



For-Profit Postsecondary Sector Trends and Changes

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The Sector at a Glance: 2010-11

INSTITUTIONS

- ▶ Of 3,369 PS (private sector in lieu of “for-profit”) institutions with an IPEDS UNITID 654 awarded bachelor’s and/or higher degrees
- ▶ These 654 can be consolidated to 221 unique PS institutions, of which 64 are unduplicated, regionally accredited schools
- ▶ Therefore, 64 regionally accredited colleges and universities account for nearly 41% of all FTES in PS institutions with UNITIDs

STUDENTS

- ▶ Of the 1.43 million FTES at 2- and 4-year PS colleges and universities, 1.04 million (72.8%) attended bachelor’s or higher degree granting PS institutions
- ▶ Of these 1.04 million, approximately 70% attend regionally accredited institutions
- ▶ The 1.43 million FTES attending 2- and 4-year PS schools represent 10.9% of all such students in the U.S.

GROWTH

- ▶ Of 4.4 million new students enrolled in American IHEs between 2000 and 2009, 27% enrolled in a PS institutions. A decade before, only 7% of new students enrolled in that sector.
- ▶ Since 2000, 418% increase in bachelor’s granted*
- ▶ Between 2009 and 2011 FTES enrollment in 2- and 4-year PS schools increased by 2.7% (2.18 million to 2.24 million)

SUCCESS

- ▶ Completion rates at PS schools are:
 - ▶ Comparable to less-than-2-year awards at public institutions
 - ▶ Higher for 2-year degrees than at public or non-profit institutions
 - ▶ Lower for bachelor’s degrees than at public or non-profit institutions



SOURCE: U.S. Dept. of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), *Digest of Education Statistics*, 2010, Tables 195, 202, 239; *Digest of Education Statistics* 2011, Tables 196, 203.

*See <http://news.yahoo.com/blogs/lookout/profit-college-enrollment-soared-418-percent-165558855.html>

The Sector In Transition: Causes

POLITICS

- ▶ **FEDERAL ACTIVISM (REGULATION)**
 - ▶ **Financial aid and new funding**
 - ▶ **Affordability**

- ▶ **CONGRESSIONAL ACTIVISM (LEGISLATION)**
 - ▶ **Defense of consumers and taxpayers**
 - ▶ **Debt and default**
 - ▶ **Employability**
 - ▶ **Accountability**

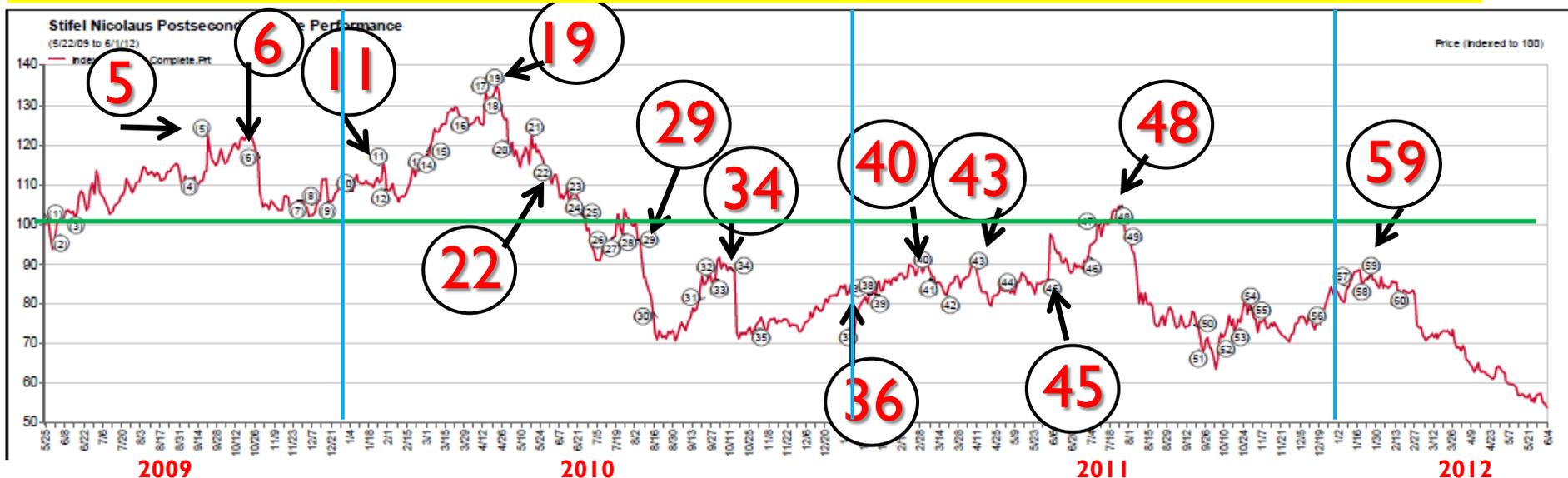
REGULATIONS

- ▶ **From the 5/26/09 Federal Register Negotiated Regulations (NegReg) notice on program integrity issues**
- ▶ **To the 2/16/12 introduction of legislation by Sen. Tom Carper to modify the 90/10 financial aid formula to include in the 90% VA and TA benefits**

MEDIA

- ▶ **Extensive, often unflattering, media coverage of sector**

Effect of Political & Regulatory Events on Pricing Trends: 2009-12



- (5) 9/21/09: GAO report - Proprietary schools (Hinojosa)—Unqualified students risk defaulting
- (6) 10/27/09: APOL announces SEC inquiry into revenue accounting practices
- (11) 1/27/10: DOE holds ground on Gainful Employment - Session 3
- (19) 4/21/10: Duncan article on G.E. / CCA impact analysis sent to Duncan
- (22) 5/26/10: Ira Sohn Conference / Eisman—student debt analogous to subprime mortgages
- (29) 8/4/10: Senate hearing: GAO/recruiting practices
- (34) 10/13/10: APOL 4Q10 earnings report—enrollment decline, prior guidance withdrawn
- (36) 1/7/11: STRA - 2011 business model update / winter enrollment
- (40) 3/2/11: Senate hearing – Military Tuition Assistance program
- (43) 4/8/11: Senate/House agree on '11 budget. No GE amendment. Year-round Pell cut.
- (45) 6/1/11: GE Final rule released in p.m.
- (48) 7/21/11: Senate HELP Roundtable - Improving For-profit
- (59) 1/23/12: Durbin legislation: 85/15 incl. VA and TA

The Sector In Transition: Causes

COMPETITION

▶ WITHIN THE PS

- ▶ **Dot-com bubble (2001) to Great Recession (2008), 5 postsecondary education companies listed in U.S. stock exchanges, 4 more listed since then**
- ▶ **Until 2011 all experienced substantial growth**

▶ BEYOND THE PS SECTOR

- ▶ **Mainstreaming of online education (favoring strong brands, high differentiation and lowest tuitions)**
- ▶ **Emergence of aggressive marketing among public and independent IHEs**

▶ EMERGENCE OF LOW-COST DISRUPTIVE PROVIDERS

- ▶ **WGU (faculty-less, competency-based, all-you-can-study fixed tuition, non-profit)**
- ▶ **StraighterLine (“\$99 a month plus a \$39 per course registration fee” for as many general education courses as desired)**
- ▶ **New Charter University (\$199 a month tuition for all the online courses one can finish)**

▶ EMERGENCE OF FREE OR LOW-COST ONLINE COURSES

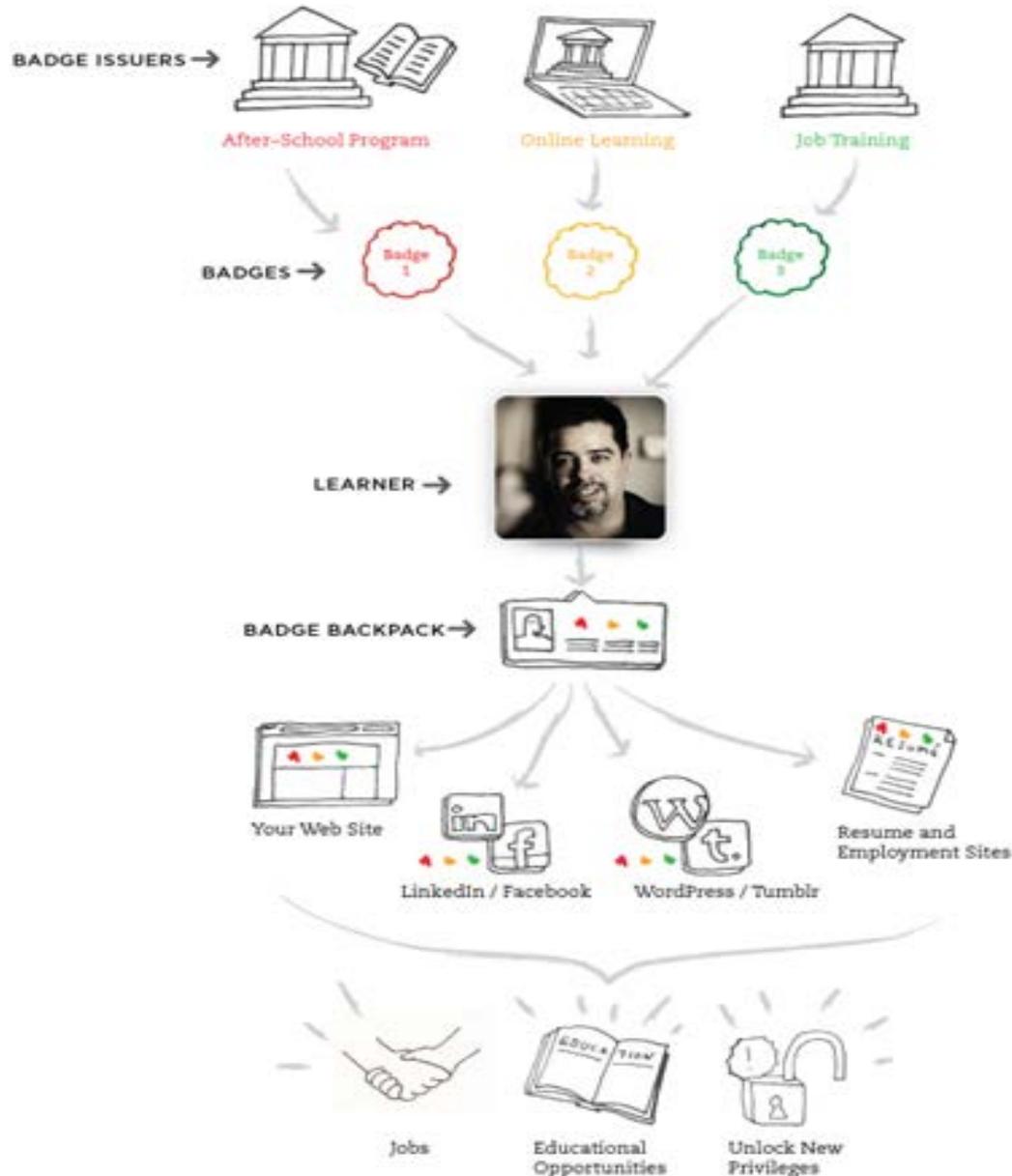
- ▶ **Massive Open Online Courses (MOOCs)—Coursera (Stanford, Princeton, Penn, Michigan), Udacity (\$100 Master’s?)**
- ▶ **Free/cheap content providers—edX (MIT and Harvard), Khan Academy, iTunes University, etc.**

▶ GROWTH OF CERTIFICATES AND THE POPULARIZATION OF BADGES

- ▶ **Growing popularity of non-degree programs (in 2008, 500K certificates completed, today “certificates make up 22% of all college awards, up from 6 percent in 1980” [IHE, 6/6/12])**
- ▶ **Growing employer acceptance of “badges” (i.e., indicators of accomplishment, skill, or quality), which may slow completion agenda, challenge monopoly of degree-granting institutions (Mozilla’s Open Badges Initiative)**



Badges and Certificates Instead of Degrees?



The Sector In Transition: Causes

THE ECONOMY

▶ THE GREAT RECESSION AND ITS WEAK “RECOVERY”

- ▶ Effect: high unemployment, selective employment, and limited job opportunities for graduates
- ▶ Soft job market encourages more to attend college (impacting capacity and tuitions)

▶ DECLINE IN PUBLIC FUNDING OF PUBLIC INSTITUTIONS

- ▶ Shifting cost to students/parents: state funding , which continues to decline, fell by 4% in 2010—that is, a drop of 23% since 2000.

▶ STUDENT DEBT

- ▶ Therefore, more borrowing needed to pay for college (reducing borrowing for other purposes like mortgages, cars, credit cards)
 - By March 2012, \$904 billion owed in student loans, almost 8% more than in 2011 Vs. \$679 billion owed on credit cards (Federal Reserve Bank of New York, Q1 2012 report on consumer credit)
- ▶ Consequently, more pressing debt: 9% of the total dollar amount of student loans is 90 days or more behind on a payment (WSJ 5/31/12)
- ▶ Meanwhile, the weak economic recovery and high unemployment rates are discouraging many from taking loans to enroll in colleges—contributing to the high dropout rates

▶ BUT EMPLOYERS ARE CALLING FOR BETTER-EDUCATED GRADUATES

The Sector In Transition: Red Ink Effects

	Total Student Population Q1 2012	Y t Y Growth	New Student Starts	Y t Y Growth	Online Enrollment	Y t Y Growth	CY Revenue 2010 (\$ in M)	CY Revenue 2011 (\$ in M)	CY Revenue 2012E (\$ in M)	CY EPS 2010	CY EPS 2011	CY EPS 2012E	Market Value 5/12 (\$ in M)
APEI	101,000	24,745	20,500	15.0%	101,000	24.5%	\$198	\$260	\$299	\$1.58	\$2.13	\$2.25	\$520
Apollo Group	355,800	-43,408	48,700	1.0%	n/a	n/a	\$4,986	\$4,593	\$4,293	\$5.63	\$4.43	\$3.35	\$3,997
Bridgepoint	95,863	7,669	24,275	-12.0%	93,914	n/a	\$713	\$933	\$1,026	\$2.14	\$3.02	\$2.53	\$1,042
Capella	37,553	-2,253	n/a	-5.0%	37,553	-6.0%	\$426	\$430	\$420	\$3.64	\$3.53	\$2.80	\$412
Career Ed	95,900	-17,454	23,090	-27.5%	n/a	n/a	\$2,124	\$1,885	\$1,597	\$3.01	\$2.16	\$0.48	\$438
Corinthian Colleges	96,631	-4,059	29,427	1.8%	31,627	21.0%	\$1,944	\$1,762	\$1,640	\$1.44	\$0.62	\$0.32	\$225
DeVry	126,165	-4,668	23,412	-8.8%	68,083	-13.0%	\$2,084	\$2,142	\$2,073	\$4.39	\$4.09	\$3.20	\$1,820
Education Management	134,900	-12,546	n/a	-21.0%	34,200	-16.6%	\$2,757	\$2,829	\$2,679	\$1.78	\$1.45	\$1.02	\$890
Grand Canyon Education	46,278	4,119	n/a	n/a	41,229	6.7%	\$386	\$427	\$483	\$0.89	\$1.12	\$1.28	\$821
ITT Educational Services	71,123	-10,668	18,067	-17.0%	n/a	n/a	\$1,597	\$1,500	\$1,347	\$11.16	\$11.13	\$8.55	\$1,435
Lincoln Educational Services	19,118	-5,353	5,570	-4.9%	n/a	n/a	\$639	\$513	\$436	\$2.79	\$1.10	\$0.20	\$123
National American University Holdings	10,968	1,152	n/a	n/a	5,818	25.8%	\$101	\$112	\$123	\$0.36	\$0.25	\$0.24	\$98
Strayer	50,896	-4,632	n/a	12.0%	30,389	-5.8%	\$637	\$627	\$572	\$9.70	\$8.88	\$7.10	\$999
Universal Technical Institute	16,300	-1,858	3,400	-5.6%	n/a	n/a	\$450	\$443	\$418	\$1.21	\$1.02	\$0.49	\$301
TOTAL	1,258,495	-69,214					\$19,042B	\$18,456B	\$17,406B				

The Sector In Transition: Effects on Operations

▶ RESPONSES TO REGULATORY CHANGES

- ▶ **Tightening of admission standards (with accompanying loss of access for thousands and enrollment declines affecting revenue growth and earnings)**
- ▶ **Elimination of incentive compensation (transformation of the recruitment and advisement process)**
- ▶ **Unprecedented focus on retention, progression, and completion (e.g., Kaplan Commitment and UOPX UNIV 101)**
- ▶ **Increased transparency on pricing, financial aid, and student performance (2011's net tuition price calculator; Financial Consumer Protection Bureau's, "Know Before You Owe," loan disclosure/FA shopping sheet project)**
- ▶ **Effect of "Gainful Employment": Introduction of /emphasis on programs with better potential employment outcomes for students**
- ▶ **90/10 Rule: Diversification of revenue streams to initiatives that do not rely on federal financial aid or focus on international markets and/or services businesses (DeVry Brasil's Faculdades Nordeste—Fanor)**
- ▶ **Low completion rates: acquisition of content and/or technology to improve results and favorably differentiate institutions**

▶ RESPONSES TO ECONOMIC CHANGES

- ▶ **Competition and increasing price sensitivity: limiting tuition increases, promoting accelerated offerings, and introducing low-cost options (Grand Canyon reduced online courses)**
- ▶ **Development of closer relations with local and national corporations (UOPX Workforce Solutions initiative)**
- ▶ **Development of explicit career pathways and employment readiness programs**
- ▶ **Significant layoffs due to declining enrollments (faculty and staff)**
- ▶ **Belt tightening measures (closing of underperforming campuses and programs; reductions in general and administrative overhead)**



The Sector In Transition: Effects

EXAMPLES OF NET RESULTS

- ▶ ***Innovation in Technology:*** New digitally augmented learning platforms, increased use of data analytics to improve performance (adaptive learning/assessment, big data data mining, social networking, curriculum content matched to learning style)
- ▶ ***Outsourcing of student learning performance:*** McGraw-Hill/WGU and Pearson Education (paid on basis of student performance)
- ▶ ***Emulation of Community Colleges:*** Renewed focus on workforce training over professional career preparation (distancing from the liberal arts)
- ▶ ***Reverse transfer initiatives:*** granting of associate degrees by four-year institutions, sometimes for previously earned credits; transfer students finish associate degree at a four-year college or receive skipped degree at 2-yr college where credits were earned; return to 2-year after 4-year degree in another field
- ▶ ***Common metrics initiatives to improve transparency and self-improvement:*** B&M Gates Foundation, Complete College America, Nexus
- ▶ ***Maturing of the PS as a fundamental and integral part of the higher education community***