Ensuring Independent School
Financial Sustainability

Independent School
Executive Forum

In the context of growing concerns about economic and demographic changes, the cost of tuition, and questions about the value of an independent school education, ensuring financial sustainability is a paramount and urgent issue. This brief highlights the major factors impacting financial sustainability and describes six levers to inflect sustainability that are available to independent schools: advancement, cost cutting, alternative revenues, enrollment management, financial aid management, and strengthening the value proposition. The included diagnostic will help you to identify your school's market position and tailor your financial sustainability plan based on the relative emphasis that you should place on each of the six levers.

If You Read the News, the Sky Is Falling

Concerns about the aging population, stagnating income, skyrocketing tuition, and, perhaps most pertinent, questions about the value of an independent school education pervade media coverage.

The Atlantic
"Why Private Schools Are Dying Out"

TIME
"Private K-12 Programs Decline in Popularity"

PBS
"The Greying of America"

CNBC
"Is Private School Worth the 'Entitlement' and Hefty Price?"

U.S.News
"Fewer Students Attend Private Schools"

FiveThirtyEight
"The American Middle Class Hasn't Gotten a Raise in 15 Years"

One proposed response to these concerns is to take drastic steps to rein in tuition growth via increased class size and reduced faculty/staff count. However, this may not be the best path forward. At best, these steps are a distraction from more important priorities. At worst, they might damage the school's ability to maintain high standards and alter the perception of the school among prospective families.

Financial Sustainability and the Independent School Climate

What Does It Mean to Be Sustainable?

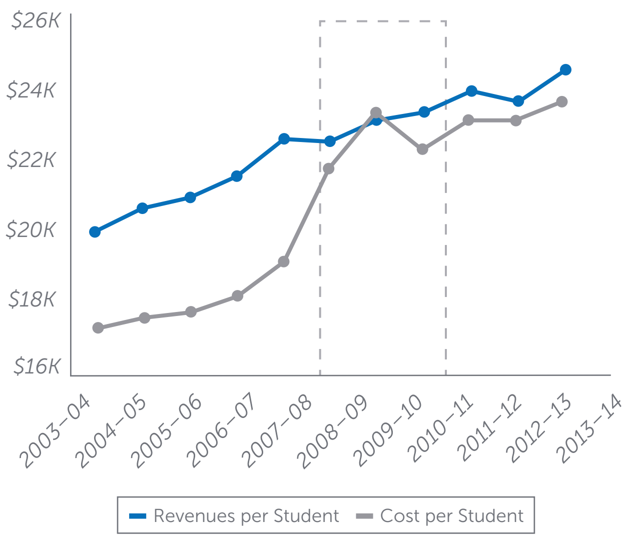
Financial sustainability means that an institution is able to maintain positive net revenue into the future even as costs grow. If cost growth overtakes revenue growth, the institution will no longer be financially sustainable in its current form.

The Great Recession posed a threat to the financial sustainability of independent schools, as costs per student overtook revenues per student. This period of unsustainable cost growth per student likely reflected declines in enrollments. After the recession ended, a more traditional pattern of growth for both costs and revenues returned, albeit with a significantly smaller margin between those trend lines.

Costs and Revenue per Student Growing Together Over Time

NAIS Day Schools

n=328



The Great Recession's Impact on Sustainability

- Overall enrollment decline from 2008–2010
- Costs/student eclipsed revenues/student given enrollment decline and preexisting expenses
- Response to cut costs short-lived, as costs returned to historic growth rates

As schools examine their own sustainability, they must ask themselves several questions:

- Can we contain cost growth over the long term?
- How can revenue continue to grow at a pace to cover rising costs?
- Are there sufficient numbers of upper-income families able and willing to pay for an independent school education?

The Reality of Independent School Finances

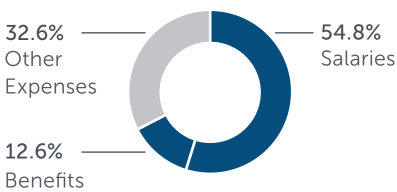
Both costs and revenues at independent schools have a primary, dominant driver.

On the cost side, the main driver is labor expenses. Salaries and benefits account for nearly 70% of all expenses, with the bulk of that going to faculty salaries and benefits.

The revenue equation is even more lopsided, with close to 80% of revenues derived from tuition.

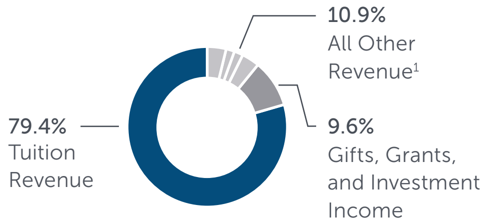
Costs Largely Driven by Human Capital

Share of Total Costs at All National Association of Independent Schools (NAIS) Day Schools, 2014–2015



Revenues Largely Driven by Tuition

Share of Total Revenues at All NAIS Schools, 2014–2015



59% Share of all salary expenditures dedicated to academic staff

73% Share of total revenue from net tuition revenue at boarding schools

Price Growth Often Necessary to Drive Revenue

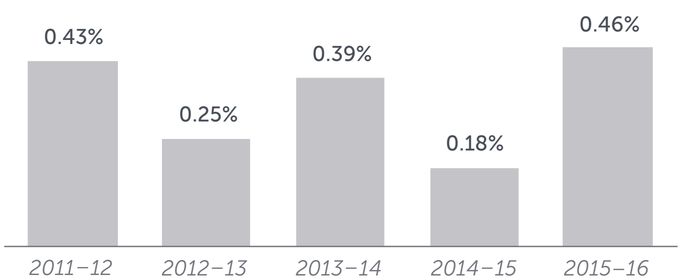
Given this dependence on enrollment revenues, independent schools need to grow headcount, price, or both, to cover growing costs. And because many schools cannot or do not want to grow in size, this places inordinate pressure on price (tuition) growth as the main driver of revenue growth to cover rising costs.

Two Variables Forming a Simple Tuition Revenue Equation, but Only One Offers Long-Term Revenue Growth Potential

	Volume	Enrollment often capped, either by design or by demand
×	Price	To increase revenue absent an increase in volume, price must rise
	Total Net Tuition Revenue	

Given Modest Net Enrollment Growth, Higher Prices Necessary to Cover Cost Growth

Year-Over-Year Average Enrollment Increases, NAIS Schools



1 Understanding the Sustainability Concerns of Independent Schools

What You Told Us

In this context of independent school finances, the Independent School Executive Forum research team heard three main member concerns pertaining to financial sustainability across months of research and numerous conversations with school leaders.

Enrollment Trends

Parents Opting Out of Independent Lower School

Families at the margins of independent school income struggle to see sufficient value for the tuition of independent school at lower grades

"We're now weighing whether we fill the class or decide that we want to maintain quality while cutting back on sections."

Director of Admissions
Day-Boarding School

Demographics and Affordability

Independent School Becoming Unaffordable for More Families

Median average day tuition consumes more than twice the amount of the highest income quintile's income in 2013–2014 (13.2%) than it did in 2003–2004 (6.5%)

"I'm having a harder time convincing some of those families who just need a little bit of aid to come here. They don't feel like it's within reach at all."

Head of School, Day School

Competition

Competition Threatening Enrollments

BASIS, AltSchool, and others raise concerns that newly wealthy families or upper-middle income families may choose new, innovative models

"I'm making some decisions now to anticipate one of these new entrants coming into my market. They haven't taken enrollments yet, but they could."

Head of School, Day School

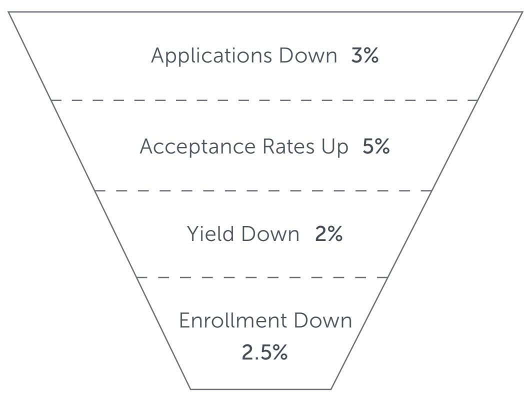
Canaries in the Coal Mine?

Independent school members' concerns about enrollment trends are largely focused on the lower division. Lower-division enrollment funnel metrics show fewer applications, lower yield, and fewer enrollments.

Lower Divisions Losing Ground, Even in Top Schools

INDEX Group Lower Division Enrollment Trends, 2013–2016

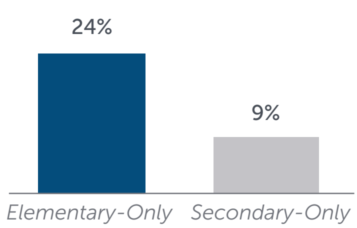
n=64



Elementary-Only Schools Suffering Most Enrollment Losses

Percentage of NAIS Day Schools with High Enrollment Decline, 2006–17 to 2014–15[1]

n=732



Although elementary-only schools most acutely represent these trends, this is a concern for all independent schools. Even for schools with only an upper school, feeder schools now have fewer students, or perhaps lower-quality students, to draw upon. This poses a challenge for filling classes with best-fit, high-quality students.

Penetration, Not Supply, Is the Challenge

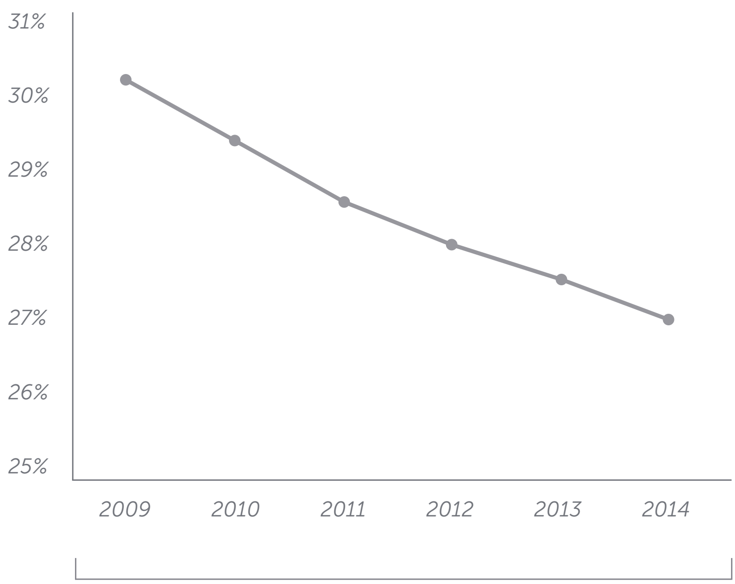
Across the board, independent schools are missing out on vast portions of their core market.

Since 2009, independent schools aren't capturing enrollments from over 70% of families making $200K annually. The share of this market selecting independent schools has been consistently declining in recent years, with the most recent data suggesting that only about 27% of these families enroll children in K-12 independent schools.

This isn't a problem of supply. Rather, the challenge is around successfully penetrating the market of wealthy families.

Smaller Percentage of Wealthy Families Choosing Private School

Percentage of $200K+ Families Enrolling Children in K–12 Private



As total number of wealthy families grows and enrollments remain flat, overall share decreases

Strongest Population Growth Among Wealthiest Families

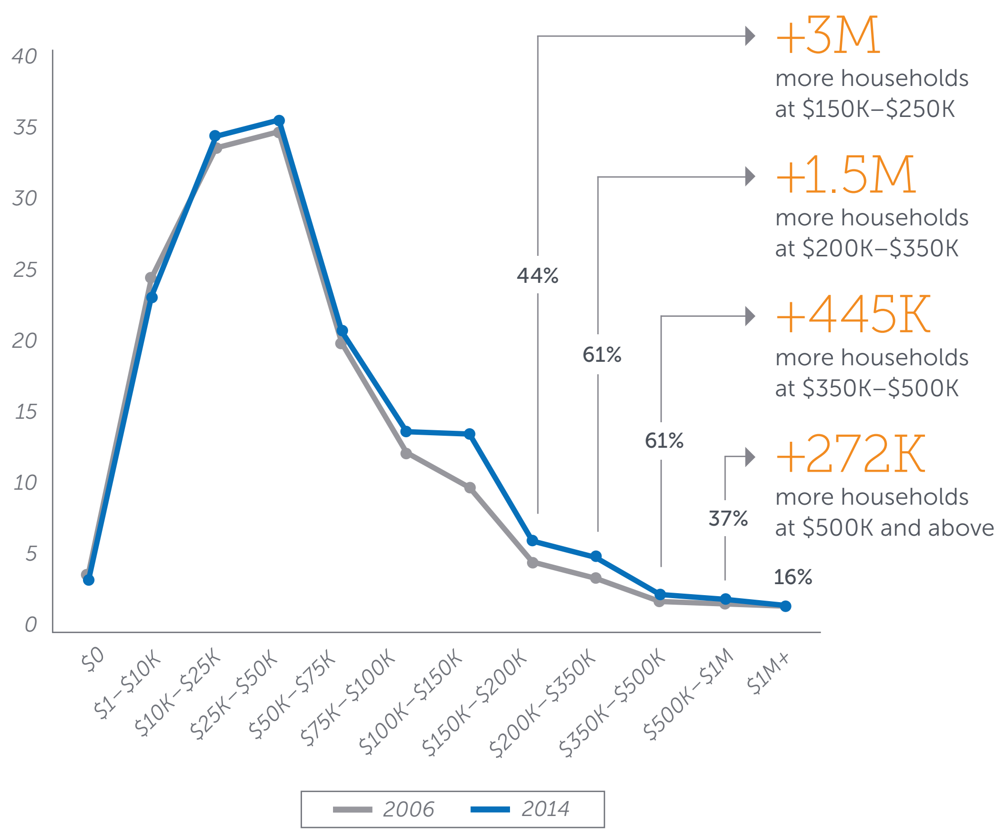
Given that market share is an issue—particularly among wealthy families—it is necessary to understand demographic trends within the population. There has been growth in several wealth tiers of the U.S. population, particularly among families earning $75K or more.

In absolute numbers, the most significant growth has been among households making $150–350K. As of 2014, there were nearly 4.5 million more of these households than in 2006.

In percentage terms, the greatest growth has been among those making $200–$500K.

More Households in High Wealth Tiers

Number of Households (in millions), 2006 and 2014, with Percentage Growth



It's clear that there are significantly more high-income households. For independent schools, however, the more important statistic concerns the increase in the number of high-income children.

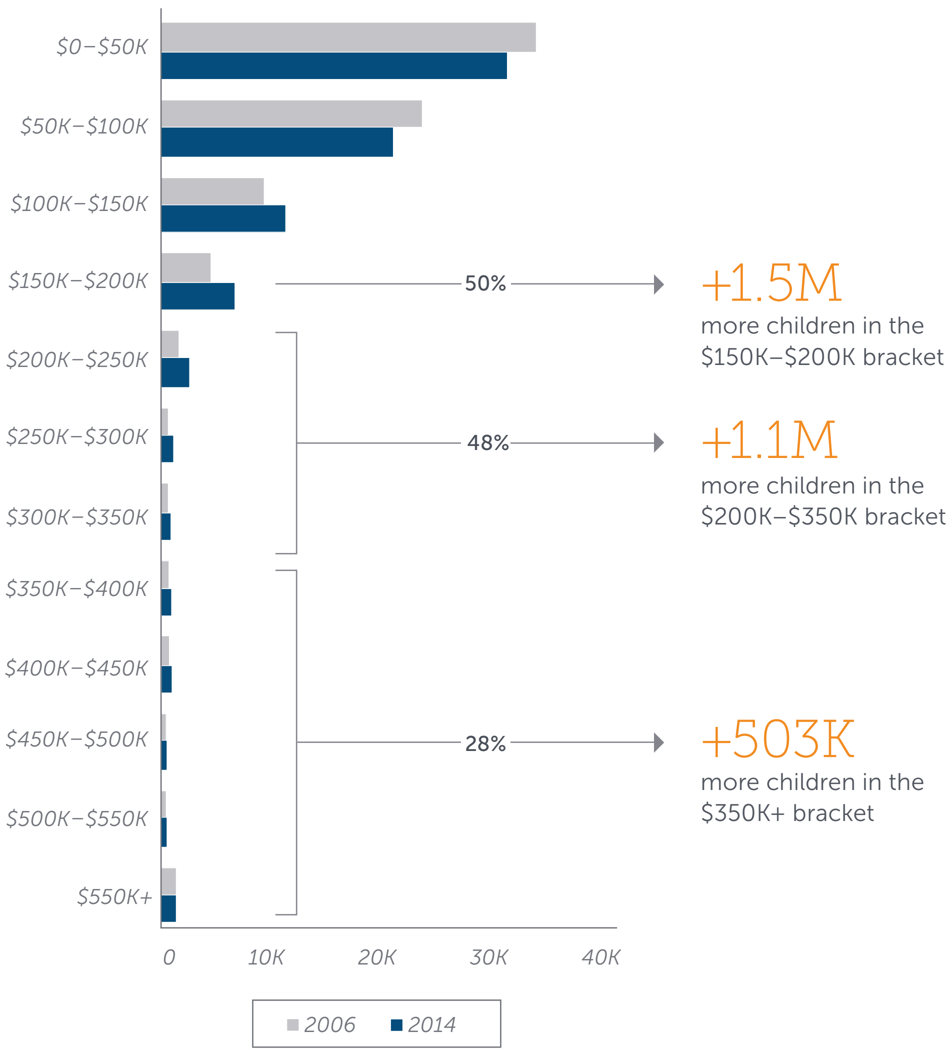
More Wealthy, Fewer Poor Students

There are in fact more high-income students. As with growth among high-income families, the highest growth rates among the student population are found across the highest income tiers.

Comparing 2006 to 2014, there has been an increase in the absolute number of school-age children across every $50K income band starting at $100K–$150K.

More Wealthy School-Age Children

Number of School-Age Children in Each Income Bracket, 2006 and 2014
(in thousands and nominal dollars)



All Demographics Is Local

However, any examination of demographics and schools must focus on local figures and trends.

Depending on a school's location, leaders might be facing different challenges and opportunities. Highlighted are three types of markets, each distinct in demographics and history.

- Cities like Pittsburgh are seeing the slowest growth at the top of the income spectrum, but it's certainly a rosier picture than many might paint about the "Rust Belt."
- The "New South" exhibits incredibly rapid growth at the top of the income distribution, as well as a low cost of living across many of its cities.
- Cities in the "Old Guard" are represented by substantial established wealth and job markets, resulting in a consistently strong market for schools. In these cities with a high cost of living, however, the affordability breaking point is probably higher than most.

The Rust Belt

Pittsburgh, PA

- 29% growth in $200K+ individuals since 2006
- 196,000 individuals in bracket
- 8.7% of the Pittsburgh population

Similar Cities

- Overall slow or stagnant population
- Steady growth in families between $200K–$400K
- Cleveland, OH; Detroit, MI; and Baltimore, MD

The New South

Charlotte, NC

- 59% growth in $200K+ individuals since 2006
- 190,000 individuals in bracket
- 8.3% of the Charlotte population

Similar Cities

- Rapid population growth
- New industries attracting wealthy families
- Atlanta, GA; Raleigh, NC; and Houston, TX

The Old Guard

Washington, DC

- 56% growth in $300K+ individuals since 2006
- 468,00 individuals in bracket
- 8.4% of the Washington, DC, population

Similar Cities

- Established wealthy population
- Long tradition of independent schools
- New York, NY; Boston, MA; and San Francisco, CA

Examining all Core-Based Statistical Areas—the government designation for metropolitan regions—fully 87% saw growth in the high-income demographic between 2006 and 2014.

Although regional differences exist, this demonstrates that there are more places where this demographic is growing rather than shrinking. This data presents a mixed picture for independent schools.

The Good News

There are more wealthy households and wealthy kids in America. Were this not true, independent schools would be facing an intractable challenge and would be forced to fight over an increasingly smaller number of students.

The Bad News

Given these gains in wealth, demographics cannot be used to explain the worrisome cost/revenue patterns and enrollment trends at many independent schools.

The 'Good Enough' Phenomenon

If not demographics, what might explain the decline in lower school enrollments and the concerning enrollment trends in some independent schools? Many heads of school and admissions directors explained that parents are taking a "good enough" approach and opting to enroll in free, public elementary schools. These families live in neighborhoods with public schools they deem good enough for at least the lower grades.

> It's undoubtedly harder for independent schools to convince parents of the value in the lower grades than of middle or upper school, where the college preparation argument is more compelling and relevant to prospective families.

Further compounding this challenge, families are worried about the rising cost of college on top of the cost of independent school. Parents are looking at the lifetime cost of educating their children, not just the 12 years they might need to pay for primary and secondary education.

While member schools across the Independent School Executive Forum indicated a healthier enrollment funnel for middle and upper school and few, if any, enrollment pressures at these entry points, it's important to consider if lower school pressures are harbingers of things to come at the higher grades.

Varying Perceptions of Independent School Value Across the Student Lifecycle

Lower School

$150K[2]

K 1 2 3 4 5

Doubts About Value and Future College Expenses

- Independent schools struggle to communicate enough difference from free, convenient public schools
- High cost of independent schools may prevent saving for college among marginal families
- Rumors of intense, stressful environment at independent schools concern some parents

$211K

Value of $150,000 invested annually across 12 years at 529 savings account average annual return of 6%

Middle School

$81K

6 7 8

Desirable, Less Competitive Entry

- Parents believe admission is less competitive in the middle grades
- This entry point ensures readiness for college prep curriculum

Upper School

$120K

9 10 11 12

Clear Understanding of College Prep Value

- Major influx of enrollments here
- No challenge explaining the college admissions benefit to parents
- Greater AP and activity offerings attract many families

$181K

Cost of four years of private college in 2016

Tuition Outstripping Median Income

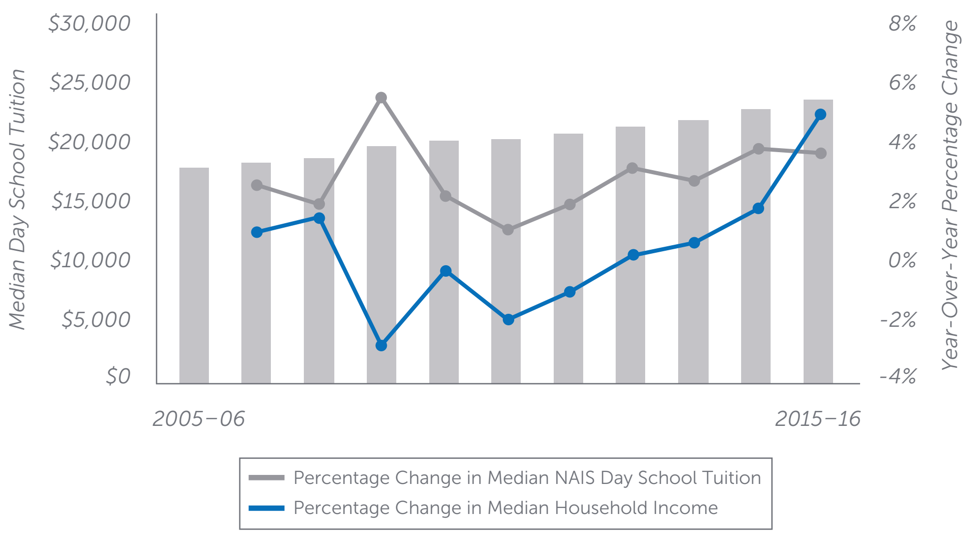
In addition to immediate enrollment pressures, affordability is another big concern identified by school leaders. There is a notion that an independent school education is increasingly out of reach for many families.

Tuition growth has outstripped median income growth in recent years to a significant degree.

Median Day School Tuition and Income Growth Rates

NAIS Trend Book 2016–2017 and Census Bureau

Numbers adjusted for inflation[3]



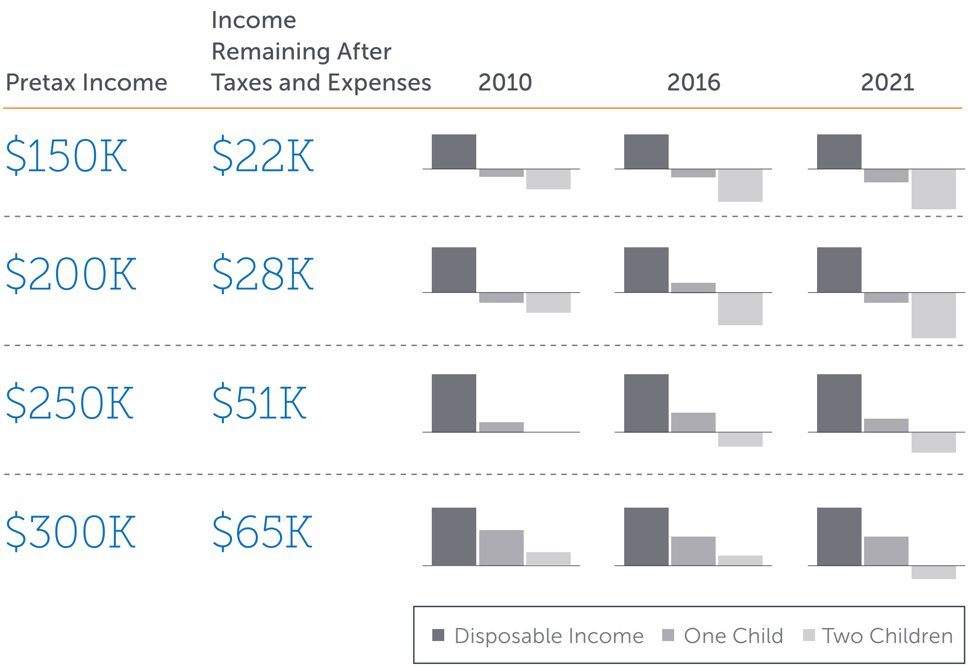
However, this common comparison is somewhat misleading, since the market for independent schools is not among median-income households.

Justifiable Anxiety on the Margins

Instead, the market for independent schools is primarily among high-income households, who may have new, legitimate concerns as tuition[4] continues to increase.

The figure below displays the estimated disposable income by income bracket, after taxes and expenses, and the share of that remaining income consumed by sending one or two children per year to an independent school.

A decade ago, almost any family making $200K and above could send one child to an independent school without aid. But by 2021, even a family making $300K would be unable to send two children to an independent school without aid.



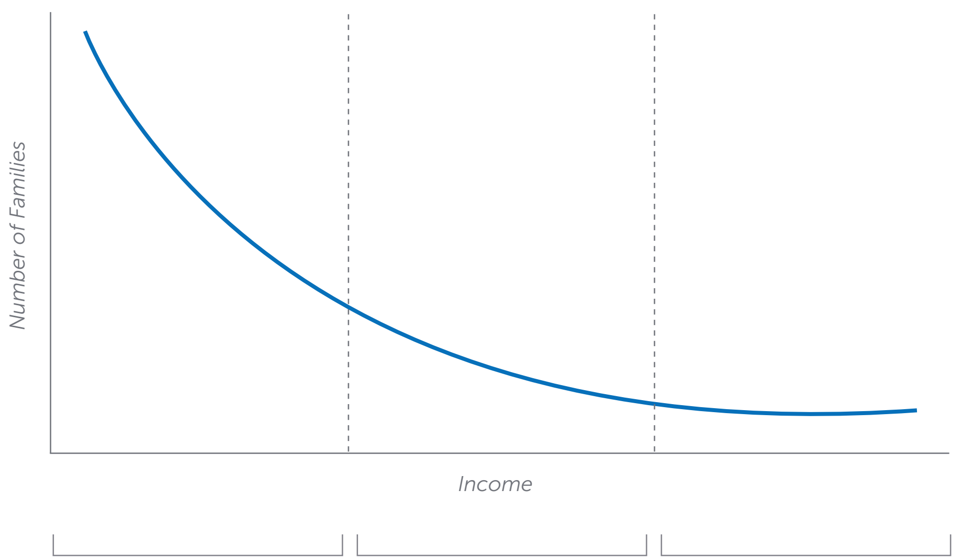
While schools can hope that there will always be families willing to invest almost all of their discretionary income on their child's education, many families are having increased difficulty doing so.

Furthermore, schools do not want to rely exclusively on the ultra-wealthy for enrollments, desiring instead a student body that is more reflective of the population as a whole and supports the mission of the school.

Understanding Family Segments

School leaders must recognize the distinct family segments that pursue independent school education and the factors that influence their decision making. The Independent School Executive Forum identified three prospective family segments, which are primarily differentiated by income.

The largest group, families on the income margins, is drawn to various elements of the independent school experience but often need some degree of financial assistance. Skeptical wealthy families can afford independent schools without aid but are more prone to pursuing public or alternative schools. Finally, the fought-over independent school families are able to afford tuition and understand the value proposition of independent schools—this group is small and is heavily pursued by many schools.



Families on the Margin

- Unable to afford independent school without significant aid
- Includes many high-quality students who can minimize the "barbell" effect on the student body (concentration of students at either end of the wealth spectrum with few in the middle)

Skeptical Wealthy Families

- Able to afford independent school but skeptical of the value
- Many lack a history of independent school attendance

Fought-Over Independent School Families

- Able to afford independent schools and convinced of the value
- Require more attention and cultivation from independent schools because they choose among many options

> “We’re in an area with a few million people and we need to fill 1,000 seats. We’re not worried about the supply of high-income families—the challenge is penetrating that market and making a compelling case to the families who can afford us but simply choose not to apply or enroll.”
>
> *Head of School*
> *Independent Day School*

Extensive Choices Complicate Parent Decisions

In addition to understanding the different types of families that pursue independent school education, school leaders must recognize the increasing choices available to these families for enrollment.

In the past, families could pick an independent school, a religious school, or the local public school.

Today, it's a more complicated landscape. Families still have all the old choices, but now there are charters, magnets, and new alternatives. It's a harder choice, and the independent school is now one of many options.

The Educational Choice of Today's Families

Independent School

- Many competing for same students
- Appear undifferentiated to many parents
- Increasingly unaffordable for many families

Charter and Magnet Schools

- Enrollment has grown by nearly 4 million since 1990s
- Reputation for innovation and flexibility
- Strong emphasis on socioeconomic diversity

Religious School

- Fits with family faith
- Less costly than independent schools
- Clearly differentiated educational experience for students and parents

Traditional Public School

- Still free, while independent schools are raising tuition
- If public perceives improvement, even wealthy parents may take the chance

Alternative Schools

- Basis, AltSchool, Fusion Academy, Stanford Online School, etc.
- Experimentation with high-tech pedagogy
- "No-frills" and lower price

Understanding Changes in Market Share

Despite the proliferation of options, the K-12 market has remained fairly stable in terms of enrollments and market share, with a few noteworthy exceptions.

Within the private school market, Catholic schools have suffered double-digit enrollment losses, as have other religious schools.

Charter and magnet schools have seen massive growth, while traditional public schools have grown minimally. Charters and magnets are the only schools that have actually gained market share in this time frame.

Enrollment and Market Share Change Among K-12 Schools by Type and Control 2007–2013[5]

Type of School	Percent Change in Enrollment	Change in Market Share
Nonsectarian Private	-0.07%	-0.27%
Catholic Private	-11.00%	-1.50%
Other Religious Private	-11.00%	-0.55%
Charter School	+97.31%	+2.00%
Magnet School	+19.81%	+0.58%
Public School	+1.64%	-1.00%

While research is inconclusive about exactly where each student has gone, evidence suggests that nearly all charter students come from traditional public schools and Catholic schools. Magnet schools are more likely than charter schools to capture students from independent schools, although the impact will be relatively minimal if at all.

2 Key Levers of Financial Sustainability

Six Levers to Inflect Sustainability

The reality of independent school finances (costs driven by labor, revenues driven by tuition) heavily influences the key levers of financial sustainability at your disposal. These six main levers are available to independent schools.

Advancement

Raising private support for mission-critical activities

Cost Cutting

Cutting operating costs to reduce tuition growth

Alternative Revenues

Augmenting revenues through space rental, summer camps, and other enterprises

Enrollment Management

Generating tuition revenue and building a high-quality class through strategic recruitment, cultivation, and admissions

Financial Aid

Helping families afford independent school while meeting net tuition revenue goals

Value Proposition

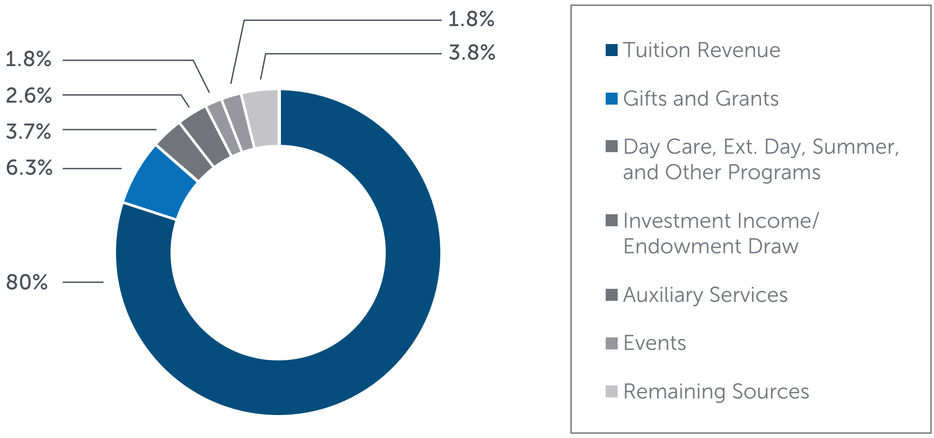
Adopting new pedagogical and labor models to reduce costs and enhance the educational experience

The Critical Role of Advancement

The first lever to inflect financial sustainability available to independent schools is advancement. Although far behind tuition, advancement is the second largest revenue source for independent schools and is essential for generating funds for operating expenses, building the endowment, and fostering parent and alumni engagement.

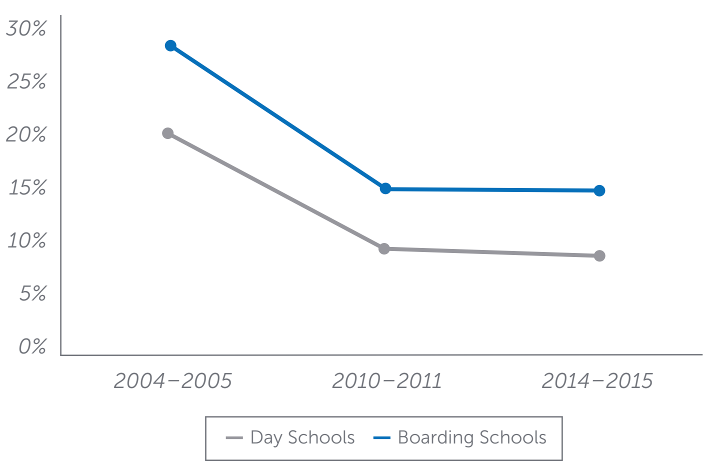
Tuition Provides Most of the Revenue

Sources of Revenue for Independent Schools, 2015



Alumni Giving Shows a Downward Trend

Independent School Alumni Giving Rate



Although parents remain a reliable donor segment for independent schools, participation rates for alumni have fallen in the past decade. Our research reveals that engaging young alumni—millennials—holds the greatest growth opportunity for giving. The share of younger people in the population is increasing, and yet giving rates among young alumni are lower than other age groups.

Independent schools must design new ways to reach young alumni by

- Making it easy to give
- Connecting alumni to a shared cause
- Getting donors into the habit of giving

Specific strategies for engaging young alumni include creating a donor-friendly, mobile-optimized giving page; launching a cause crowdfunding project; and building a dedicated young alumni monthly giving campaign.

For more in-depth analysis of the independent school advancement outlook and appropriate strategies, please consult *Winning Donor Mindshare in the Attention Economy* on our resource page.

eab.com/isef

Few Opportunities to Cut Costs Beyond Margins

The second lever for increasing financial sustainability is cost cutting. Educational institutions are highly labor-intensive industries. This means that costs are guaranteed to rise as staff expect reasonable salary increases to adjust for cost of living. Additionally, even when salary increases aren't promised, the cost of benefits continues to rise due to external factors.

This phenomenon can be explained by Baumol's Cost Disease, which posits that highly labor-intensive sectors of the economy are unable to lower costs the way other industries can through technology and automation.

1. Industries dependent on human capital unable to realize gains from increased efficiency and automation

Higher Education | Nursing | Performing Arts

2. Necessary wage increases drive up costs without commensurate savings from greater productivity

3. Cutting labor to address rising costs only exacerbates problem by decreasing net productivity

At independent schools, where wages and benefits drive costs and are immune to cost containment, costs are likely to rise at a significant pace.

While independent schools should maintain strict oversight over any unnecessary spending, cost cutting cannot come at the expense of harming perceptions of quality. As an independent school education is considered a luxury by many, the ability to command high tuitions and maintain this perception could be compromised with cost-cutting decisions that undermine, whether in perception or reality, the school's quality.

Beyond labor, scaling back technology and instructional costs would similarly make it difficult to continue to innovate and maintain academic quality.

Facilities and maintenance also drive costs, but deferring maintenance is rarely cost effective in the long run, and potential parents and students are likely to be turned off if classrooms, dorms, and the grounds appear run-down.

Non-labor Expense Reduction Carries Own Set of Risks to Brand

5%	Of expenses go to instructional and technology costs	Cutting costs here can limit opportunities for academic innovation
10%	Of expenses go to plant maintenance and major repair costs	Cutting costs here can result in higher future costs and diminished campus image

Given this reality, independent schools cannot cut costs to maintain financial sustainability and instead must grow revenues to cover growing costs.

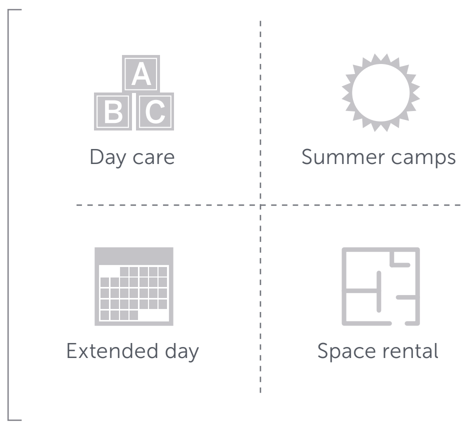
Alternative Revenues Not a Game Changer

Given this need to grow revenues, one potential option is to consider alternative revenues. Similar to cost cutting, however, alternative revenues will not resolve the question of long-term financial sustainability.

Across all NAIS schools, the four alternative revenue sources presented below make up a median of 3.7% of annual revenue. Summer camps are often the largest driver, but even those can cover only a fraction of growing costs.

Collection of Approaches Constitutes Small Share of Overall Budget

3.7% Median percentage of total revenue from alternative sources by NAIS schools 2014–2015



More importantly, a number of barriers exist to generating alternative revenue well beyond this median. Among schools with substantial alternative revenue streams, this success is often attributable to non-replicable resources and facilities. Year-round facilities use can result in unexpected maintenance and physical plant costs. Programs must also remain aligned with their mission, to both encourage successful execution of a given initiative and maintain compliance with financial regulations.

“We’re trying to get some summer revenue, but it’s so small—less than 1% of our expenses. That has no real impact.”

Andy Abbott, Head of School
John Burroughs School

Building a Modern Enrollment Management Function

The fourth lever for influencing financial sustainability is enrollment management. Regardless of your school's position within the market, building a modern enrollment management shop that integrates marketing, admissions, financial aid, and retention should be a priority for every independent school.

Higher Education Showing the Way Forward

Relative to the higher education sector, independent school enrollment management is lagging behind. Higher education enrollment managers have a hand in all aspects of the enrollment management funnel, from marketing and prospect identification to recruitment and retention. They also have a role in financial aid policies and are considered a vital part of the budgeting process and executive-level discussions.

In contrast, independent school counterparts are much less involved and integrated into key discussions and decision-making processes. Only 3 independent school enrollment managers in 10 regularly attend board meetings, and less than 20% have a key role in setting aid budgets or determining tuition.

Independent School Enrollment Managers

32%	18%	13%
Regularly attend board meetings	Have key role in setting aid budget	Have key role in deciding tuition

The enrollment management office of the future needs to be more than open houses, viewbooks, and a reliance on word of mouth. Given the dependence on tuition revenue, this function needs to be more strongly represented at the table when it comes to the revenue goals and financial success of the school. Listed below are the competencies that enrollment management offices will need going forward.

New Organizational Competencies Centralized Under Enrollment Management

- Board-level strategic planning
- Tuition and aid budget setting
- Integration of admissions, financial aid, and retention
- Demographic analysis
- Prospect segmentation
- Segment-specific message development
- Marketing channel selection
- Digital strategy and website optimization
- Event management
- Prospect nurturing and cultivation

Managing Financial Aid for Affordability and Revenue Goals

The fifth lever of change is financial aid management. Given that affordability is an increasing barrier to enrollment at both day and boarding schools, all schools should determine the price breakpoint for their families and create a net tuition revenue management strategy that allows the school to make critical investments and shape its desired student body.

For many independent schools, tuition discounting may be an appropriate strategy to address mission or revenue challenges. However, barriers and misconceptions about discounting have prevented wide adoption of this strategy.

We have identified three barriers to adoption of discounting:

1. Financial aid still measured as an expense rather than discount on revenue for schools with capacity to grow enrollments
2. Discounting perceived as unsustainable
3. Target families unaware of aid opportunity, unwilling to pursue

In the figure below, a hypothetical student only pays $25K, receiving a discount of $5K. If you believe that aid is an expense, you'd be inclined to write in $5K in costs to your budget. However, the more important result here is that this student is contributing $25K to your net tuition revenue goal.

Managing to a fixed financial aid budget number or a fixed discount rate target out of fear of "spending" too much on aid can cause schools to forgo revenue.

How Discounting Contributes to Net Tuition Revenue

Full tuition	$30,000
Tuition paid	$25,000
Discount	$5,000

Additional +$25,000 to net tuition revenue goal

- Partial-pay students contribute additional net revenue
- "Unfunded student aid" not an actual expense
- Financial aid not a necessary budget line item

Strengthening the Value Proposition to Respond to Competition

The final lever to inflect financial sustainability is the independent school value proposition. As described earlier in this brief, the number of alternatives to independent schools has grown and diversified. It is therefore imperative for independent schools to strengthen their value proposition to remain competitive.

All independent schools should identify innovative pedagogy that enhances the existing student experience, develop unique educational experiences that differentiate your school, and monitor alternative educational models to preempt or combat competitive challenges.

- Consider taking advantage of a strong market position by co-opting the microschool and alternative school models and expanding your reach into new populations.
- Attract skeptical families considering alternatives through investments in pedagogical innovation and unique educational experiences that clearly differentiate your school from public and private competitors.
- Determine the cost of academic and other programs by participant to identify programs that are highly valued and widely used, as well as offerings that consume disproportionate resources but reach few students.

Pedagogical Experimentation

Train and develop faculty to be on cutting edge of pedagogy; invest in resources that give faculty opportunity to test new approaches

Building a Unique Differentiator

Create an experience or educational offering that clearly communicates and enhances how the school's offerings are unique and valuable in comparison to other providers

Co-opting the Microschool Model

Launch a separate campus modeled after schools like BASIS, AltSchool, and other models with small enrollments and tech-enabled pedagogy

3 Diagnostic: Identifying Your School's Market Position and Appropriate Strategies

Measuring a School's Long-Term Health

How do the financial, enrollment, demographic, and competitive trends identified earlier in this brief affect the long-term outlook for individual schools? School leaders must recognize that all four factors should be evaluated and measured when assessing an institution's financial sustainability, and that metrics from all areas are necessary to determine a school's fiscal health.

Four Factors and Sample Metrics

Finances

- Net tuition revenue trends
- Endowment size and growth rate
- Cost and revenue growth rates

Enrollment and Admissions

- Enrollment trends across grades
- Application volume
- Yield rates

Demographics

- Local income trends
- Changes in available wealth
- Growth in school-aged children

Competition

- Public school quality
- Presence of other schools
- Brand and reputation

Identifying Independent School Market Positions

However, the level of concern about financial sustainability depends greatly on your position within your local market.

The Independent School Executive Forum research team has identified four tiers of the independent school market based on relative financial sustainability.

The four tiers range from the top of the market to those schools that are facing an immediate existential threat.

Institutional Tier	Characteristics of Schools in Tier
Top of the Market	• Substantial endowment and facility resources • Excess enrollment demand from full-pay, high caliber students across grade levels • Strong growth among local, high-income families, with limited competition for them • Strong brand, prestige; often long, established history
Preferred Provider	• Large endowment or small endowment with strong growth • Excess enrollment demand from full-pay students across grade levels • Moderate growth among local, high-income families, with moderate competition for them • Strong brand, prestige; possibly less longevity
Concerned but Not Threatened	• Moderate endowment • Softening enrollments at lower divisions; softening applications across divisions • Mixed demographic trends • High-quality publics capturing increased share of upper-income families
On the Decline	• Small endowments with modest growth • Declining applications and enrollments across divisions • Flat or diminishing high-income populations • Brand not strong enough to compete with free alternatives of varying quality

At the top are schools with strong brands whose financial situation is as strong as possible: large endowments, excess demand from high-quality, full-pay families.

Next are institutions that are also highly respected and have strong and growing endowments. There's no shortage of demand, and they can fill classes with high-quality, full-pay students. However, these schools expressed concern about the barbell effect on their student body and the sustainability of their culture and mission should their student body become less socioeconomically diverse.

The third tier includes schools that are beginning to feel more pressure. These schools have begun to see declines in applications and waitlists, and in some cases enrollments, especially in lower grades. More families are choosing high-quality publics, and the financial situation of schools in this tier could become unsustainable if this trend also erodes enrollments at upper grades.

Finally, there are those schools that are in real danger of closing in the not-too-distant future. Their enrollments are consistently below target, and they cannot compete with publics, other independent schools, or alternative models. These schools are the primary drivers of the alarmist headlines about the viability of independent schools.

Financial Sustainability Self-Diagnostic

Before You Begin the Diagnostic

- You may need to obtain the following data from other stakeholders across your institution to most accurately complete the diagnostic:
  - From the CFO: Tuition revenue and trends over time, debt service coverage data
  - From the admissions office: Enrollment, admissions, and yield trends
  - From the advancement office: Endowment per student data, giving rates for parents and alumni
  - From CFO/admissions office/or other: Local income trends, presence of wealthy children in Core-Based Statistical Area; this information can also be found using the NAIS Demographic Center
- Additionally, several questions require knowledge of local competition from both public and private schools

Instructions:

Assess your school for each of the four categories as best as possible, indicating the point value for each question in the far-right column. For yes or no questions, assign the appropriate amount of points based on your yes or no response. For questions based on a range of data, use the guidelines given to assign a point value.

After completing the diagnostic, use the results to determine which areas are highest priority for further attention and investment.

Finances

Question	Yes	No	Score
1. Has revenue growth over the past five years kept pace with or outpaced expense growth?	2 points	0 points	
2. Is revenue growth in the next five years expected to keep pace with or outpace expense growth?	2 points	0 points	
3. Have you hit your net tuition revenue goal each of the last three years?	2 points	0 points	
4. Are you able to consistently meet your annual fund target?	1 point	0 points	
5. Is your endowment per student ratio at least $25,000?	1 point	0 points	
6. Is your debt service coverage ratio 1:1 or greater?	1 point	0 points	

Total Score: ________

Enrollment and Admissions

Question	Yes	No	Score
1. Is your overall enrollment steady or increasing?	2 points	0 points	
2. Is your lower-division enrollment steady or increasing?	1 points	0 points	
3. Is your application volume steady or increasing?	1 points	0 points	
4. Is your acceptance rate steady or decreasing?	1 point	0 points	
5. Is your yield rate steady or increasing?	1 point	0 points	
6. Are students being accepted who would have been denied for quality reasons five years ago?	0 points	1 point	
7. Are you happy with the quality of students on your waitlist?	1 point	0 points	
8. Has there been an increase in students leaving for reasons beyond family moving, academic performance, or disciplinary concerns?	0 points	1 point	

Total Score: ______

9. *Please Check the Appropriate Response*

Do you have a concern about the student body becoming less socioeconomically diverse and more "barbelled'" (i.e., more full-pay and full-aid students and fewer middle-income, partial-pay students)?

Yes ______

No ______

Demographics

Question	Scoring	Score
1. What percentage of all households in your catchment area are in income brackets that suggest they have the ability to be full-pay families? *Including cost-of-living adjustment (COLA)*	12%+: 3 points 8%–12%: 2 points 4%–8%: 1 point Less than 4% of all families: 0 points	
2. What was the growth rate for high-income households (full-pay income threshold) in your area across the last decade? *Including cost-of-living adjustment (COLA)*	50%+: 2 points 25%–50%: 1 point Less than 25%: 0 points	

Question	Yes	No	Score
3. Has your catchment area demonstrated recent job growth for high-income jobs?	2 points	0 points	

Total Score: __________

Competition

Question	Yes	No	Score
1. Are local public schools perceived to be high quality?	0 points	1 point	
2. Is there a perception that local public schools are improving?	0 points	1 point	
3. Is there significant or growing competition with other area independent schools for the same pool of students?	0 points	1 point	
4. Is your school losing enrollments to charter schools?	0 points	1 point	
5. Have any alternative providers established schools in your area in the past three years?	0 points	1 point	
6. Have you lost enrollments to alternative providers?	0 points	1 point	
7. Does your city have a culture or history of independent school enrollment?	1 point	0 points	
8. Is your school considered a top independent school brand in your market?	1 point	0 points	

Total Score: ________

Scoring Guide:

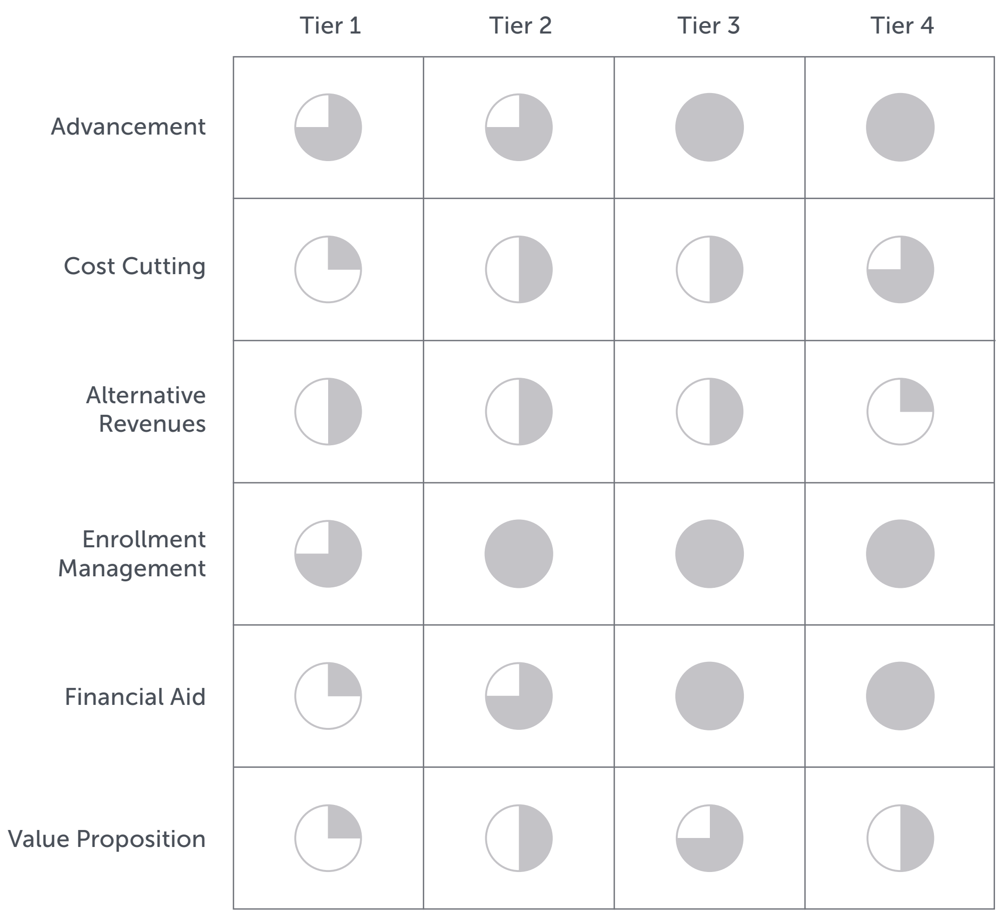
Record your point totals for each of the four categories in the first row. Then, use the scoring guide below to determine your tier. To be included in a tier you must have the minimum requirements across all four categories.

	Tier 1	Tier 2	Tier 3	Tier 4
Finances	7 or more points	7 or more points	5 or more points	No minimum
Enrollment and Admissions	7 or more points and "No" to Question #9	7 or more points	"Yes" to Question #1 and 1 additional point	No minimum
Demographics	4 or more points	4 or more points	2 or more points	No minimum
Competition	5 or more points	5 or more points	3 or more points	No minimum

Record Your Tier Here: ____________

Determining Where to Focus Efforts

After utilizing the diagnostic to determine where your school is positioned financially, it is important to tailor sustainability efforts using the six levers described in this brief. The following chart is intended to help schools determine where to invest energy and resources, based upon their respective tier. For each tier, pie charts with more area filled indicate that more emphasis should be placed on those levers. Our research team can help you identify the strategies appropriate for your institution within each of these tiers.



Learn More

About the Independent School Executive Forum

In 2015, EAB launched the Independent School Executive Forum to serve heads of school from across the country. The Forum's purpose is to discover and disseminate the best ideas from exemplar educational organizations and partner with our members to solve the most urgent and consequential problems faced by independent schools.

Our inaugural research provided actionable insight on critical financial and advancement issues, alongside a thorough examination of student well-being, establishing the Forum as a thought partner and evidence-based resource for heads of independent schools across the country.

› Winning Donor Mindshare in the Attention Economy

As independent schools seek ways to reduce dependence on tuition dollars, most have looked to fundraising as one of the most promising ways to diversify revenues. With the annual fund serving as an important pipeline for major gifts, schools must ensure they are connecting with alumni of all ages, a task that is increasingly dependent on technology and social media.

- Proven strategies for engaging younger alumni
- Best practices to extend capabilities and reach of advancement staff by maximizing the use of fundraising technology
- Tactics for optimizing your school's giving page to ensure quick and streamlined online giving

› Tackling the Student Stress Dilemma

Rigorous course loads, numerous and varied sports and extracurricular activities—students today are busy building impressive resumes to distinguish themselves in an increasingly competitive college admissions process. This leaves students stressed out, sleep-deprived, and ill-prepared for new challenges. In response, schools are looking for ways to help students cope before, during, and after college.

- Demonstrated lessons on how to proactively equip students with the skills necessary to navigate future challenges
- Proven techniques for establishing a school environment that mitigates stress

LEGAL CAVEAT

EAB is a division of The Advisory Board Company ("EAB"). EAB has made efforts to verify the accuracy of the information it provides to members. This report relies on data obtained from many sources, however, and EAB cannot guarantee the accuracy of the information provided or any analysis based thereon. In addition, neither EAB nor any of its affiliates (each, an "EAB Organization") is in the business of giving legal, medical, accounting, or other professional advice, and its reports should not be construed as professional advice. In particular, members should not rely on any legal commentary in this report as a basis for action, or assume that any tactics described herein would be permitted by applicable law or appropriate for a given member's situation. Members are advised to consult with appropriate professionals concerning legal, medical, tax, or accounting issues, before implementing any of these tactics. No EAB Organization or any of its respective officers, directors, employees, or agents shall be liable for any claims, liabilities, or expenses relating to (a) any errors or omissions in this report, whether caused by any EAB organization, or any of their respective employees or agents, or sources or other third parties, (b) any recommendation or graded ranking by any EAB Organization, or (c) failure of member and its employees and agents to abide by the terms set forth herein.

Project Director

John Wachen, PhD

Contributing Consultants

Jed Diamond
David Bevevino

Managing Director

Pete Talbot

Executive Director

Franziska Shaw

Project Editor

Erin Rehel, PhD

Designer

Alyssa Dillon

Cover image: iStock.

Sources

Page 1: News organization websites.

Page 3: "NAIS TrendTalk Webinar: Trends in School Budgets," Amada Torres.

Page 4: NAIS Facts at a Glance 2014–15.

Page 7: NAIS Trendbook 2016–17.

Page 8: NAIS Trendbook 2015-2016; "Divisional Trends in Enrollment and Financial Aid," Index Group, April 2016.

Page 9: American Community Survey (IPUMS).

Page 10: Internal Revenue Service.

Pages 11–12: American Community Survey (IPUMS); EAB interviews and analysis.

Pages 16–17: Bureau of Labor Statistics; Census; NAIS Trendbook 2016–17; FiveThirtyEight, 2014.

Page 24: NAIS Facts at a Glance, 2015–2016.

Page 26: "The Slowdown in Employer Insurance Cost Growth: Why Many Workers Still Feel the Pinch," The Commonwealth Fund, October 2016; "Personnel: FTEs, Compensation & Correlations," Index Groups, Lisa Pullman, September 2011.

Page 28: NAIS Facts at a Glance, 2014–15.

Page 30: "2016 State of the Independent School Admissions Industry," The Enrollment Management Association.

All other research gathered from EAB interviews and analysis.

Endnotes

1) High decline defined as 10%+ drop in enrollment.
2) Assumes tuition of $25K in lower school, $27K in middle school, and $30K in upper school.
3) 2.0% average annual rate of inflation, 2005–2015.
4) Tuition assumed as $25.1K in 2010, $30K in 2016, and $34.8K in 2021.
5) Years selected due to data availability.

The best practices are the ones that work for **you.**℠

EAB

2445 M Street NW, Washington DC 20037

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

35168