



State of the Union

Redefining Leadership in the Face of Market and Mission Shifts

Academic Affairs Forum
Business Affairs Forum

Celebrating 10th Birthdays this Year

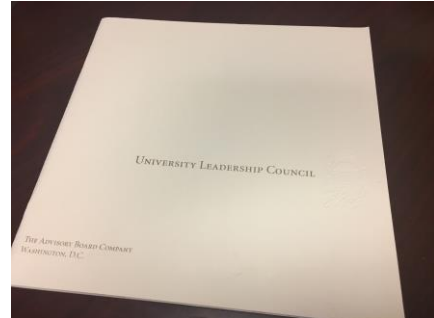


iPhone, introduced by Steve Jobs, Moscone Center, MacWorld San Francisco in 2007



715 M+ Estimated iPhone users worldwide

EAB's first program, the University Leadership Council (now Academic Affairs Forum), introduced by this prospectus in 2007



450+ Academic Affairs Forum members

300+ Business Affairs Forum members

Source: Business Insider, "Apple reinvents the Phone—How Steve Jobs Launched the first ever iPhone" (Sept 9, 2015); Fortune, "Here's How Many iPhones Are Currently Being Used Worldwide" (March 06, 2017).

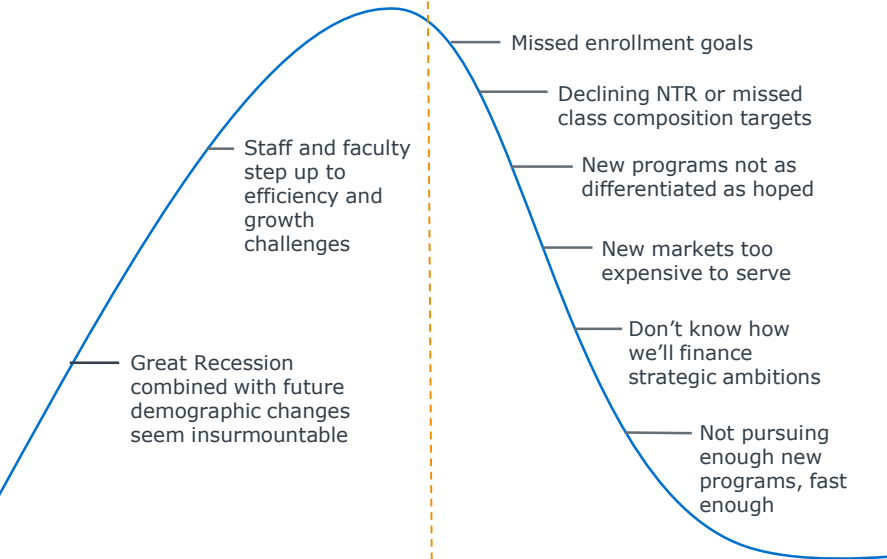
Reflecting on the Last Decade in Higher Ed

RESOLVING TO A "NEW NORMAL"

"We found ways to adapt during and after the Great Recession."

HITTING A WALL

"The market is worsening faster than our capacity for change has caught up."



How Do We Prepare for the Decade Ahead

RESOLVING TO A "NEW NORMAL"

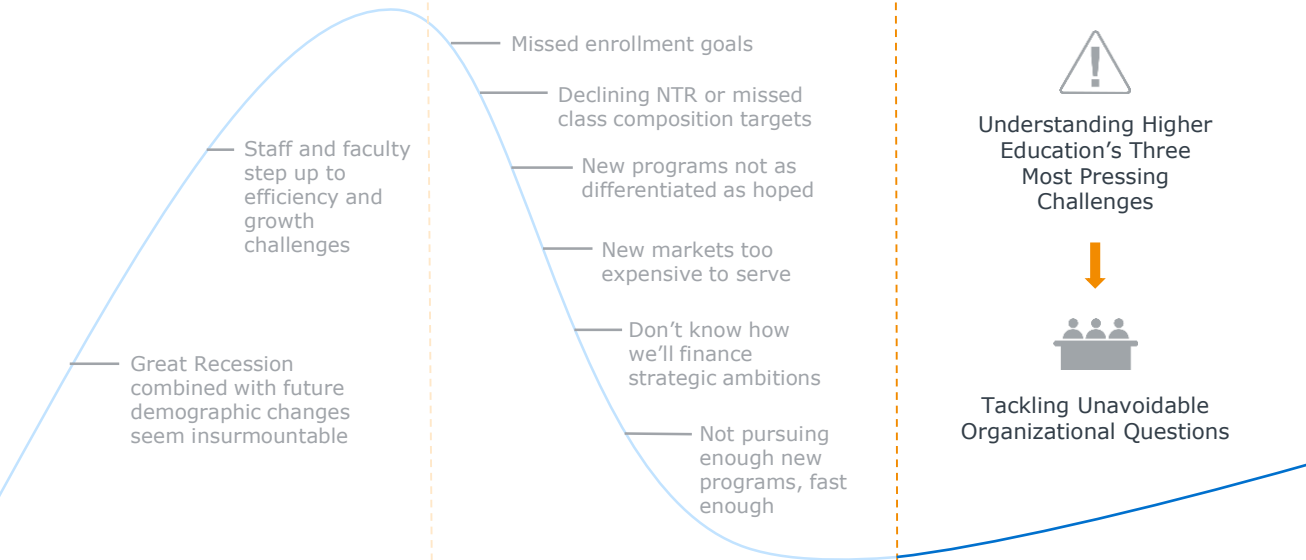
"We found ways to adapt during and after the Great Recession."

HITTING A WALL

"The market is worsening faster than our capacity for change has caught up."

LASTING CHANGES

*Roadmap for our conversation today:
"How do we move forward?"*



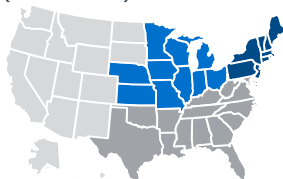


More Challenging (and Expensive) to Reach

Declining Demographics

36

States will see slower growth or declines in high school graduation rate (2016-2031)



A More Demanding "Shopper"

Attending Multiple Orientations to Decide

22%

Increase in withdrawn deposits from 2007-2015

New Marketing Approaches Needed

87%

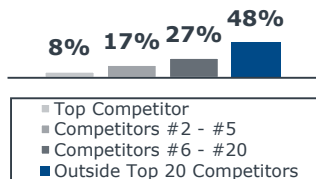
Percentage of prospects who say they don't trust university websites, seeking validation from external source

A Long Tail of Competitors

108%

Increased applications from 2001—2014 with just an 11.6% increase in prospects

Where Admitted Students Who Did Not Deposit Went (n = 81,827)



Increasingly Price Sensitive

25%

Percentage of families who **would have enrolled elsewhere for less than \$5k** in additional grant or scholarship assistance from second choice

NACUBO-Reported Discount Rate for FTFT Freshmen

38.6%

in 2006-2007



49.1%

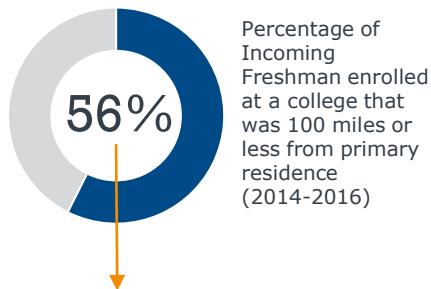
in 2016-2017



The Flip Side: Geographically and Choice Constrained

Place Remains Important

EAB Royall & Company Student Mobility Analysis
(n = 708,016 students, 290 colleges)



Will Changing Demographics Make the U.S. Even More Place-Bound?

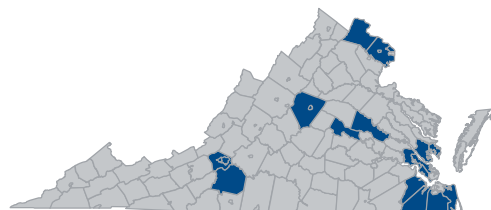
Median miles traveled by ethnicity

42	Hispanic	79	White
40	Asian	78	Black

Many Students Choice-Constrained



Virginia case study examples student choice of bachelor's business programs



Counties where >40% of students have true earnings-based choice (more than one program within commuting distance, with meaningful differences in earnings data)

2/3 Students in education desert (no programs available) or a choice desert (only a single program available)

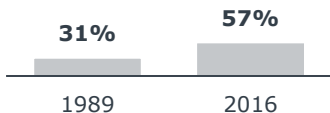


Diversifying the Student Body

Widening Preparedness Gap

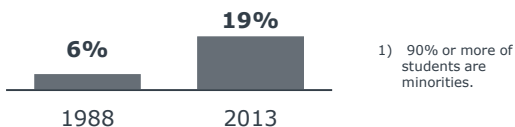
Growing Income Inequalities in K-12 Schools

Public K-12 Students Approved for Free or Reduced Price Lunches, 1989-2016



K-12 Increasingly Concentrated by Race/Ethnicity

'Hyper-Segregated' Public Schools,¹ 1988-2013



Economic and Racial Segregation Contribute to Gaps—And Both Are Rising

Campus Climate Challenges

Ripple Effects of High-Profile Events

35%

Decrease in freshman enrollment at the University of Missouri since 2015

Is Campus Climate Causing Students of Color to Prefer HBCUs and HSIs?

Enrollment Boom at HBCUs

Freshmen Enrollment Change, 2015-2016

50% ↑

Shaw University

30% ↑

Tuskegee University

40% ↑

South Carolina State University

30% ↑

Virginia State University

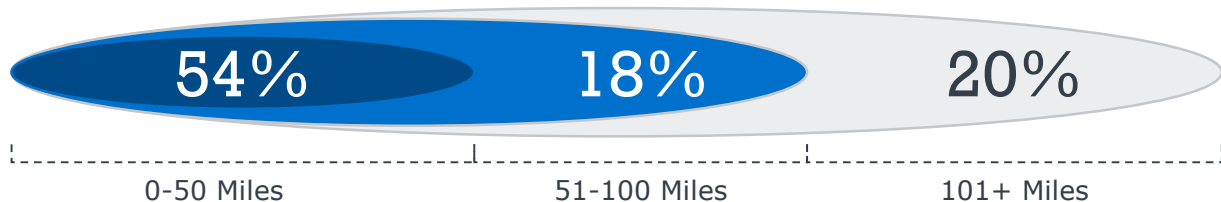


Online Ed Not the Out-of-State Solve

Online Students Still Local

Online Student Distance from Institution, 2017¹

1) Eight percent of respondents indicated that they were not sure how far they lived from the closest campus/service center of the college/university in which they enrolled



Access to In-Person Services Valued

75%

Proportion of Students Who Visited Campus or a Campus Center at Least Once During Program

Sudden Generational Shift Unlikely

83%

Percentage of Gen Z preferring face-to-face connection—despite sending 100 texts per day.

Online Leader Pivots Marketing Spend Back Home



Proportion of Online Marketing Budget Spent In- vs. Out-of-State

FY 2016

30%

In-State

70%

Out-of-State

FY 2017

80%

In-State

20%

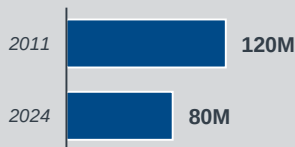
Out-of-State



International Challenges Mirror Domestic

Traditional Age Demographic Decline

Drop in China's 18-22 Year Old Population

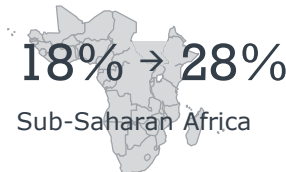
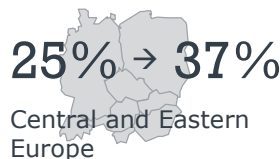
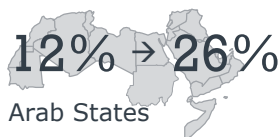


Countries Where 18-24 Year Old Population to Fall 15%+ Between 2005 and 2025

<i>Austria</i>	<i>Greece</i>	<i>Korea</i>
<i>Czech Republic</i>	<i>Hungary</i>	<i>Poland</i>
<i>Germany</i>	<i>Japan</i>	<i>Slovak Republic</i>
		<i>Spain</i>

Change in Portion of Students Staying in Region, 1999 and 2012

Increased Regionalism



Emerging Competitors

2,638

Fully Taught English Degree Programs in Asia

440k

International Students in China in 2016 – **11.4% Increase from Previous Year**

30k

Number of International Students Taiwan Plans to Court by 2019

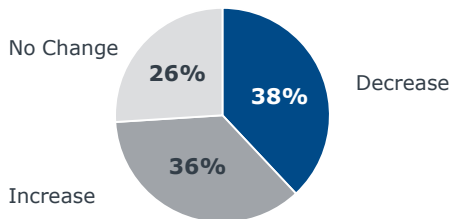


International Students and the U.S. Political Climate

Mixed Picture in Fall 2017

IIE, AACRO, NACAC, NAFA, CGS Joint Study

Change to Application Volume, 2016 to 2017



Notable Variations



46%

Graduate school deans reported declines in yield rates of 2%+ more at master's level, compared to 24% domestic



18%

Decrease in offers of admission to international students in TX, with a yield decrease from 44% to 35%



31%

Institutions concerned Middle Eastern students won't arrive (melt)

Next Year's Prospects More Concerned Than This Year's

EAB Royall & Company International Students Survey (n = 28,000 high school students)

Percent of Students Whose Interest in Studying the U.S. has Declined Due to Current Political Climate

31.1%

2017 prospects

42.8%

2018 prospects

Primary Reasons Interest Has Decreased

68.9%

Concerns about U.S. presidential administration

54.6%

Worried about travel restrictions for international students

52.5%

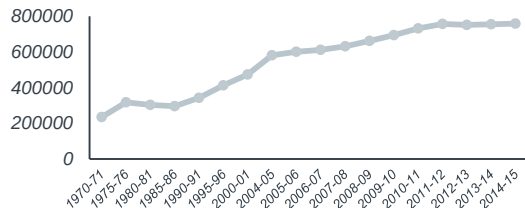
Worried about my personal safety

Source: IIE Center for Academic Mobility Research and Impact, "Shifting Tides? Understanding International Student Yield for Fall 2017 (2017), EAB Royall and Company, "Effect of the Current Political Environment on International Student Enrollment" (2017).

Master's Gold Rush No More

Conferrals Now Flat

Number of Master's Degrees Conferred by Year



Increasingly Expensive to Recruit



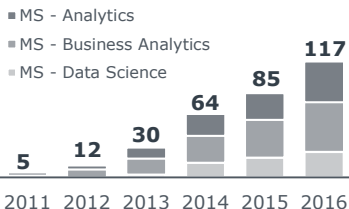
226%

Increased **cost per click** for graduate programs from 2009-2014, as high as \$88 for "RN to BSN Online" and \$69 for "Online MBA"

Competition Even in "New" Fields

Fast Growth in New Data Science and Analytics Degrees...

...And More on The Way



57%

Increase in COE market research requests on data analytics opportunities, 2015-2016

Favorable Climate for New Entrants

126% vs. 57%

Growth in post-bacc certificates awarded from 2001 to 2015, compared to master's degrees (conservative estimate)

Support for Alternative Short Format Providers



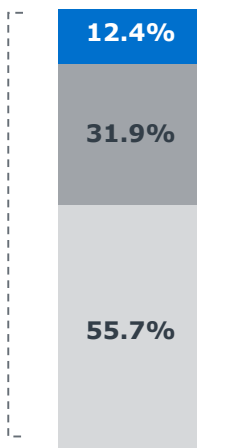
Source: U.S. Department of Education, National Center for Education Statistics, Higher Education General Information Survey (HEGIS), "Degrees and Other Formal Awards Conferred" surveys, 1970-71 through 1985-86; Integrated Postsecondary Education Data System (IPEDS), "Completions Survey" (IPEDS-C; 91-99); and IPEDS Fall 2000 through Fall 2015, Completions component. NCES; "Master Degree Programs in Analytics and Data Science,"

Online Degree Completion: No Magic Bullets

The Hype

31M

Size of degree completion market (some college, no degree) often cited—used in vendor sales pitches, strategic plans.



NATIONAL STUDENT
CLEARINGHOUSE[®]

The Reality of “Potential Completers”

4M

- **Potential completers**
(multiple term enrollees with 2 years' progress or more)
- One-term enrollees
- Multiple-term enrollees with less than 2 years' progress

High Barriers to Entry

- 1** High Level of Investments Needed to Recruit—And Retain
- 2** Credit Transfer—A Complex Process
- 3** Risk of Winners-Take-All Market—At Least Regionally
- 4** Highly Price Sensitive Population



Building Capacity for Change in the Decade Ahead

Not One Single Driver

- ❌ Declining HS demographics
- ❌ Increased price sensitivity
- ❌ Higher costs to serve
- ❌ No flight to safety with new markets
- ❌ High fixed costs
- ❌ Fundraising won't save day
- ❌ Decreasing state funding
- ❌ Intensified competition
- ❌ Cost of funding strategic ambitions

Four Unavoidable Organizational Questions for Campus Leadership Teams

- 1 What alternative models should we consider for financing our futures?
- 2 In order to succeed in new markets with the right capabilities and speed, should we pursue different organizational models?
- 3 What is the future role and composition of the faculty?
- 4 How do we lead distributed change within the context of shared governance?

Near-Term

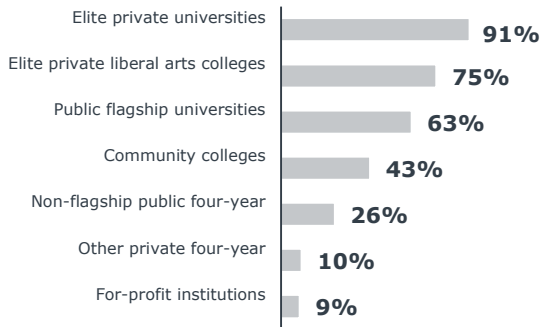
Long-Term

Financial Sustainability in the Decade Ahead

Existential Urgency Dependent on Segment...

Percent of presidents that strongly agree/agree business models for each type of institution will be sustainable over next ten years:

Inside Higher Ed and Gallup 2017 Survey of College and University Presidents, (n = 706)



Unavoidable Question #1:

What alternative models should we consider for financing our futures?

...But Worries Span Institutional Type

"We're not going to go out of business. But will our current financial model allow us to maintain excellence, serve the community, and meet our ambitions? I don't think so."

-- Public Flagship Research University

Considering “Big Bets”: Higher Risk, Higher Reward



Spinning Off Back-Office Units into Stand-Alone Companies

- Spun off Office of Analytics in 2015 to HelioCampus
- Announced IT department spinoff in 2017, AccelerEd

“What is totally untouchable is ... the academic core of the university. [We] will consider anything else ... that can offer opportunities first, in a more flexible way outside of state constraints and, second, that offers the possibility of capitalizing, monetizing that intellectual property.”

- UMUC President
Javier Miyares



Publics Looking to Free from State Restrictions

2010

- Unsuccessful proposal by U of Oregon president Richard Lariviere
- State would sell 30-year bonds worth \$800 million; annual debt service on bonds similar to the \$65M UO receives in state funding each year
- UO would match \$800M in private gifts, creating \$1.6B endowment
- At end of 30 years, contributions end and university would use endowment

2017

- Measure 95 passes with 70% vote
- Gives schools ability to invest tuition dollars or state appropriations (not just independent foundation dollars) in stock market
- U. of Oregon plan to invest \$30-50M from \$300-400M in operating funds



Giving Back and Proving Microfinance Profitability



Omidyar-Tufts
Microfinance Fund

- \$100M gift from eBay founder, Pierre Omidyar, in 2005
- Independent board invests in micro-lending in 35 developing countries
- 50% earnings reinvested; 50% to Tufts

Dollars Returned to the University



1000 students, graduates, and faculty received funds during the heart of the downturn

New Models for New Markets



An Acquisition or a Service Contract?

- Purdue paid \$1 dollar up front
- Kaplan U's 32k students and 3k staff become another branch of Purdue ("New U")
- 30 year contract for Kaplan manage "back office" activities (i.e., marketing and advertising, admissions support, financial aid administration, technology and human resources support)
- Kaplan guarantees \$10M annually to Purdue for five years
- Kaplan gets service fee for costs and keeps 12.5% of net revenues

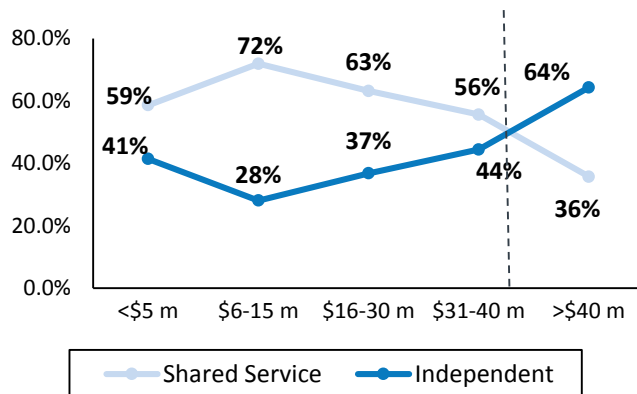
Unavoidable Question #2:

In order to succeed in new markets with the right capabilities and speed, should we pursue different organizational models?

Organizing to Move to Market

1 Highest-Revenue COE Units Disproportionately Independent Structures

Shared Service v. Independent Units By Revenue Size
(n = 62 v. 41)



Independent Unit Structural Advantages

- Market-led programs
- Flexible pricing
- Flexible hiring
- Staff specialization

Breaking the Shared Services Revenue Ceiling—What Do Outliers Do Differently?

- More program demand validation.
- Credit + non-credit offerings allow to move to market
- More staff functions (marketing and admissions)

2 Not Relying on Individual Faculty Lobbying to Expedite New Program Approval

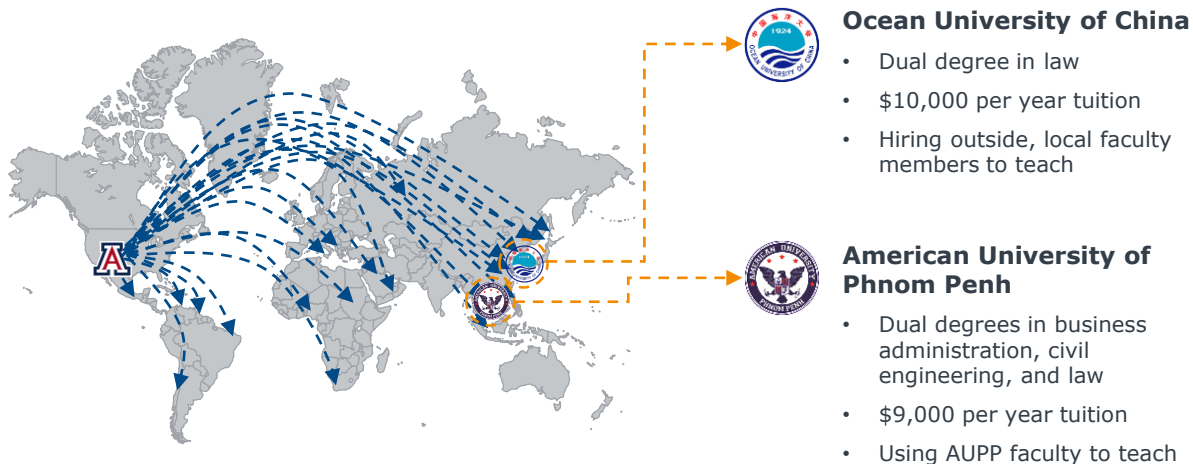
Degree Approval Speed	Committees Meet by Need, Not Calendar	Electronic or E-Mail Governance Voting
1-5 months (n=10)	70%	40%
6-11 months (n=29)	21%	7%
1-2 years (n=44)	36%	11%
3-5 years (n=18)	0%	0%

3 For-Profit or Non-Profit Spinoffs



Developing Capabilities through Partnerships

University of Arizona Expands Access, and Revenue Potential, by "Exporting" Education



Fast Facts on UAZ's Microcampuses

13

Campus partnerships reached, goal of 25

25,000

Projected students educated through microcampuses



Microcampuses, and affiliated programs, only launched with dept- or college-level buy in

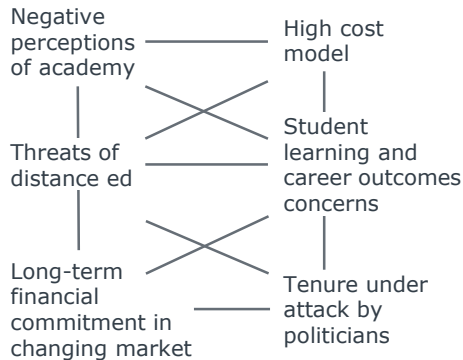


Center for the Study of Higher Education evaluating student and faculty expectations and outcomes

Source: "Going Big Into 'Microcampuses,'" Inside Higher Ed, accessed July 25 2017,

Envisioning the Professoriate of the Future

A Web of Interconnected Challenges



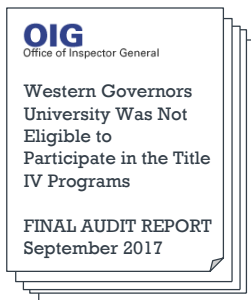
How do we define the conversation around the future professoriate, instead of letting it be defined by others?

Unavoidable Question #3:
What is the future role and composition of the faculty?

"Unbundled" Faculty Model Takes a Hit



Faculty Roles at WGU Called into Question as "Correspondence Ed"



- Department of Ed. Office of Inspector General says WGU ineligible to participate in federal student aid, should return \$700M
- Programs seen as not providing "regular and substantive interaction" with faculty
- **Counter-argument:** "regular" and "substantive" occur, but with different people
- **Prediction:** Secretary DeVos will reject recommendation, but impact on enrollments possible

"Unbundled Roles" Don't Necessarily Save Costs for Traditional Universities...

	<i>Traditional Faculty Model</i>	<i>Success Coach Model</i> ¹
1) Does not account for readers, graders, tutors, and others often hired in unbundled model and that would impact costs.		
Faculty Salary	\$80,000	\$80,000
Faculty Workload	1:40, 4/4	1:200, 4/4
Coach Salary	--	\$35,000
Coach Workload	--	1:150
	\$250 cost per student	\$283 cost per student

...But Can Provide a Supportive Ecosystem

In a Gallup study asking if students had a mentor guiding their hopes and dreams, 68% of WGU students said yes (compared to 22% nationally)

Rethinking Promotion and Tenure Strategy



Institutions Recently Evaluating Research-Centric Career Rewards



New Types of Career Ladders

Northwestern University and the *University of Denver* established a career ladder for instructional faculty



Revised Tenure Guidelines

Purdue University and the *University of Michigan* compiled new tenure guidelines to reward innovative teachers and committed mentors



Rewarding the Scholarship of Teaching and Learning (SoTL)

Eastern Mennonite University includes explicit inclusion of Boyer's four definitions of scholarship in their promotion and tenure criteria



Teaching Practice Dossiers

The University of Alabama requires all faculty members to submit an annual tenure review assessment dossier detailing instructional practices



ROCHESTER

What Would You Build With a Blank Slate?

(Established in 2006)



Design Faculty

- **Tenure-track**
- One per discipline
- Develop curricula and instructional methods
- Conduct and publish learning research



Student-Based Faculty

- **Not tenure-track, but eligible for promotion**
- Focused on instruction and guiding learning
- Team-teach courses with design faculty

*Famous Presidential Laments—
What Holds the University Together?*



A central heating system

- Robert M. Hutchins, University of Chicago



A common grievance over parking

- Clark Kerr, University of California

Unavoidable
Question #4:
How do we lead
distributed change within
the context of shared
governance?

Leading Change in Shared Governance Context

CHALLENGES TO SCALING AND SUSTAINING CHANGE ACROSS OUR INSTITUTIONS



Don't have data to diagnose problems, track progress

Expertise and skill gap for new activities

External market information lacking

Incentives misaligned

Faculty don't understand urgency

Business Affairs Forum

Achieving Principled (not Profitless) Growth

Strategies to Avoid the Most Damaging Mistakes in New Program Planning and Ensuring Net-Positive Launches

Realizing the Promise of Process Improvement

Designing 21st-Century Administrative Processes for Greater Efficiency, Capacity, and Cost Savings

Scaled Services

Harnessing Organizational Redesign to Increase Productivity, Service Quality, and Cost Savings

Academic Affairs Forum

Academic Vital Signs

Aligning Departmental Evaluation with Institutional Priorities

The Future of Arts & Sciences

Understanding Key Drivers of Shifting Demand and Engaging Faculty in Program Revitalization

Launching Financially Sustainable Academic Programs

Avoiding the Most Damaging Mistakes in New Program Planning



Washington DC | Richmond | Birmingham | Minneapolis

P 202.266.6400 | **F** 202.266.5700 | eab.com