Future Students, Future Revenues
Strategies for Sustainable Enrollment in the Coming Decade

A Preview of Upcoming EAB Research
Full Report Available Fall 2013
Pundits predict that students will abandon traditional universities for “disruptive” alternatives and that enrollment will dry up as the number of high school graduates declines, leaving administrators to wonder how far they need to transform their institutions to remain viable.

In truth, the direct impact of these trends on undergraduate enrollment is likely to be small over the next twenty years. While traditional age students increasingly want to take some courses online, few are opting for entirely online undergraduate programs. And the decline in high school graduates from 2010 to 2020 will be significantly less steep than the decline that occurred from 1980 to 1995.

The greater challenge for institutions will be sustaining net tuition revenue increases from traditional students. The past twenty years saw rapid growth in higher education enrollment and unprecedented increases in tuition list prices. Net tuition revenue was the single biggest driver of revenue growth in nearly all sectors as institutions expanded enrollment and increasingly pursued high-income, high-ability students. That market is now saturated; sophisticated data-driven recruitment practices, burgeoning merit aid budgets, and an increasingly discerning consumer base mean that top students are more expensive to attract than ever.

At the same time, the core professional programs (MBA, J.D., M.Ed.) are experiencing application declines in the face of uncertain career prospects for graduates. Yet even as applications fall, more and more institutions are launching graduate and professional programs— and scaling them up online— in an attempt to make up for declining revenues from other sources.

While traditional undergraduate and graduate students will remain the core population on most campuses, they will not be a significant source of growth over the next twenty years. To replace this critical growth driver, universities will need to diversify into new populations. Some institutions are already focused on serving “non-traditional” students, but others have avoided these groups out of a concern that they are academically unprepared, too costly to serve, or too poor to afford a degree. At the same time, these students have typically passed over traditional four year institutions in favor of community colleges, online universities, and for profits that offer greater flexibility and support services.

Traditional universities are now finding that community college transfers, international English language learners, adult degree completers, and other groups can be highly successful in the right types of programs. They are building a range of pathways to recruit, support, and successfully graduate these students in a financially sustainable or even profitable way. These pathways leverage existing programs, faculty, and facilities while reducing the cost and risk of failure— for both the student and the institution.

The critical task for administrators is to build a portfolio of programs that can share resources while appealing to a broad range of students and allowing them to meet a range of personal and career goals.
Challenges to the Traditional Growth Model

Tuition Dependency

Over the past decade, higher education institutions have become increasingly dependent on tuition revenue as the key driver of institutional financial health. Net tuition revenue has been the fastest growing source of revenue in nearly every sector. And, while private colleges and universities (with the exception of a handful of institutions with large endowments) have long been tuition-driven, cuts in state funding have dramatically expanded the number of public institutions dependent on enrollment as their primary revenue driver.

Increasing Tuition Dependency Across Most Sectors

Net Tuition Revenue as a Percent of Operating Revenue, 2000-2010

Growing enrollment and rising net tuition revenue have sustained institutional budgets, particularly at public universities facing declining state support, but now a range of factors indicate that continued increases will be more difficult in the next decade.

Strong Growth in Net Tuition Revenue Driven by Price and Enrollment

Percent Change of Undergraduate Enrollment, Net Tuition Revenue, and NTR/FTE between 2000 and 2010

- Private Research: 11%, 46%, 74%
- Private Bachelor’s: 20%, 55%, 77%
- Private Master’s: 21%, 52%, 93%
- Public Research: 15%, 92%, 131%
- Public Master’s: 23%, 88%, 134%

- Net Tuition Revenue
- Net Tuition Revenue per FTE
- Undergraduate Enrollment
The number of students graduating from high schools peaked in 2010-2011 at 3.4 million and will not begin to grow again until 2020. The nation will produce about 2 percent fewer high school graduates in 2020 than in 2009, a substantial change from recent trends but hardly an apocalyptic decline. As some savvy observers have pointed out, the nation faced a much larger decline of about 16 percent after the last of the Baby Boomers worked their way through high school in the early 1980s.

High School Graduates Stagnating but Less Dramatically than 1980-95

Annual Growth Rate of High School Graduates between 1980 and 2020 (proj.)

The relatively small declines in the nationwide high school graduate population disguise immense regional variation. The Midwest and especially the Northeast face significant declines in the number of graduates. Meanwhile, Western and Southern states will see little or no decline.

Discount Rates

Competition for high ability, high income students—already intense—is likely to increase even further. Over the past decade, the rise of data-driven recruitment strategies, the financial effects of the recession, and growth in the number of applications per student have combined to drive down yield rates and, consequently, the predictability of enrollment numbers.
The pool of new high school graduates intending to pursue full time residential study is not going to evaporate, as some of the prognostications threaten. Moreover, despite the rise of alternatives to campus-based education, there is little evidence that significant numbers of new high school graduates will opt for fully online degrees. However, it will grow increasingly difficult for all but the most selective universities to sustain the kinds of enrollment and net tuition revenue growth from this population that occurred in the 1990s and 2000s.

**A Broad Range of Enrollment Concerns**

Changing demographics and enrollment patterns will raise different challenges across different types of institutions:

- **Regional publics** in areas with declining high school populations are struggling to fill seats
- **Access-focused publics** in growing regions face capacity and student success challenges
- **Mid-ranked private colleges** are raising discount rates unsustainably to make their class
- **Expensive regional privates** are losing students to less expensive public universities
- **Elite universities** struggle to recruit high-ability, low-income students despite generous aid
A large rise in the proportion of underrepresented minority high school graduates will permanently change the undergraduate enrollment base. About 75 percent of the net increase in total enrollment over the next 11 years will come from black and Hispanic students. By 2019-2020, 45 percent of public high school graduates will be non-white, compared to 38 percent in the class of 2009.

**Non-White Students Projected to Grow Across All Regions**

Percent Change in Number of White and Non-White High School Graduates by Region, 2008-2019

Because academic performance and college-going rates differ markedly by race and ethnicity, demographic factors may reduce overall student success metrics. As public institutions undergo increasing scrutiny for completion rates and in some cases shift to performance-based funding, they will face the challenge of serving less well prepared populations with fewer resources.

**Persistent Performance Gaps Across Racial/Ethnic Groups**

Student Characteristics by Race/Ethnicity

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I’m not sure that we’ll be able to continue to attract the high ability students, but I’m afraid that we won’t be able to afford to serve the less well-prepared students.”

- VP for Strategy, Public Research University
Just as the growth engine of traditional undergraduates is stalling, core professional programs are also struggling to maintain enrollment. Graduate degrees in business, education, law, and health professions make up more than sixty percent of all masters and professional degrees and have historically been drivers for enrollment growth and revenue at many institutions. Currently, the traditional core degrees (MBA, M.Ed., and J.D.) are experiencing declines, while health professions face capacity constraints as demand soars.

### Largest Fields in Graduate and Professional Education Struggling

*Graduate Program Completions at U.S. Nonprofit Institutions, AY 2010-2011*

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<tr>
<th>Field</th>
<th>2010-2011 Completions</th>
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<tbody>
<tr>
<td>All Other Fields</td>
<td>334,683</td>
</tr>
<tr>
<td>Education</td>
<td>199,779</td>
</tr>
<tr>
<td>Business</td>
<td>162,827</td>
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<tr>
<td>Health Professions</td>
<td>133,051</td>
</tr>
<tr>
<td>Law</td>
<td>52,127</td>
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- First-time master’s enrollment fell 9.2% from 2010 to 2011
- Applications fell at 62% of traditional MBA programs from 2011 to 2012
- Share of graduate completions rose from 13.5% to 15.1% from 2001 to 2011
- J.D. applications were 20% below last year’s volumes, as of April 2013
- Threats from expansion of online and alternative providers and changes to salary rules
- Threats from declining employer tuition assistance, dilution of the MBA value proposition, and market saturation
- Faces capacity constraints from clinical placements, faculty availability, and lab space & equipment
- Threats from a shrinking job market for lawyers, coupled with soaring student debt

Even as overall demand for traditional core degrees softens due to a changing employer market, competition has increased significantly as for-profits and nonprofits launch many new online programs. Even highly selective universities are now beginning to offer fully online degrees through partnerships with for-profit companies such as 2U, dramatically increasing the number and range of fully online masters programs.
Responding to large scale shifts in student demand is a challenge at most colleges and universities. Moving into new markets can require significant investments, time, and risk, while abandoning declining markets is usually not an option given academic mission and fixed investments in faculty and facilities. The best strategy for most institutions is to adjust and extend existing programs to serve new student populations.

Admissions policies, program schedules, credit articulation, and course delivery options have historically served as barriers to potential students, leaving universities with underused capacity and missed opportunities to expand access and generate additional revenue.

### Strategies to Extend Existing Programs to New Populations

- **Extend geography** through online and/or satellite campuses
- **Launch new high-demand programs** based largely on existing courses and faculty
- **Increase program accessibility** through different options for scheduling, modality, and pace
- **Scale up existing programs** using new online pedagogical models
- **Create pathways** for students unable to enter programs through traditional routes
The challenge for the vast majority of colleges and universities is to develop programs to attract and support new growing student populations with characteristics and needs very different from 18- to 22-year-old residential students. Historically, these groups were ignored by many institutions because they were perceived as less well prepared, too risky, or too costly to serve. They have now become major sources of enrollment, representing a majority on some campuses.

### New Enrollment Growth Drivers

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<th>Typical Student Characteristics</th>
<th>Program Preferences</th>
<th>Current Market Size</th>
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</table>
| **Community College Transfers** | Traditional age  
Completed significant course work or full associate's degree | Transparent credit articulation policies  
Face to face or hybrid programs in their region | 250,000 students transfer from two year to four year institutions at least once during their careers |
| **Adult Degree Completers** | Working adults  
Completed some college but no degree | Prior learning assessment  
Self-paced or accelerated online programs | 1,750,000 undergraduates age 24 or older |
| **International Undergraduates** | Traditional age  
Strong high school preparation | Full time residential programs  
English language support | 30,000 students in ESL programs  
71,000 at two year colleges  
220,000 at four year institutions |
| **International Professional Students** | Completed undergraduate degree | Full time residential  
One year masters | 166,000 international students enrolled in masters programs |
| **Working Professionals** | Completed undergraduate degree | Online or low residency programs  
Flexible scheduling | 1,800,000 graduate students working full time |
Serving new populations does not require abandoning traditional students and their needs, but it does require significant adjustments to recruitment, program delivery, and student support services.

Common to all of these non-traditional populations is that they do not arrive on campus straight from high school with high SAT scores or GPAs. Far from lowering academic quality, however, these students in many cases ultimately perform as well as or better than traditional students. Community college students who complete an associate’s degree before transferring, for example, typically have higher GPAs than first-time freshmen and complete their degrees at similar or better rates. International students who complete English language pathways programs perform just as well as international students who enter directly with higher TOEFL scores and even match the performance of out-of-state domestic students.

**Examples of Pathways**

- Community college transfers
- Intensive English language programs
- Degree completer programs
- Stackable professional credentials
- Programs for veterans and active duty military
- Partnerships with high schools

**Benefits of Pathways**

- **Reduces Cost and Risk to the Student and the Institution:** Pathways provide a trial period where students can demonstrate their abilities and leave with less debt if they fail.
- **Generates Revenues for the Institution:** While they may pay less overall for their degree, pathways students can often afford to pay more per year and often require less financial aid.
- **Expands Overall Enrollment Capacity:** Pathways may channel students into upper division courses with excess capacity, bypassing full lower division courses and freshmen housing.
- **Sustains and Protect Traditional Programs:** While pathways students may share classes with traditional students because they do not arrive as first time freshmen they are not included in completion or selectivity metrics.