



EAB

# Consolidation in US Higher Education

What Boards and Cabinets Need to Know About the Industry  
Consolidation Landscape Before Evaluating New Opportunities

# Overall Industry Readiness for M&A

## Adult and Graduate Market Is More Primed than Traditional Undergraduate

### Traditional Undergraduate



#### Low Readiness

*Likely an uptick in M&As, but not a disruptive wave*

- Residential model has high fixed costs that do not scale or substantially benefit from network effects
- Students value brand and experiential components, protecting smaller providers

14%

of undergraduates are enrolled in exclusively distance learning programs

58%

of traditional students go to college within 100 miles of their home

### Adult and Graduate



#### High Readiness

*Currently experiencing significant activity and likely to continue*

- Online education has nationalized the market and created substantial economies of scale and network effects
- Market is not an oligopoly, but scale in regional and national markets matters

1 in 5

online graduate students attend one of just seven institutions (including WGU<sup>1</sup>, SNHU<sup>2</sup>, and ASU<sup>3</sup>)

57%

of online graduate students attend out-of-state institutions

Click [here](#) for more of EAB's research on the adult and grad market.

1) Western Governors University.  
2) Southern New Hampshire University.  
3) Arizona State University.

# Deal or Death?

Many HEIs More Likely to Struggle Along in Short-Term than Close

## Closures Certainly on the Rise...



506

Total HEI closures since 2000



250%

Increase in number of HEI closures from 2011-2013 to 2014-2016



10.6

Average annual number of non-profit closures since 2015

## ...But There Is More to the Story



60%

of total HEIs closed since 2000 are **2-year institutions**



75%

of total HEIs closed since 2000 are **for-profit**



30

**More non-profit institutions** existed in 2018 than 2010, despite closures<sup>1</sup>

## Disincentives to Closing in Higher Ed



### Shareholder Activism

Alumni and other stakeholders have a vested interest in institutional preservation and intervene to fight closure



### Fiduciary Duty

Boards and leadership persevere to keep institution open as long as possible



### Forbearance

Lenders, vendors, and donors may provide just enough relief to avoid outright closure

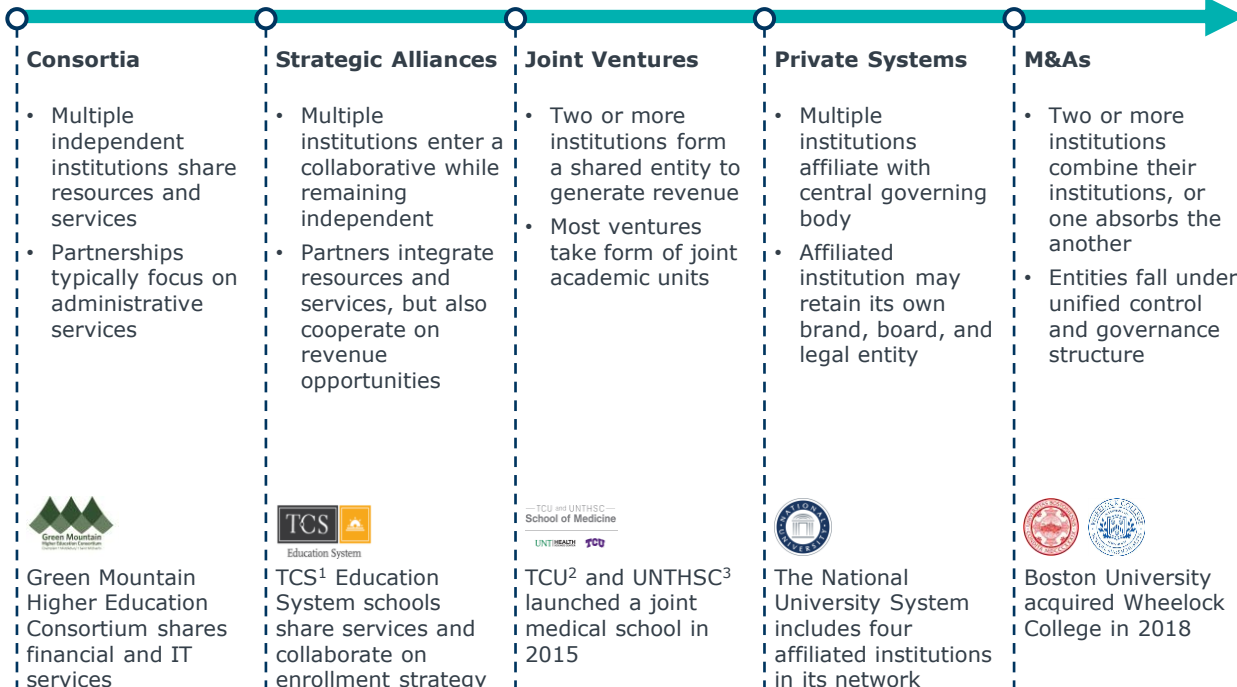
1) Based on IPEDS degree-granting postsecondary institution count data, FY18.

# Alternatives to M&A and Closure

## Spectrum of Partnership Pathways to Bolster Institutional Mission and Margin

*Least Integrated*





*Most Integrated*



1) The Common Solution.  
 2) Texas Christian University.  
 3) University of North Texas Health Science Center.

# Weighing Partnership Pathway Opportunities



Partnership Pathway	Adoption Likelihood	Rationale	Target Segments
<b>Consortia</b>		Lower implementation barriers and moderate economies of scale make consortia applicable to most institutions	All institutions
<b>Strategic Alliances</b>		Shared revenue strategy unlocks potential network effects but sacrifices institutional agency	Public systems, regional privates
<b>Joint Ventures</b>		Ideal for niche market opportunities, although limited in scalability	Larger or specialized privates and publics
<b>Private Systems</b>		Greatest potential ROI made difficult by high implementation barriers	Regional privates



# Market Intelligence on Industry Activity

## 8 Critical Findings About M&A Opportunities Based on Historical Data

### False Starts

1

#### **No Appetite for Bailout Via Buyout**

Fewer institutions are looking to do deals of goodwill, despite the demand.

2

#### **Few Deals of True Equals**

Most M&As are asymmetric in institutional resources and strategic position.

### Real Opportunities

3

#### **Rise of State-Mandated Consolidation**

Mergers are a growing response to rising costs, changing demographics in public systems.

4

#### **Buying (Rather than Building) Way into New Markets**

M&A can serve as a cost-effective way to diversify and grow enrollments.

5

#### **For-Profits as Acquisition Targets**

Select non-profits have purchased for-profits to fuel growth aspirations.

### Lessons Learned

6

#### **Underestimation of Implementation Costs**

Closing, implementing deals often reveals hidden costs.

7

#### **Lackluster Dividends of Higher Ed M&A**

M&A attempts frequently have low success rates and limited ROI.

8

#### **Not a Stand-Alone Solve to Industry Threats**

Higher Ed's most pressing challenges are often unaddressed by M&A.

# Four Considerations for Institutions Exploring M&A

7



## Lead with Mission, Brand, and Strategy Before Finances

Deals may look good on the balance sheet but be poor strategic fits and counterproductive to other goals



## Focus on Value Creation

M&A is a strategic means, not an end; prioritize partnerships that address core institutional and industry challenges, such as college affordability and access



## Consider the Full Spectrum of Partnership Pathways

Evaluate the benefits of partnering with other institutions through consortia or joint ventures before fully merging or acquiring institutions



## Don't Be Afraid to Walk Away

Both sell-side and buy-side institutions should consistently be willing to walk away and let the due diligence process disrupt the deal formation if strategic and financial value cannot be assured



# Assessing Your Institution's Consolidation Position

## Four Archetypal Institutions' Strategic Position for Consolidation

