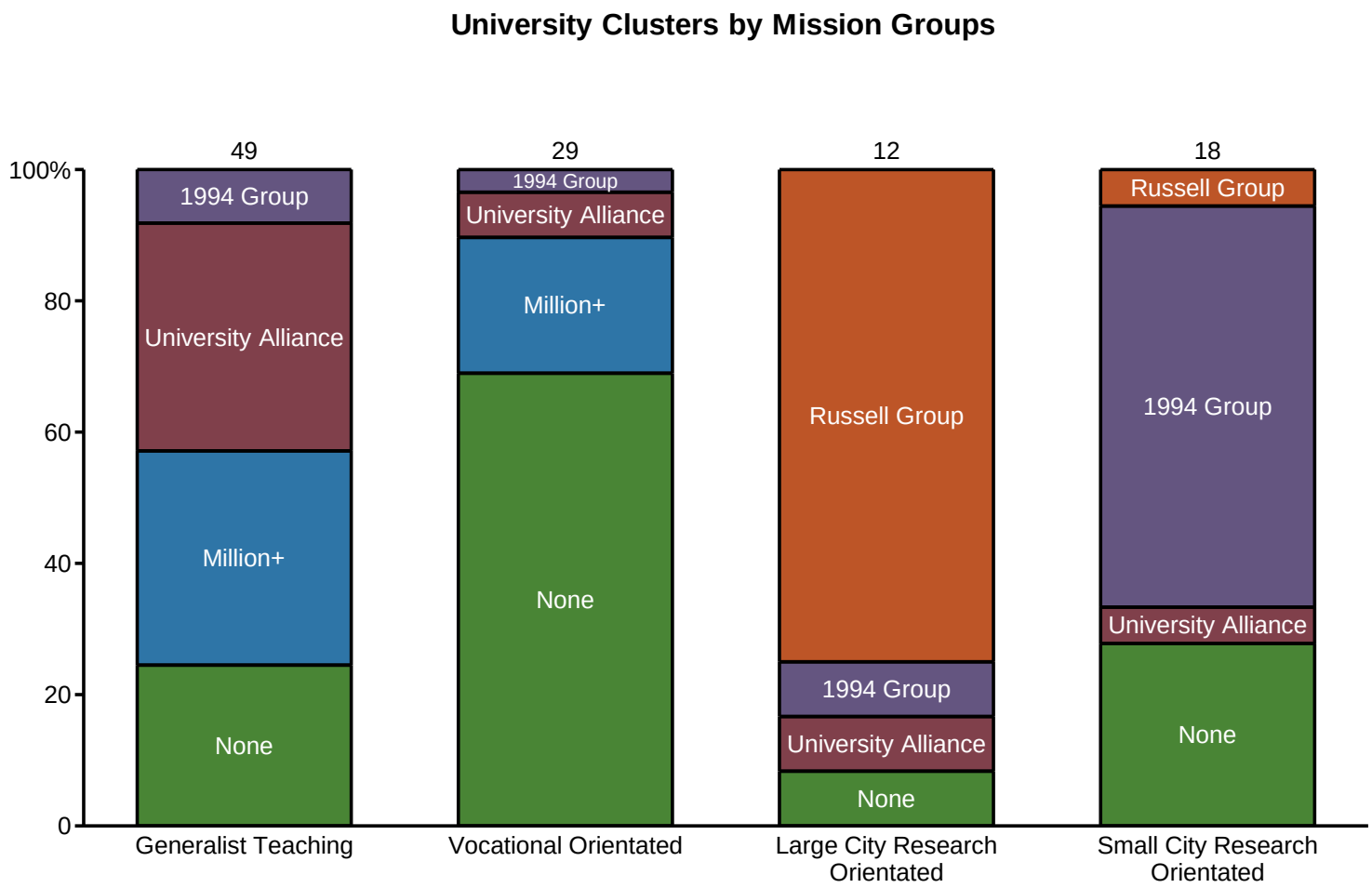
Total spend and spend per student varies by cluster



Source: HESA, Parthenon Analysis

Tertiary Education in the New Market Environment

Mission Groups have mixed business models



Note: Arts Specialist institutions not shown given substantial overlap with UKADIA only
Source: HESA; Parthenon Analysis

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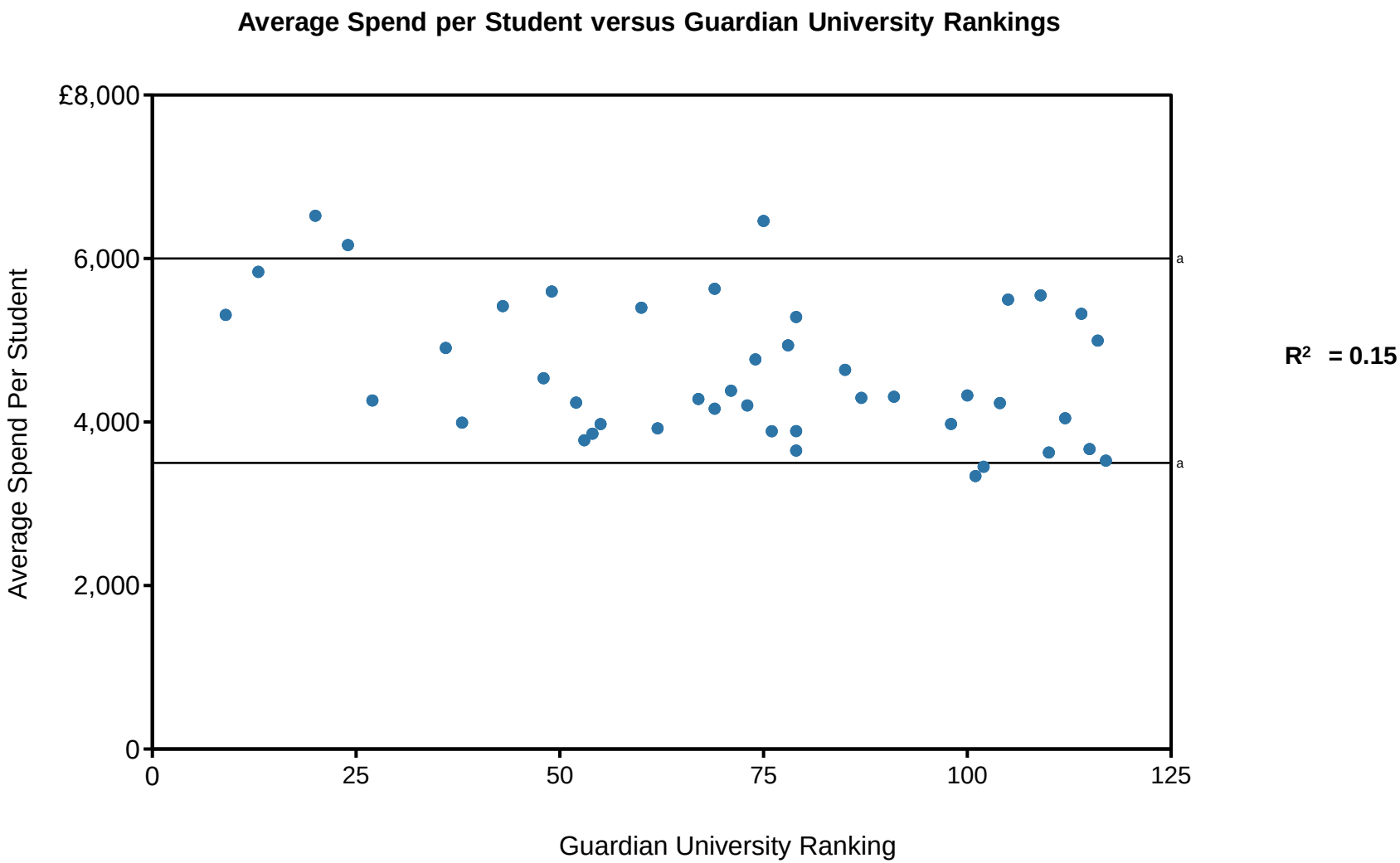
Tertiary Education in the New Market Environment

Little correlation between ranking and spend per student

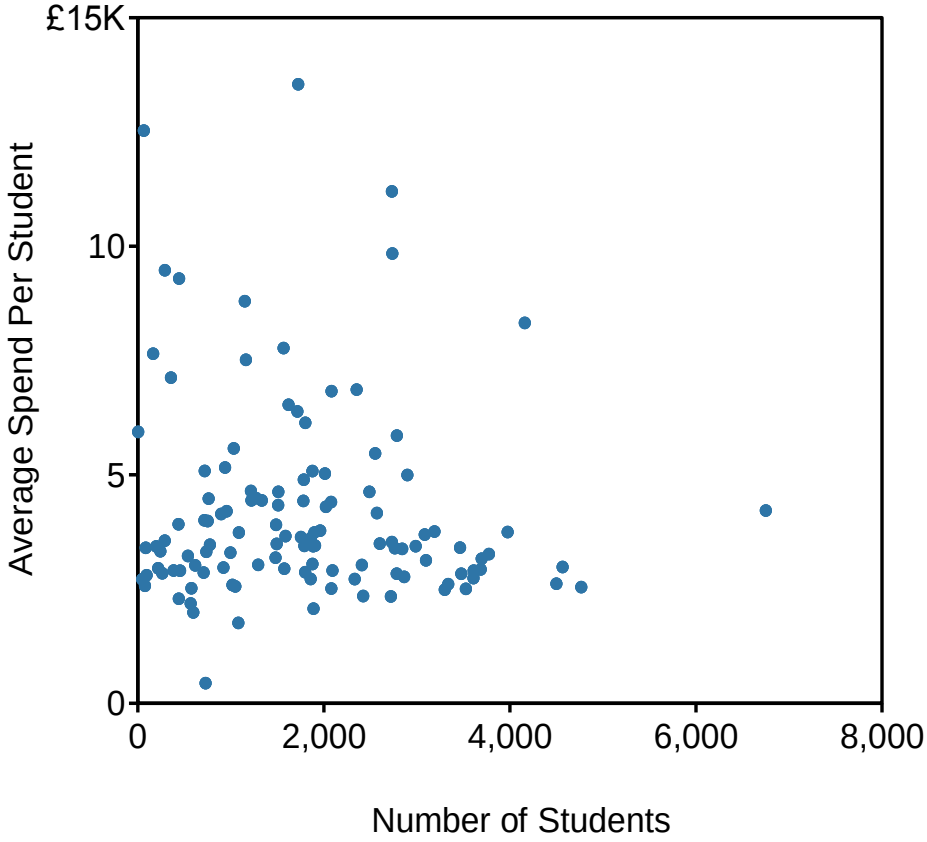


Note: Plotted points are universities in the Generalist Teaching cluster
Source: HESA, The Guardian, Parthenon Analysis

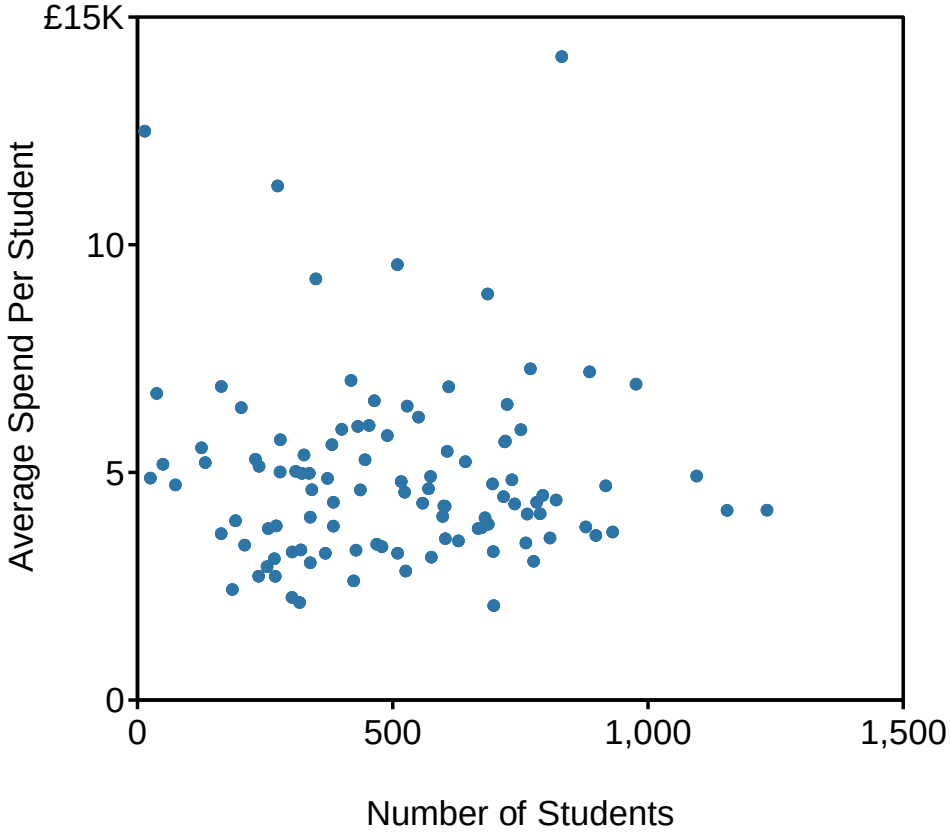
Tertiary Education in the New Market Environment

Few or no economies of scale

Business and Management – Spend per Student versus Number of Students



Psychology – Spend per Student versus Number of Students



Note: The Open University is removed from Psychology as an outlier
Source: HESA, Parthenon Analysis

Tertiary Education in the New Market Environment

Other factors affecting business model sustainability

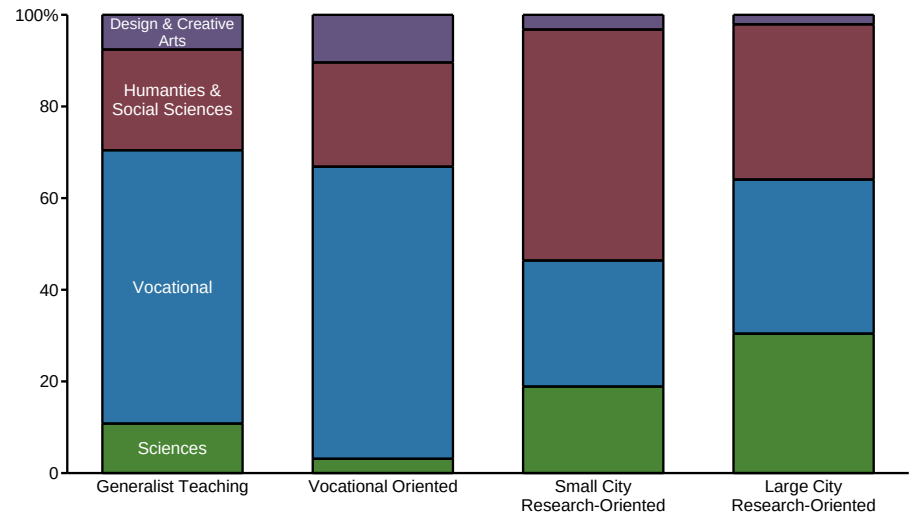
1. Scale and place on cost curve
2. Degree of subject specialism
3. Fixed vs. variable costs
4. Research as a percentage of revenue
5. Percentage of students taking Arts versus Sciences
6. Mismatch of demand and capacity
7. Percentage of courses with distance learning
8. Percentage of local vs. national versus international students

Appendix

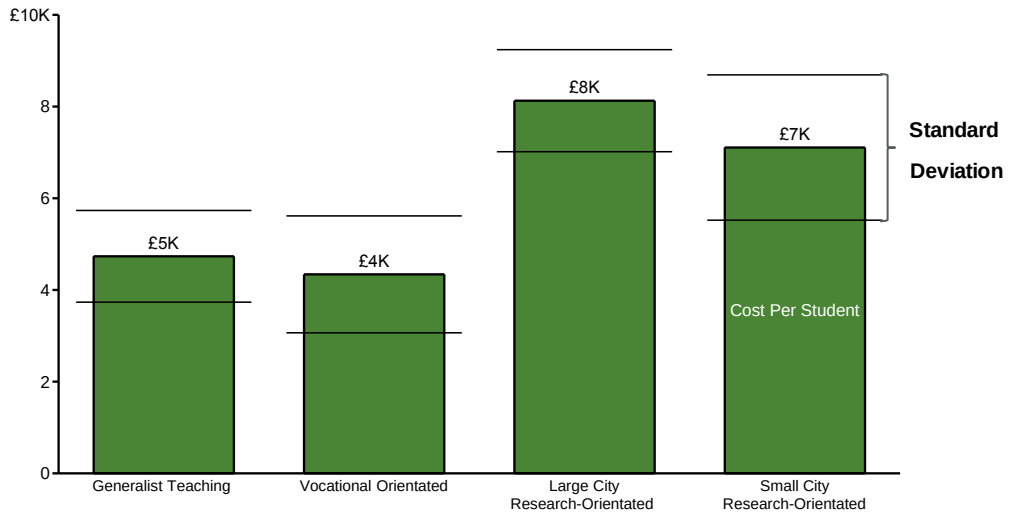
University Business Model Analysis

Overview of Clusters

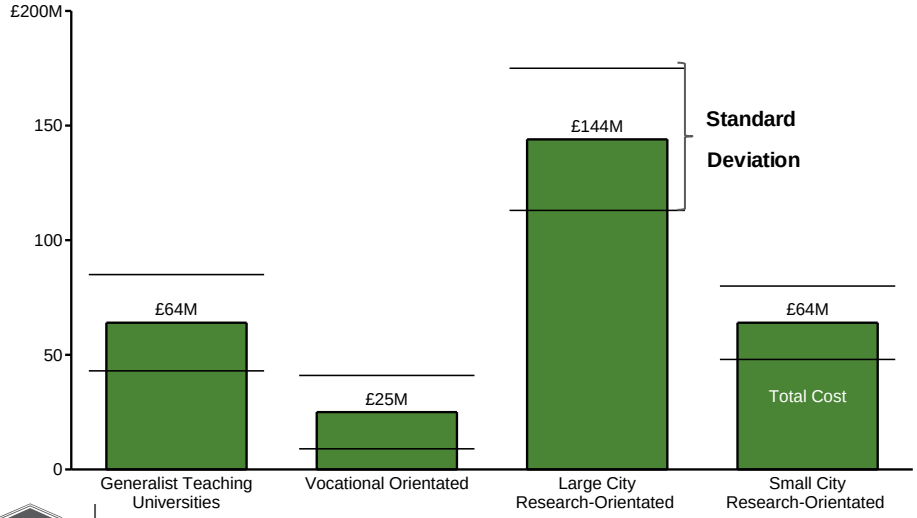
Subject Mix of Universities by Cluster



Average Spend Per Student by Cluster



Average Total University Spend by Cluster



- The analysis also identified a series of smaller clusters with distinct business models that have not been directly compared in the analysis due to small size
  - **Design & Creative Arts Specialists (e.g. Royal Academy of Music)**
  - **Oxbridge**
  - **Universal Providers (e.g., University of Manchester)**
  - **Medical Specialists (e.g., St George's)**
  - **Agriculture Specialists (e.g., Harper Adams)**
  - **Humanities Specialists (e.g., SOAS)**

Source: HESA

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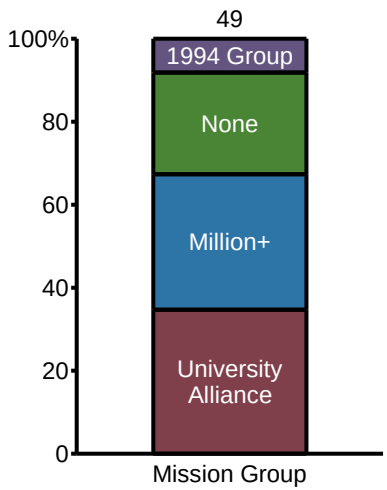
University Business Model Analysis

Cluster #1: Generalist Teaching Universities

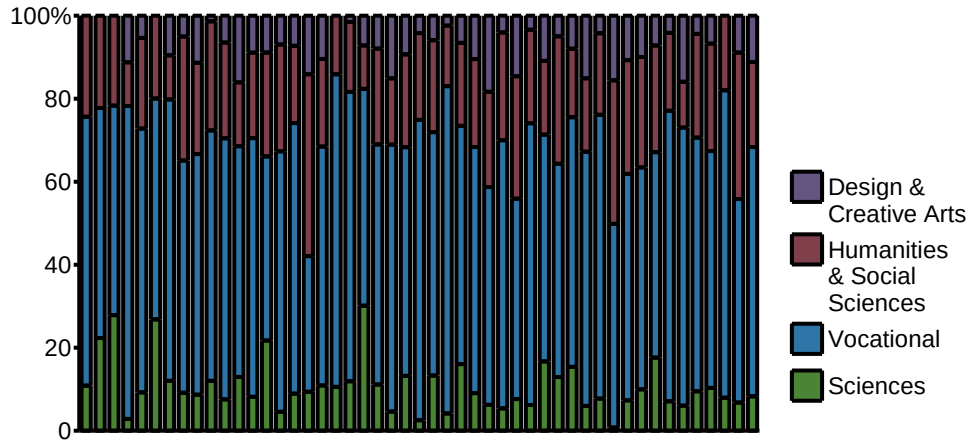
Description of Cluster

- Universities are typically second-tier institutions with a focus on vocational qualifications
- Universities in this cluster also offer courses across other more general subject areas

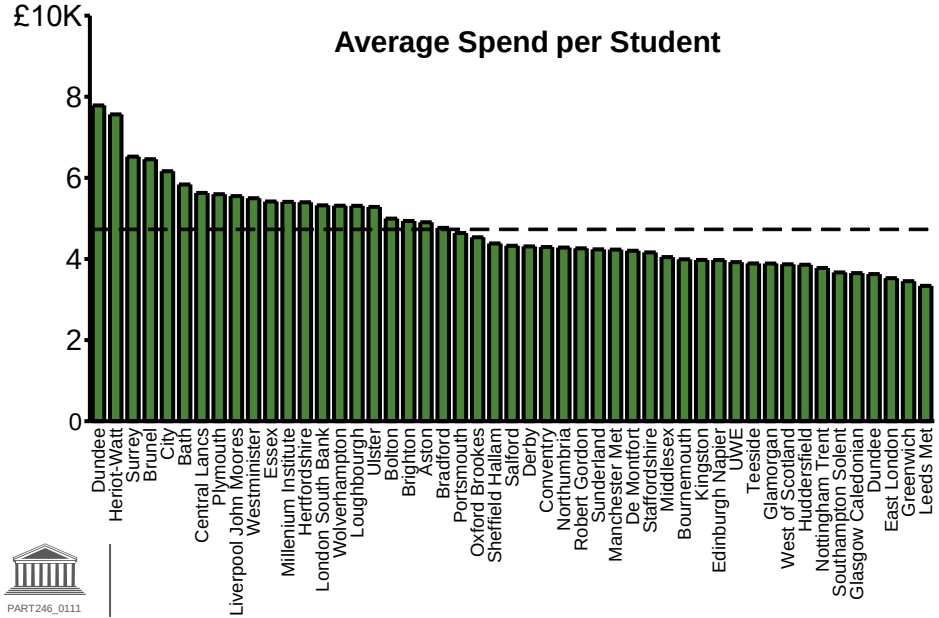
Mission Groups of Included Universities



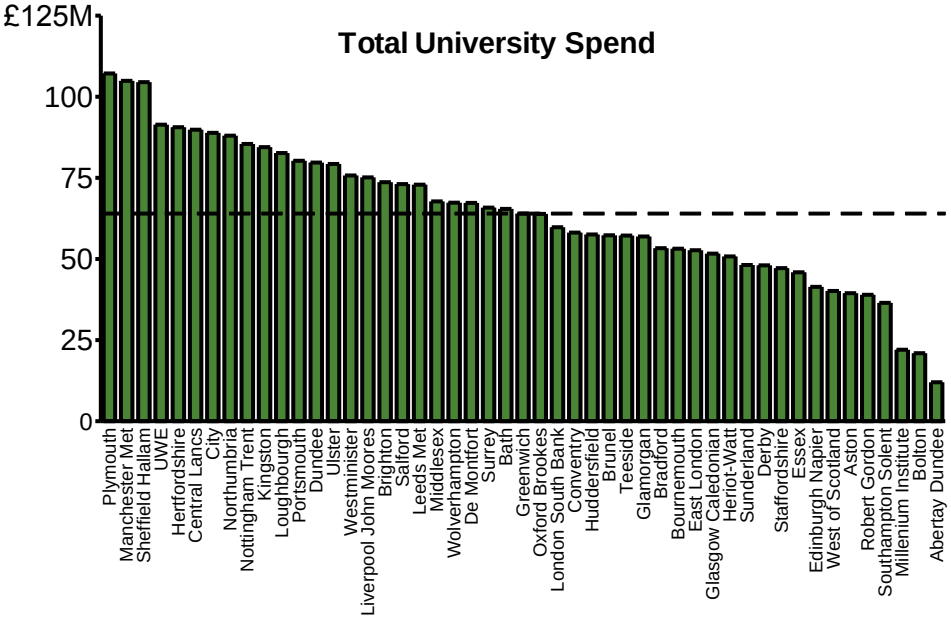
University Enrolments by Subject



Average Spend per Student



Total University Spend



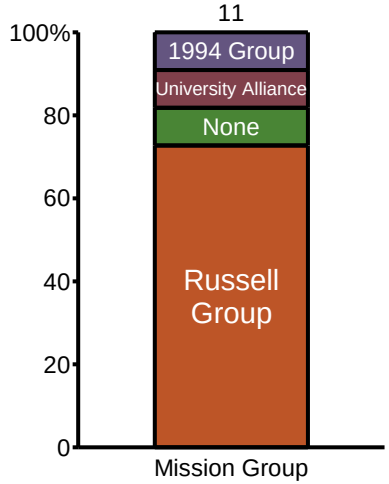
University Business Model Analysis

Cluster #2: Large City Research-Oriented

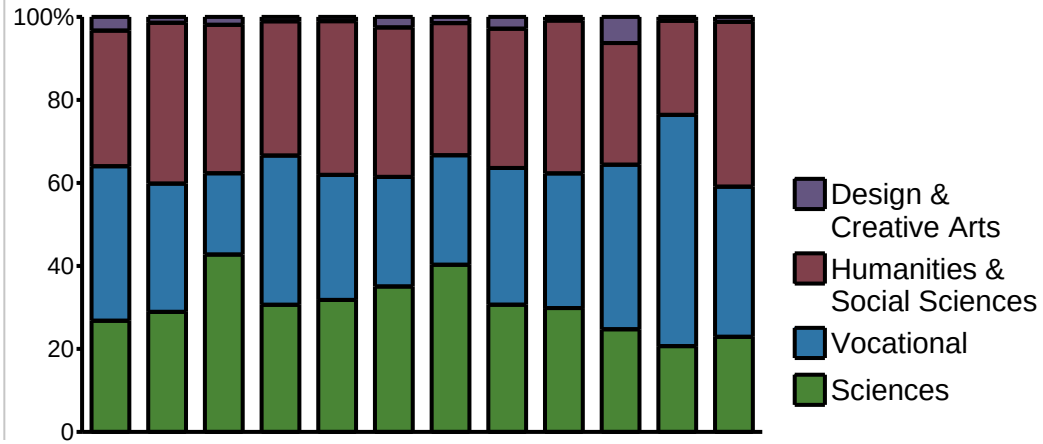
Description of Cluster

- Typically first-tier institutions with a focus on traditional academic degrees
- Institutions are generally regarded as research universities

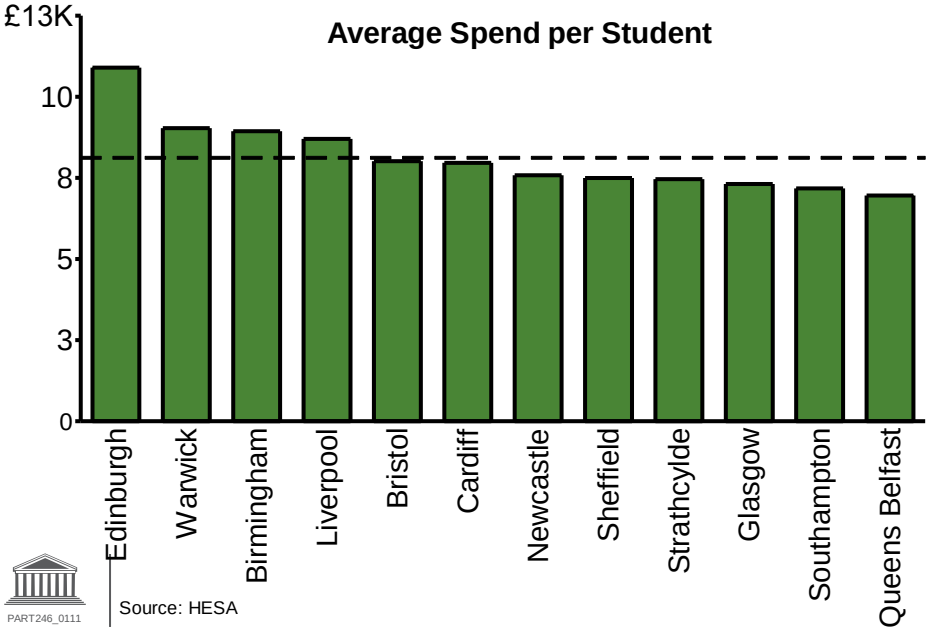
Mission Groups of Included Universities



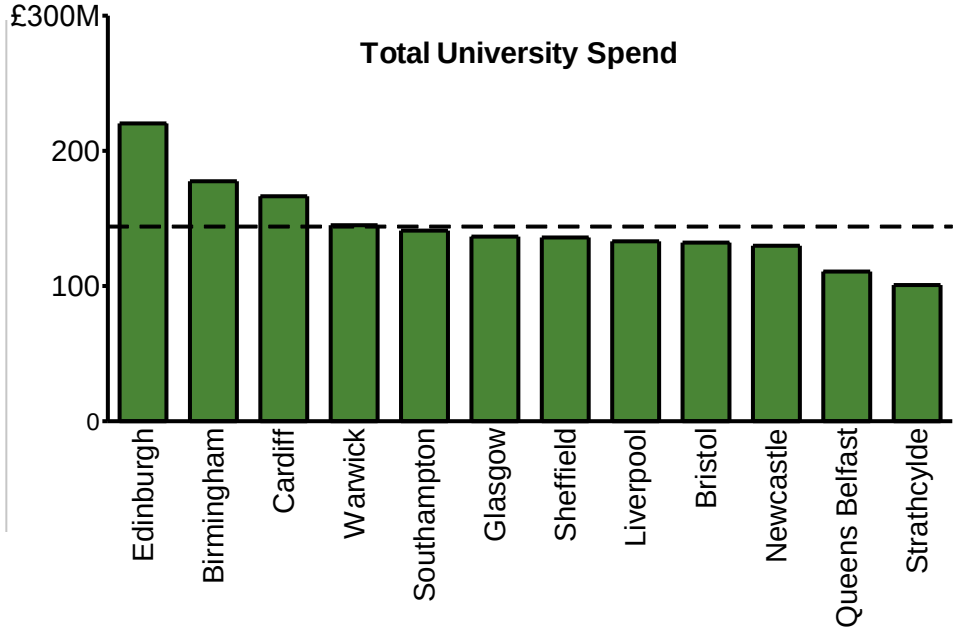
University Enrolments by Subject



Average Spend per Student



Total University Spend



Source: HESA

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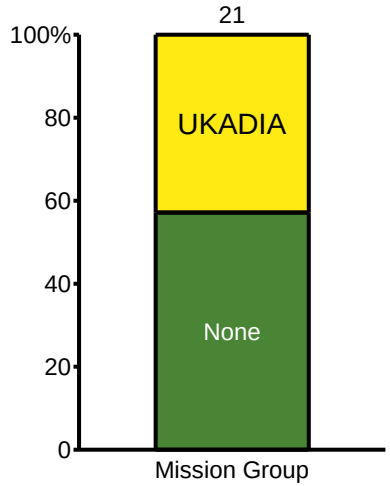
University Business Model Analysis
Cluster 3: Arts Specialists

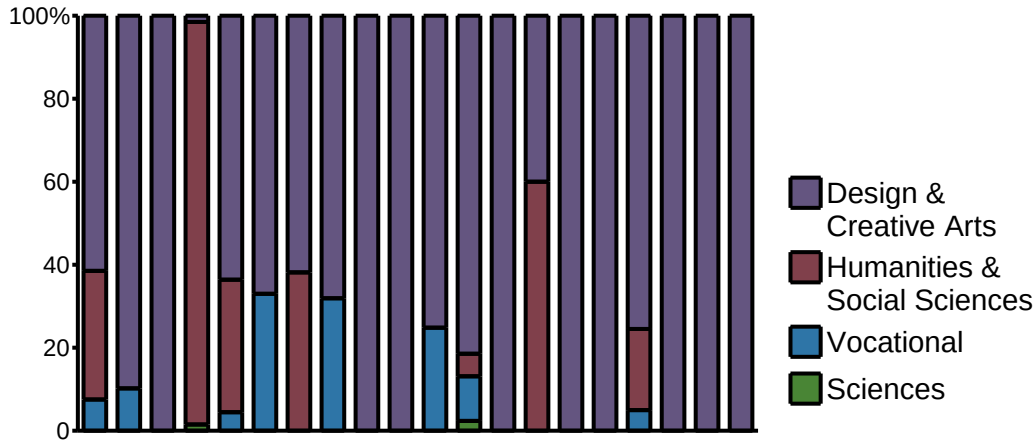
Description of Cluster

- Institutions are almost exclusively focused on the creative arts – including design, music, drama and art

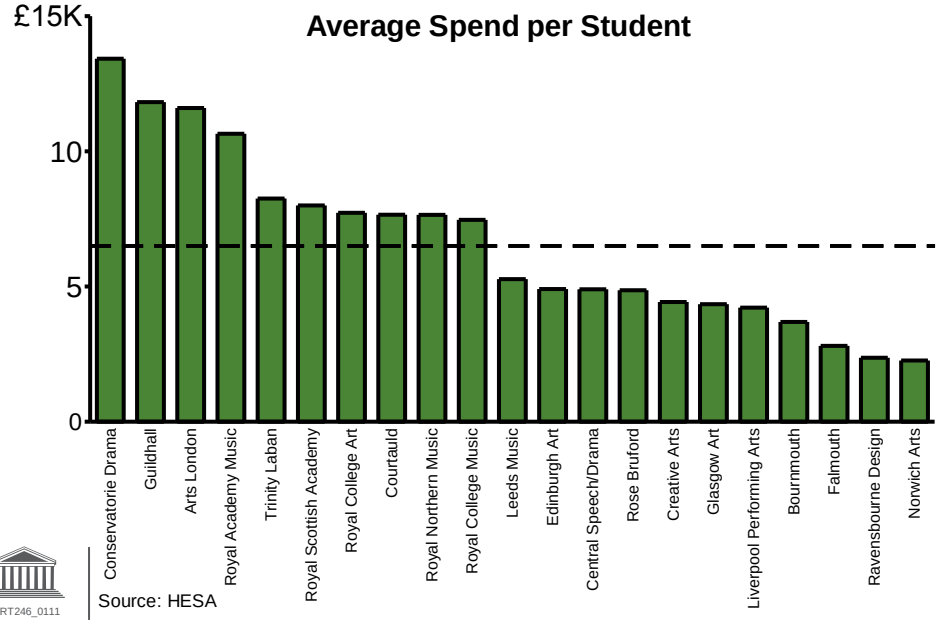
Mission Groups of Included Universities



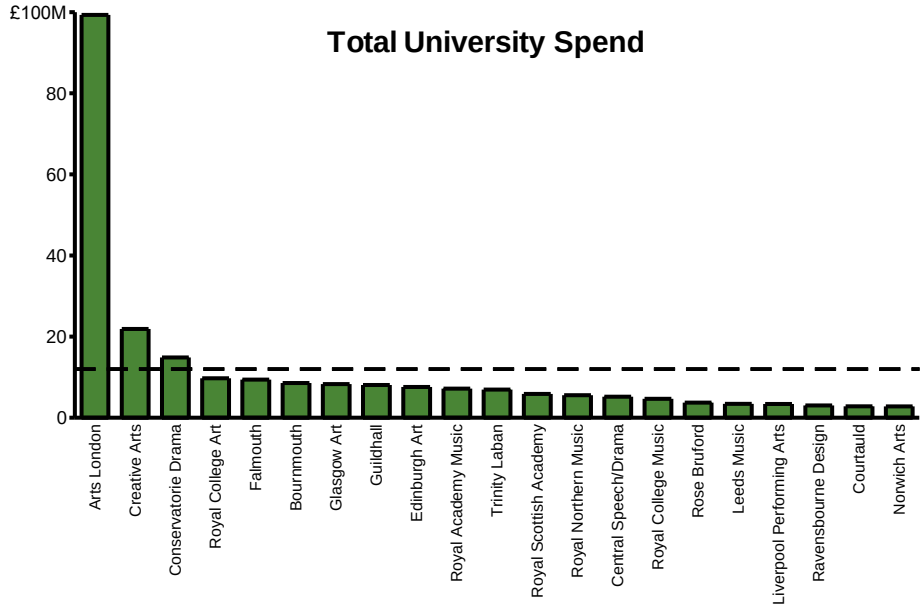
University Enrolments by Subject



Average Spend per Student



Total University Spend



Source: HESA

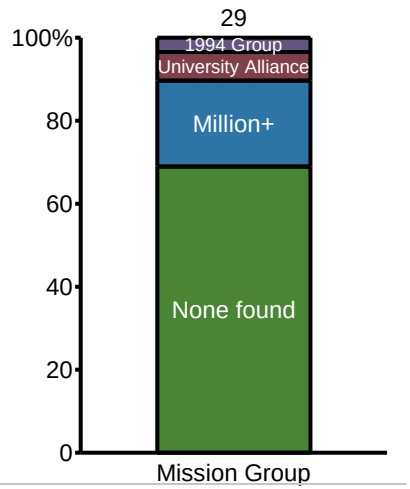
University Business Model Analysis

Cluster #4: Vocational Oriented

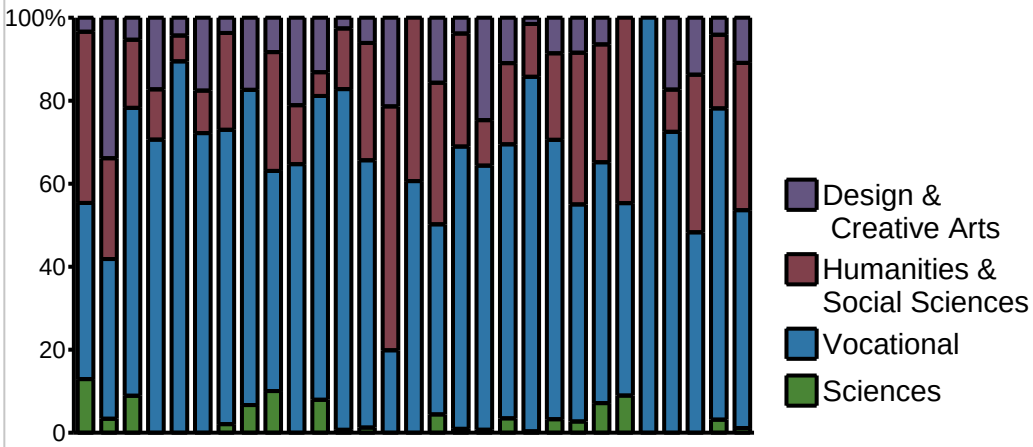
Description of Cluster

- Institutions are typically second-tier institutions with almost an exclusive focus on vocational degrees
- Universities are typically not research heavy institutions

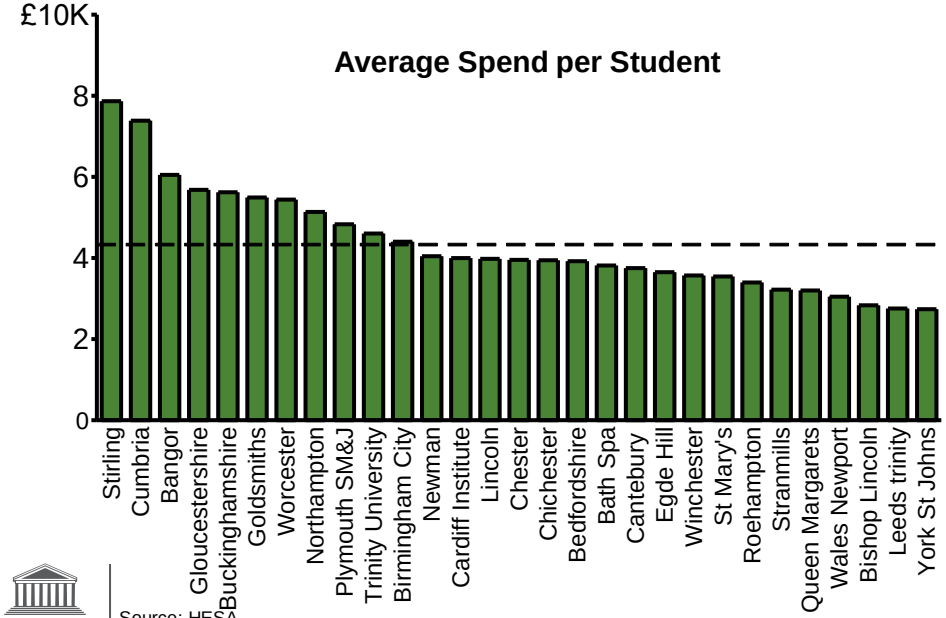
Mission Groups of Included Universities



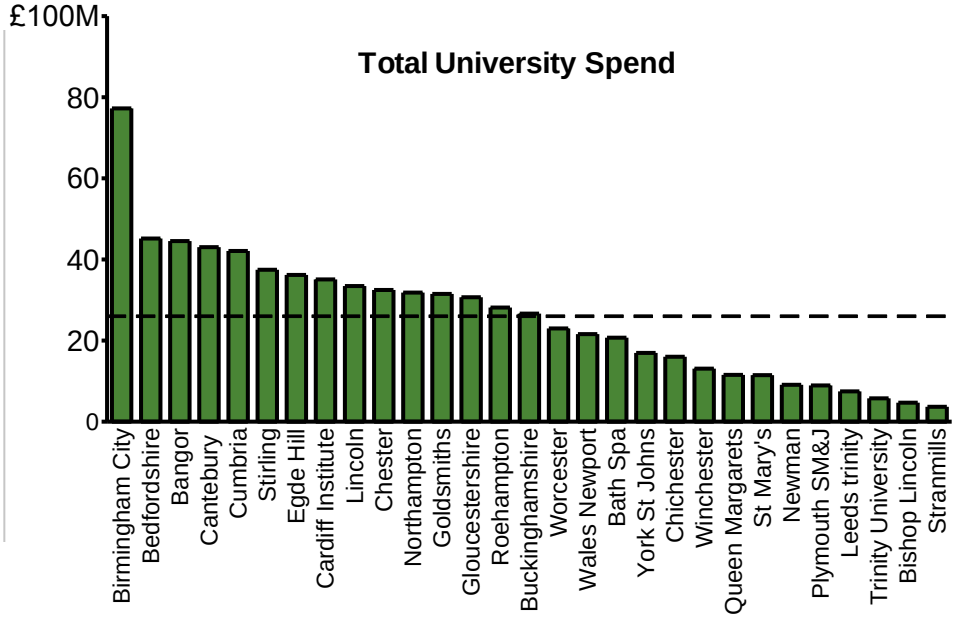
University Enrolments by Subject



Average Spend per Student



Total University Spend



Source: HESA

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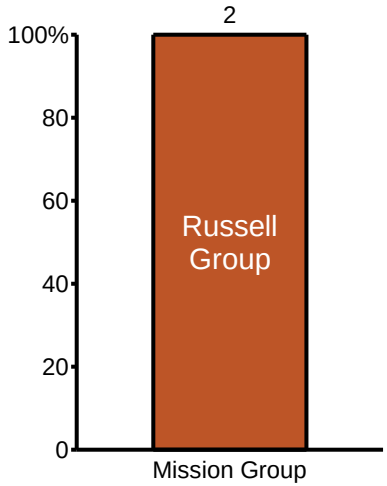
University Business Model Analysis
Cluster #5: Oxbridge

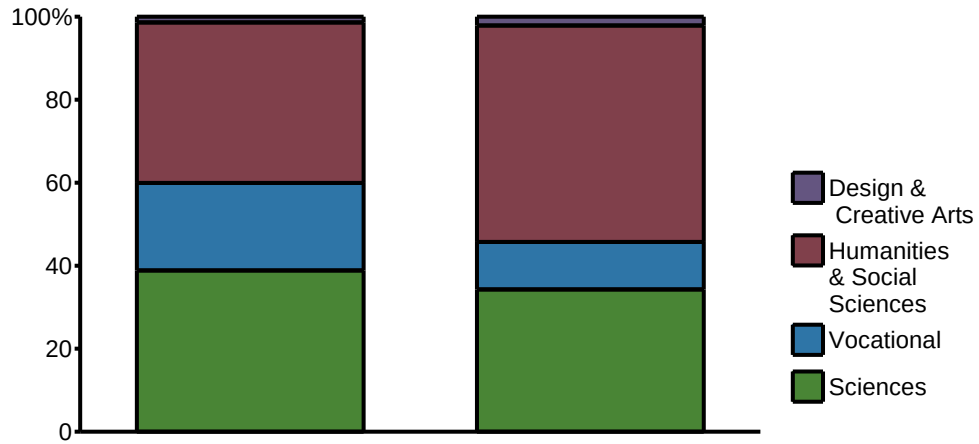
Description of Cluster

- Institutions are focused on traditionally academic subjects and spend substantially more than other institutions
- Institutions are very research heavy, and spend a substantial amount per student

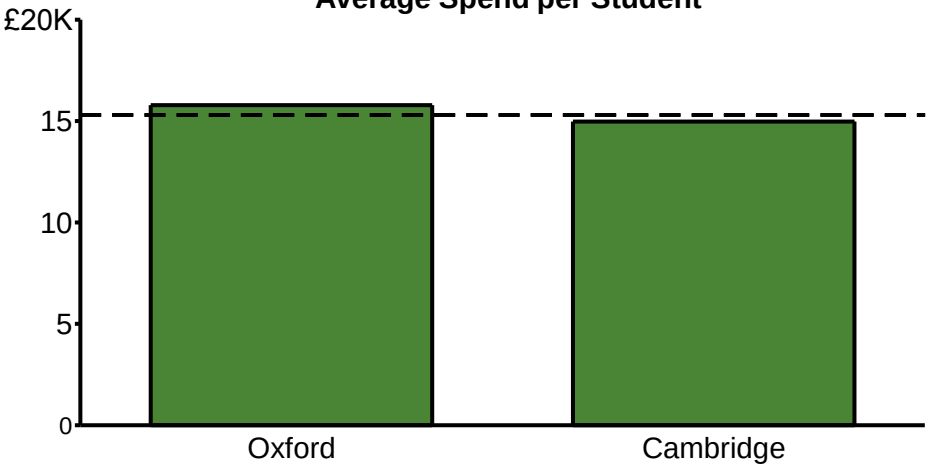
Mission Groups of Included Universities



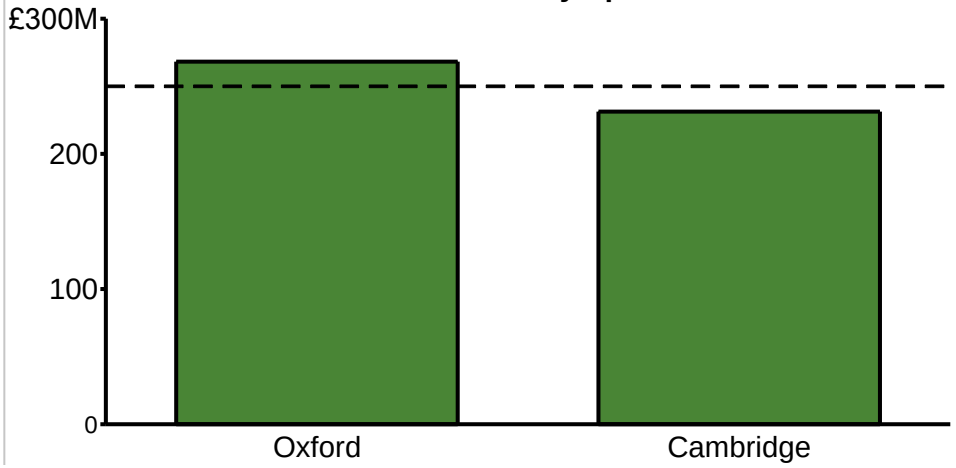
University Enrolments by Subject



Average Spend per Student



Total University Spend



Source: HESA

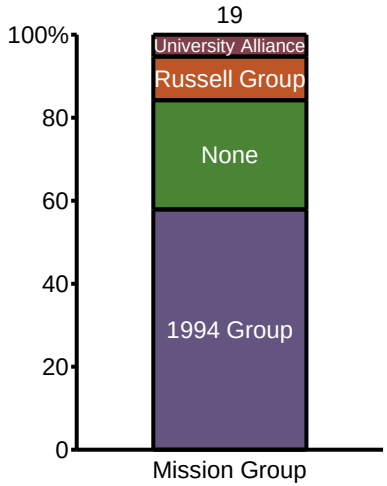
University Business Model Analysis

Cluster #6: Small City Research-Oriented

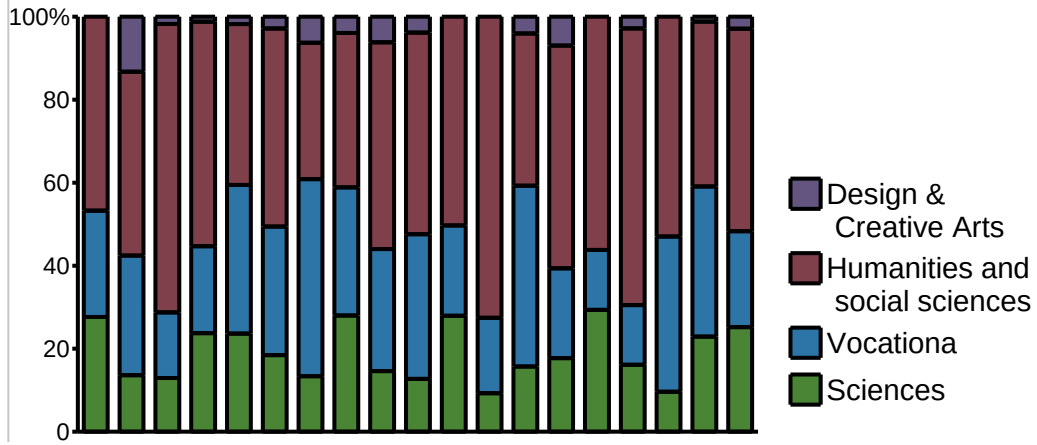
Description of Cluster

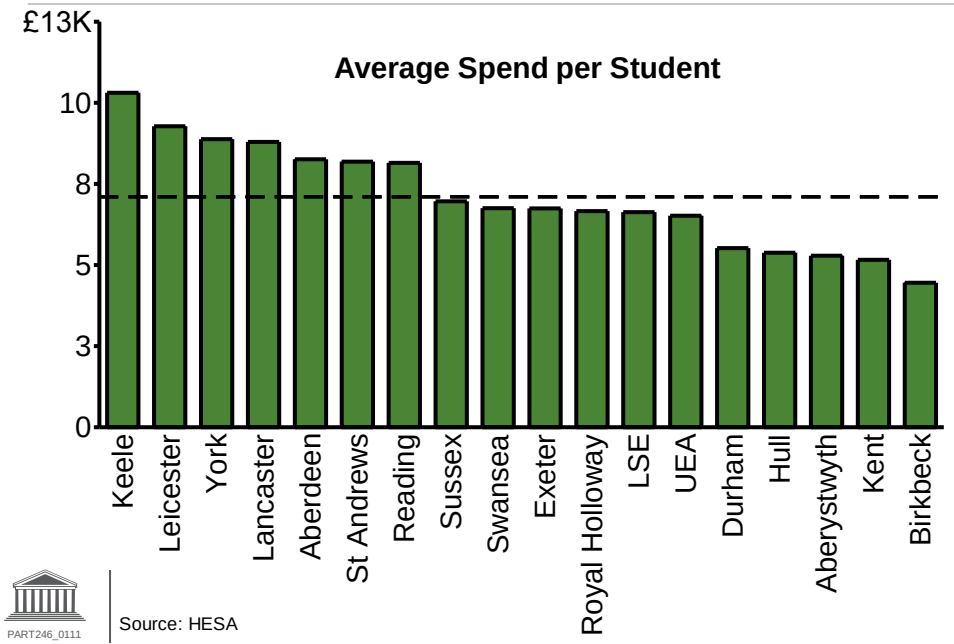
- Institutions are typically first-tier and focus on traditional academic degrees with a bias towards the humanities and social sciences
- Institutions are generally heavy in research

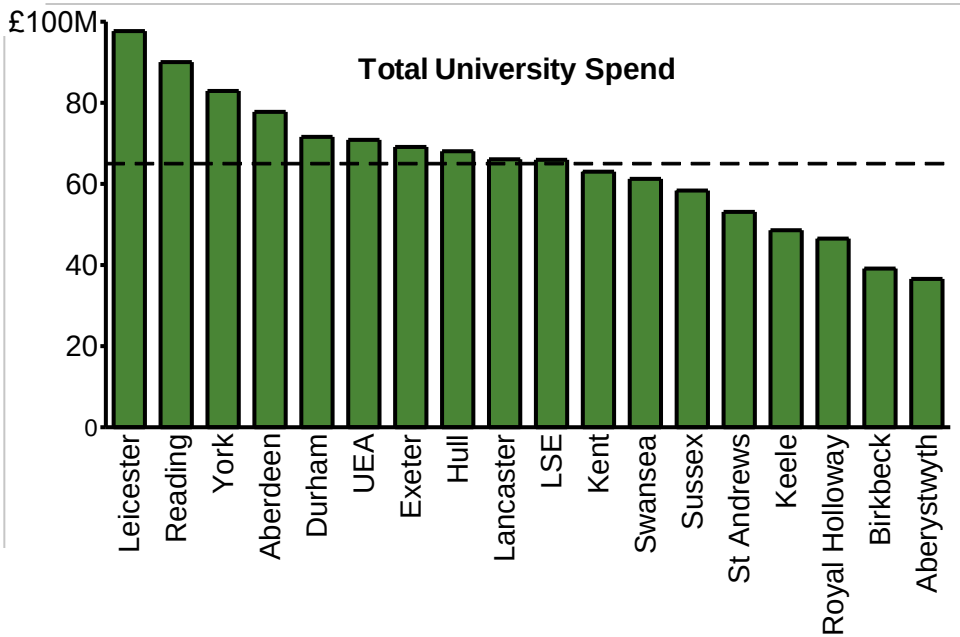
Mission Groups of Included Universities



University Enrolments by Subject







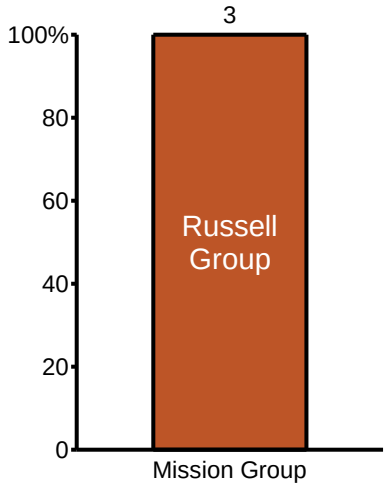
Source: HESA

University Business Model Analysis
Cluster #7: Universal Providers

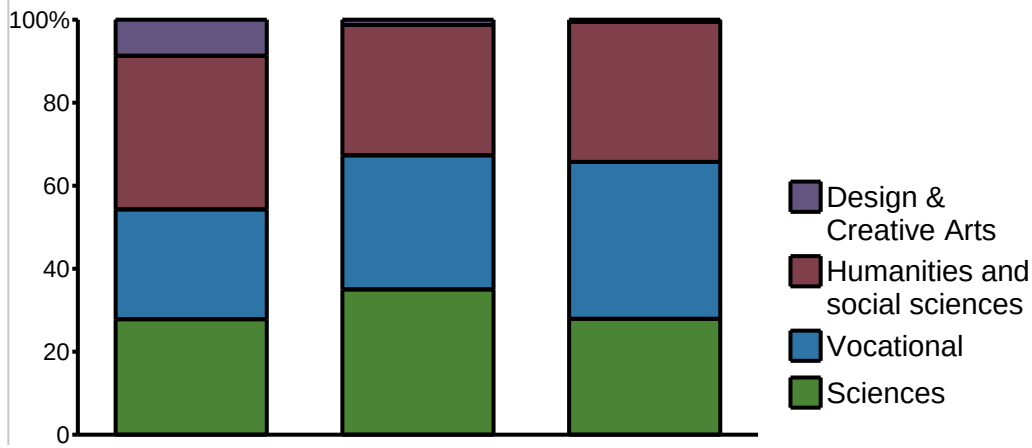
Description of Cluster

- Institutions are typically of high quality and provide a comprehensive offering of courses to a very large number of students
- Institutions are research heavy in a number of subject areas where they are considered to be world-class

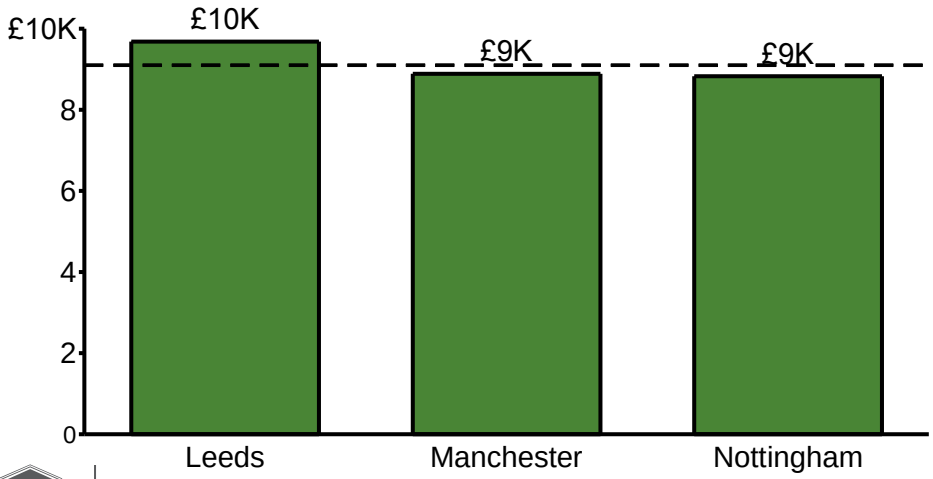
Mission Groups of Included Universities



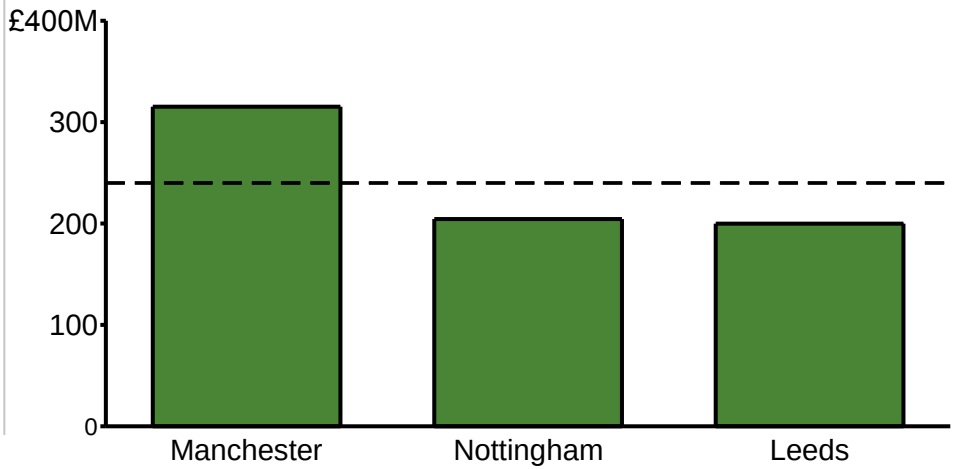
University Enrolments by Subject



Average Spend per Student



Total University Spend



Source: HESA

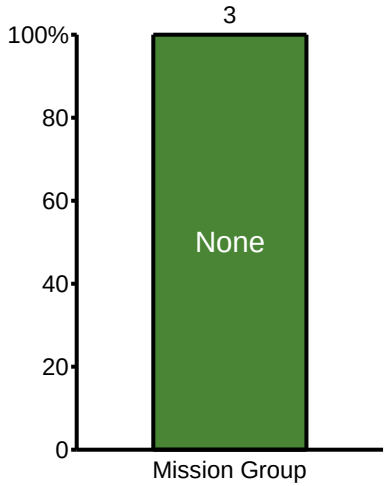
University Business Model Analysis

Cluster #10: Universities with Medical Schools

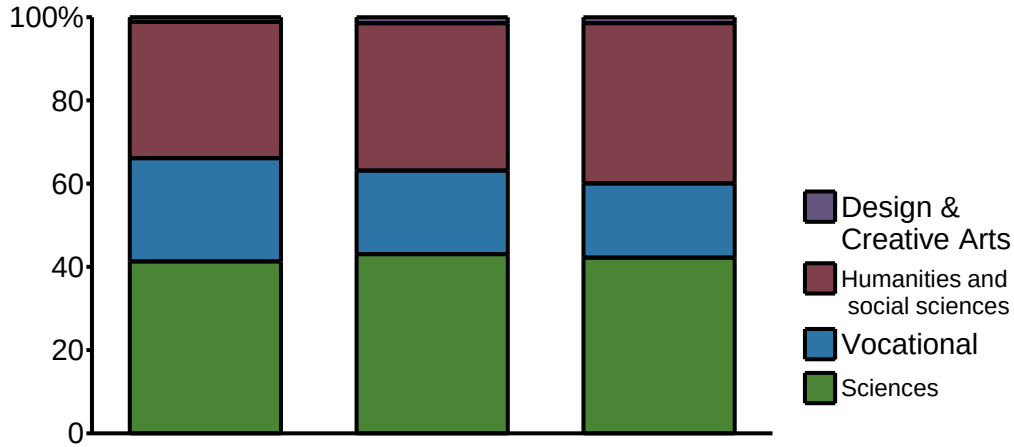
Description of Cluster

- Institutions have a focus on science based degrees, particularly in the medical field
- They are not medical specialists and still offer courses across the subject spectrum

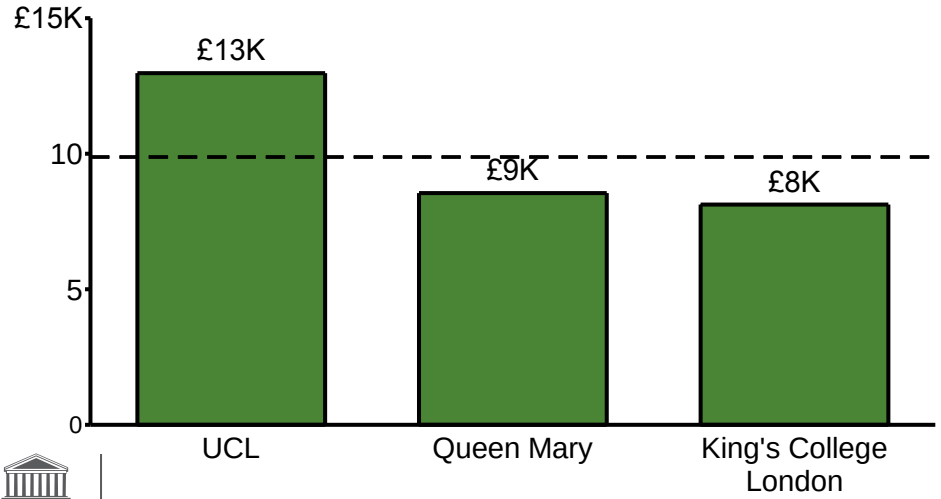
Mission Groups of Included Universities



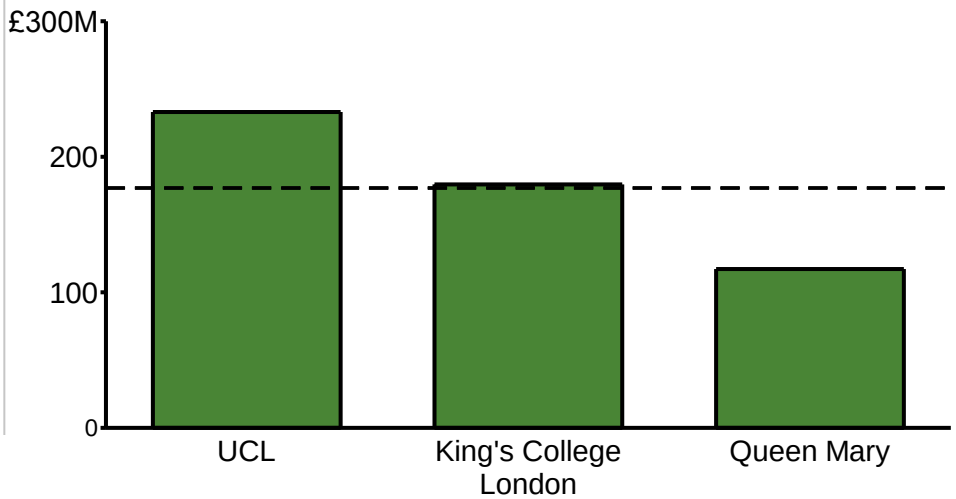
University Enrolments by Subject



Average Spend per Student



Total University Spend



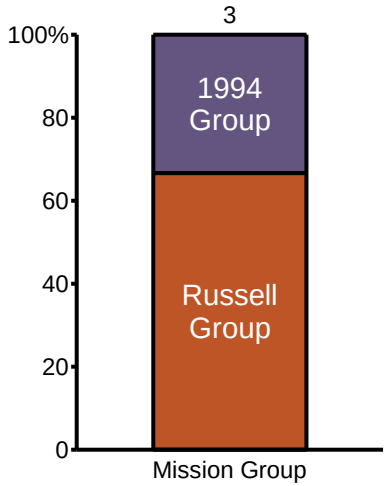
Source: HESA

University Business Model Analysis
Cluster 3: Medical Specialists

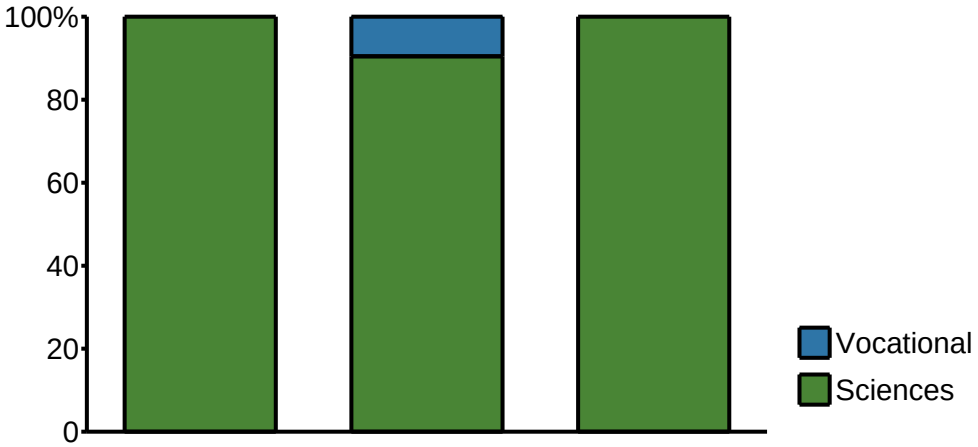
Description of Cluster

- Institutions focus entirely on medicine and related areas in the profession

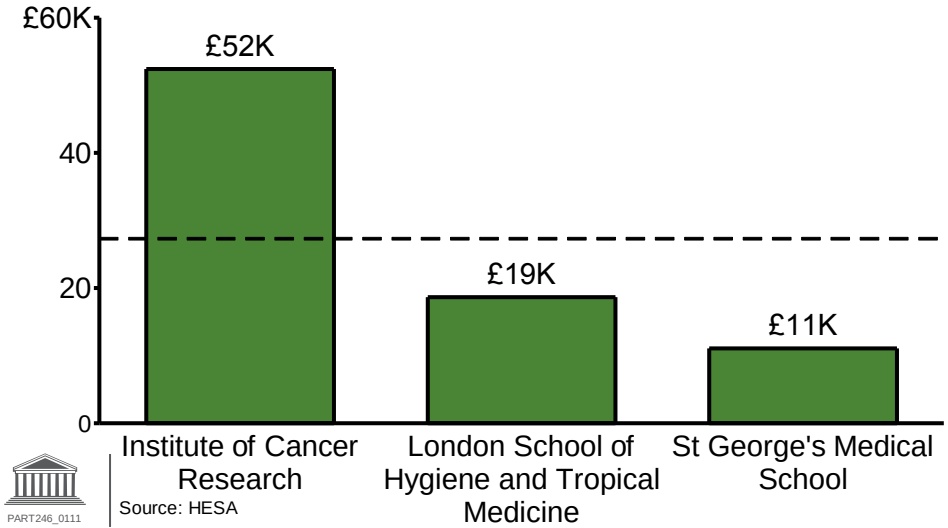
Mission Groups of Included Universities



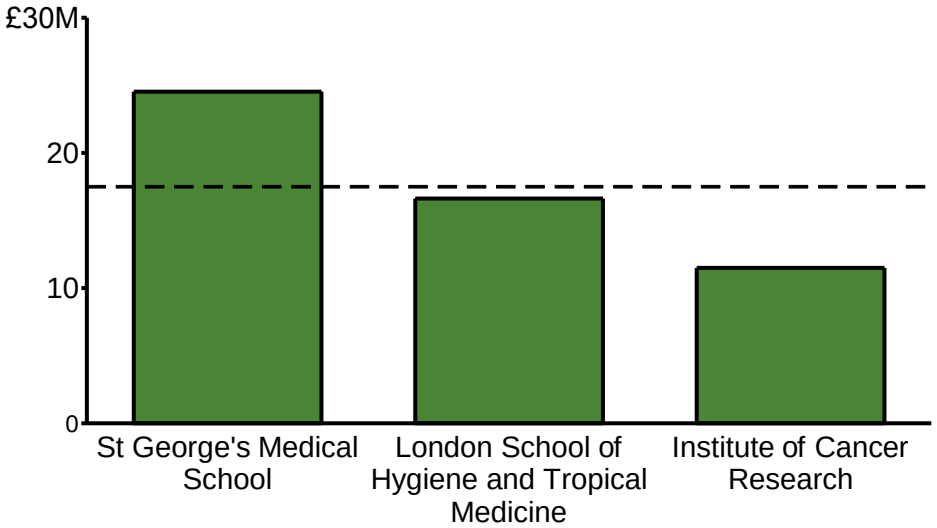
University Enrolments by Subject



Average Spend per Student



Total University Spend



Source: HESA

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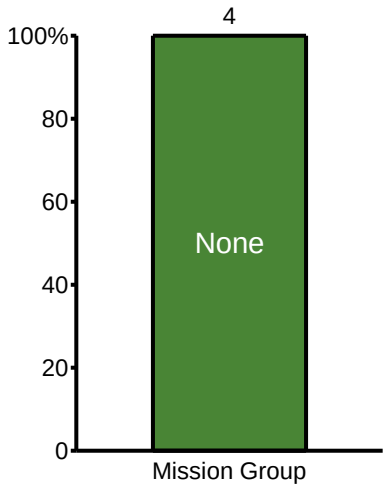
University Business Model Analysis
Cluster 3: Agriculture Specialists

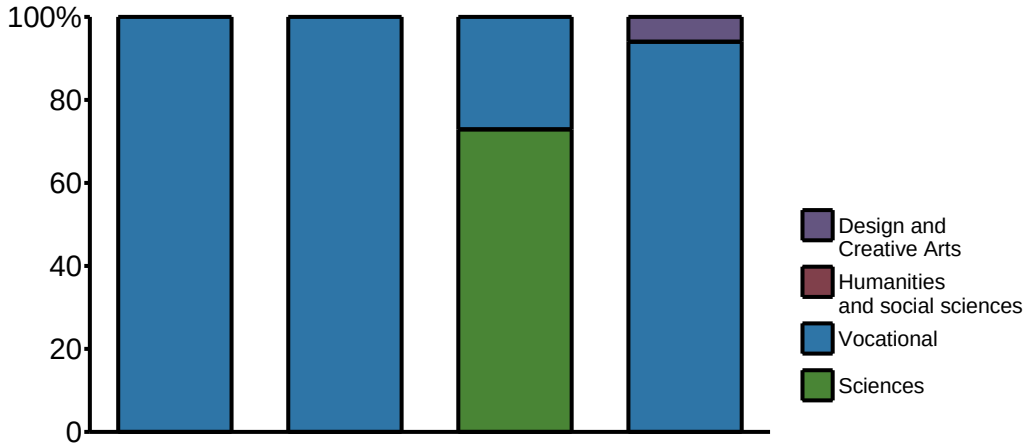
Description of Cluster

- Institutions have a focus on agriculture, both as a vocation and as a scientific discipline

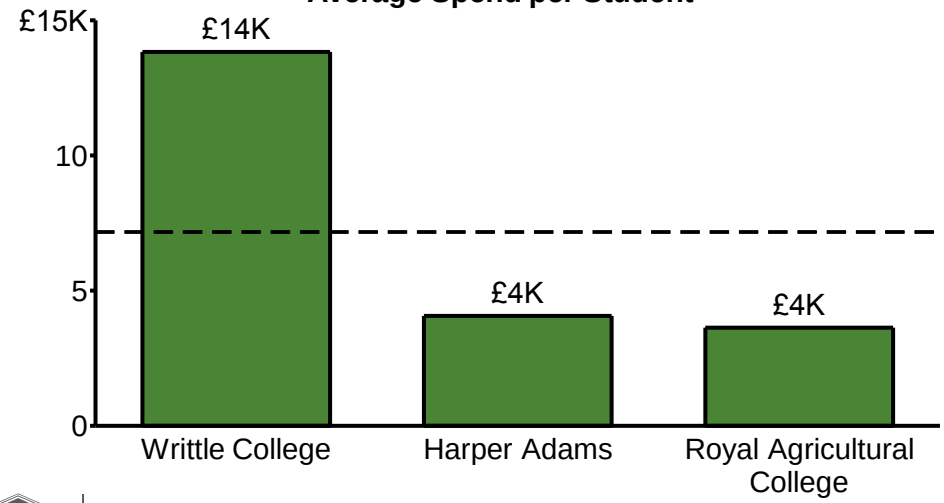
Mission Groups of Included Universities



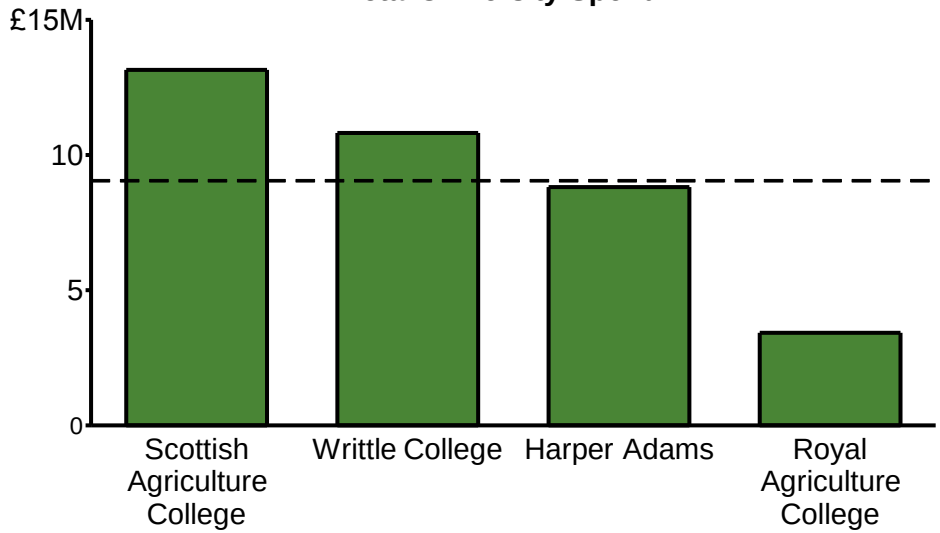
University Enrolments by Subject



Average Spend per Student



Total University Spend



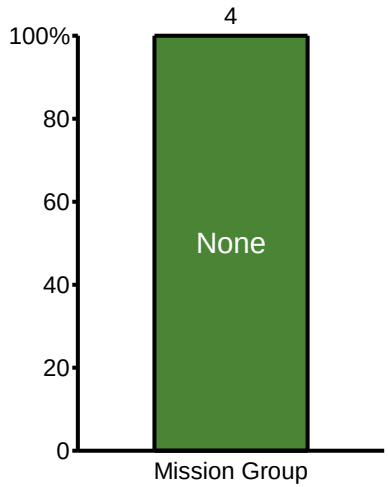
Note: Data for average spend per student was excluded as unreliable for Scottish Agriculture College
Source: HESA

University Business Model Analysis
Cluster 3: Humanities Specialists

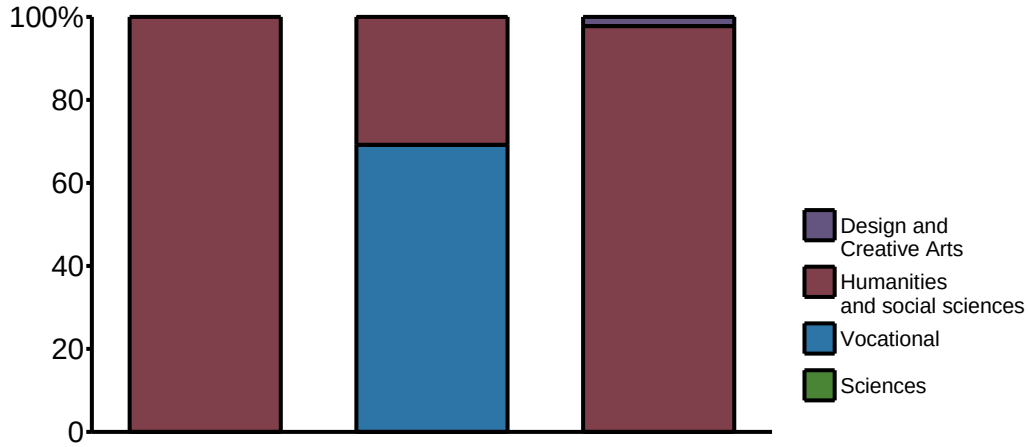
Description of Cluster

- Institutions have a strong focus on humanities and social sciences

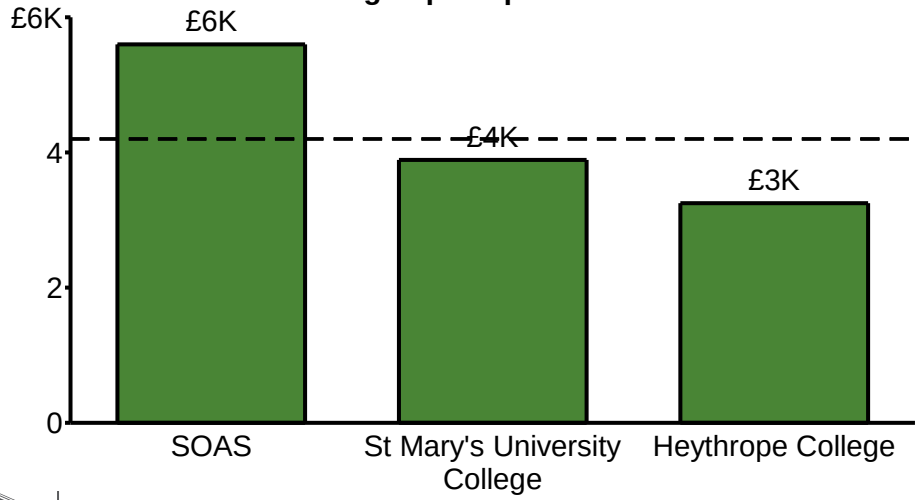
Mission Groups of Included Universities



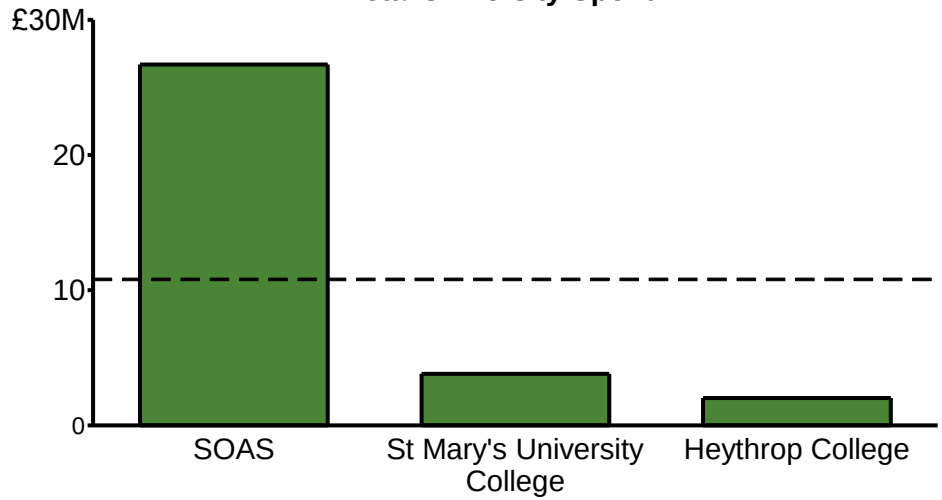
University Enrolments by Subject



Average Spend per Student



Total University Spend



Note: St Mary's vocational subject is entirely education
Source: HESA