

# **Mergers & Acquisitions in Higher Education**

## **Meeting the Challenges and Opportunities in a Turbulent Economy**

**2024 Annual Conference and Assembly Meeting  
International Accreditation Council for Business Education  
Memphis, TN**

**John W. Rogers, Ph.D.**

**Thomas A. Barron, Jr., Ed.D.**

# Agenda

- **Environmental scan- Changes in the higher education landscape**
- **Winners & losers in the new competitive environment**
- **The economics of higher education**
  - **Business models**
  - **Valuation methods**
  - **Strategic initiatives**
- **Roles of trustees, accreditors, faculty, && the community**

# The Challenges

## Post – 2000 Higher Education Growth Factors

- **Millennial “Baby Boom”**
- **Abundant student loan financing**
- **Perceived economic value of a college degree**

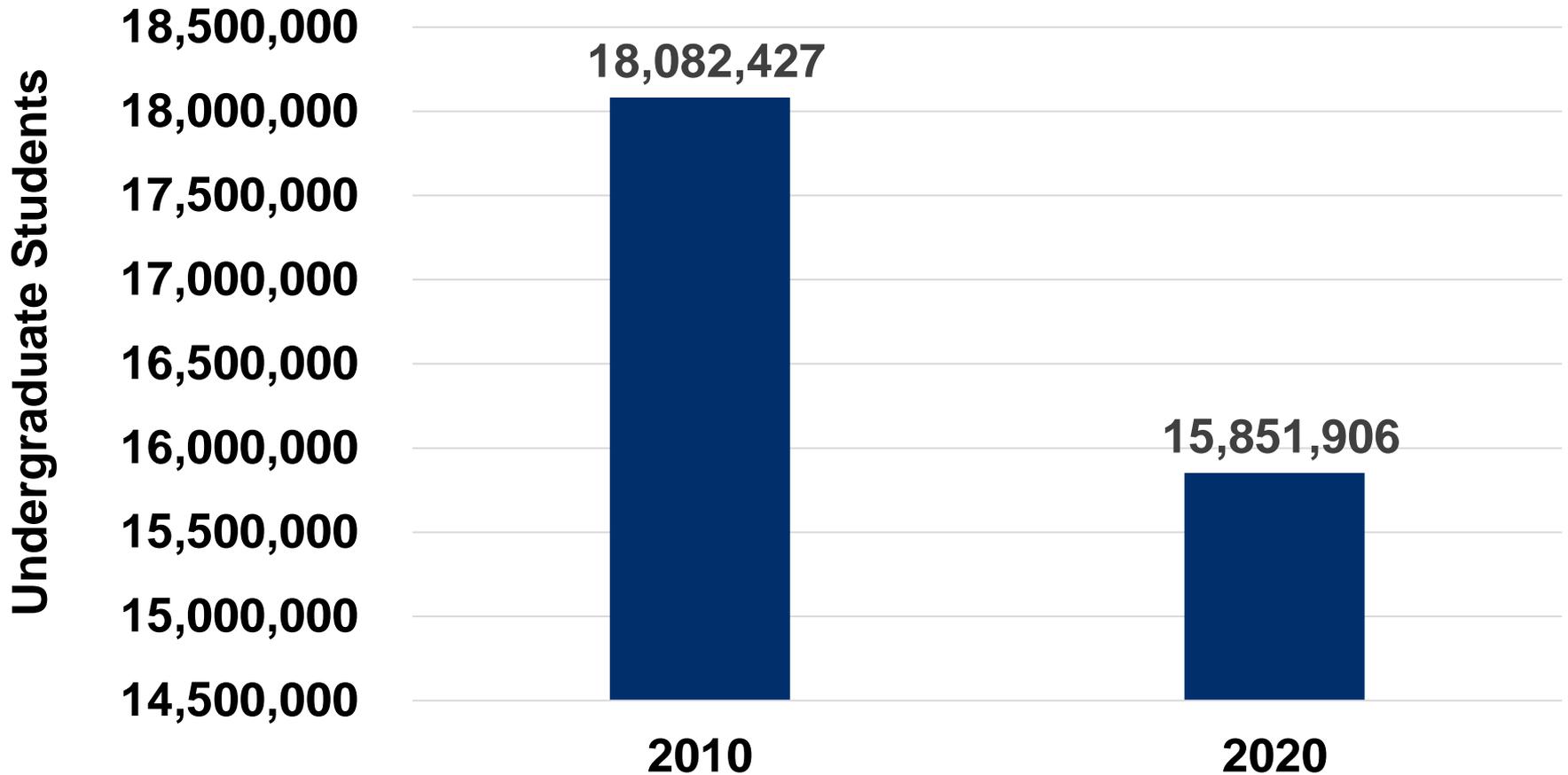
# The Challenges

## New Realities

- **Generation Z “Baby Bust”**
- **Excessive student loan debt**
- **Non-traditional students have specific interests**
- **Questioning of the college value proposition**
- **Tightening labor markets**
- **Decline in international students**

# The Threats

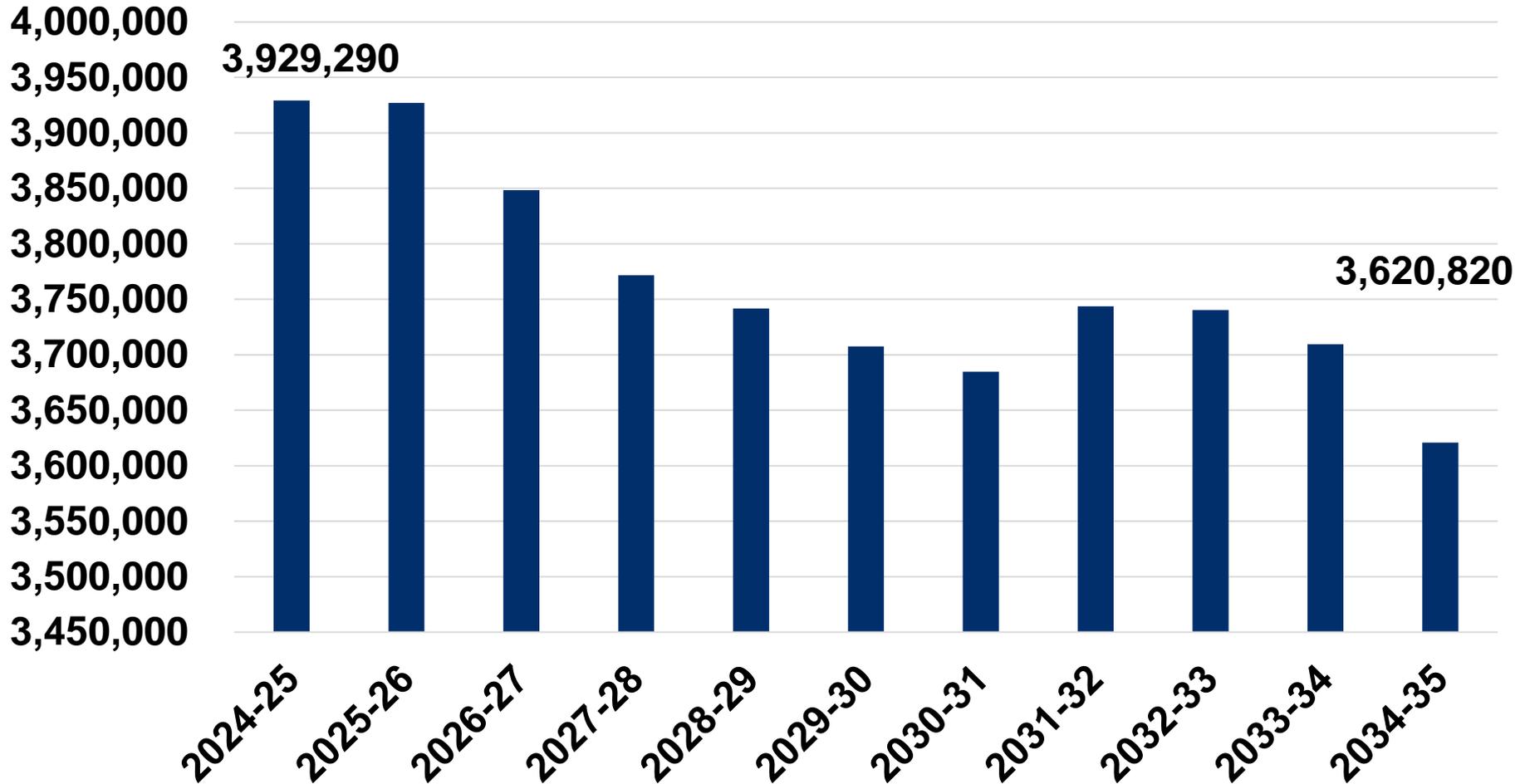
## Undergraduate Enrollment



Source: Clark, et al. (2023).

# Long-Term Trends

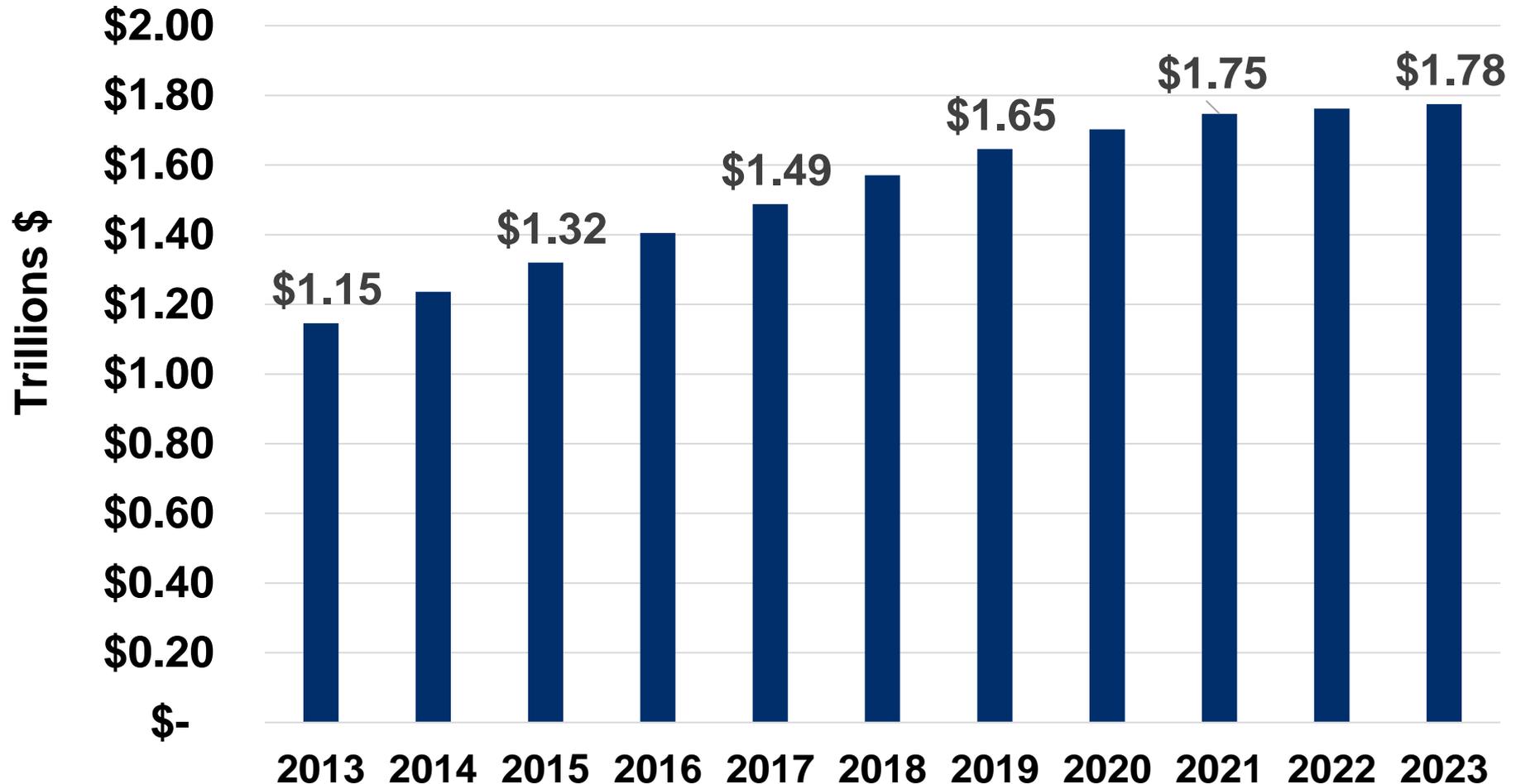
## High School Graduates



Source: Clark, et al. (2023).

# The Student Debt Crisis

## Total Student Debt



Source: The Board of Governors of the Federal Reserve System (2023).

# Alternatives to College

## “Tear the Paper Ceiling”

- **The invisible barrier that comes at every turn for workers without a bachelor’s degree**
  - **No alumni network**
  - **Biased employer algorithms**
  - **Degree screens**
  - **Stereotypes**
  - **Misconceptions**

# Alternatives to College

## “Tear the Paper Ceiling”

- **Recommendation:**
  - **Look at qualifications to do the job rather than the perceived value of a college degree**

# Alternatives to College “Tear the Paper Ceiling”



**Opportunity  
@ Work**

Source: Opportunity at Work.org (2023).

# Alternatives to College

## STARs- Skilled through Alternative Routes

- **Reflects nation's cultural diversity**
  - **Black / Hispanic**
  - **Age**
  - **Veteran status**
  - **Rural vs. Urban vs Suburban**

# Alternatives to College

**coursera**



**Google**  
**ACADEMY**

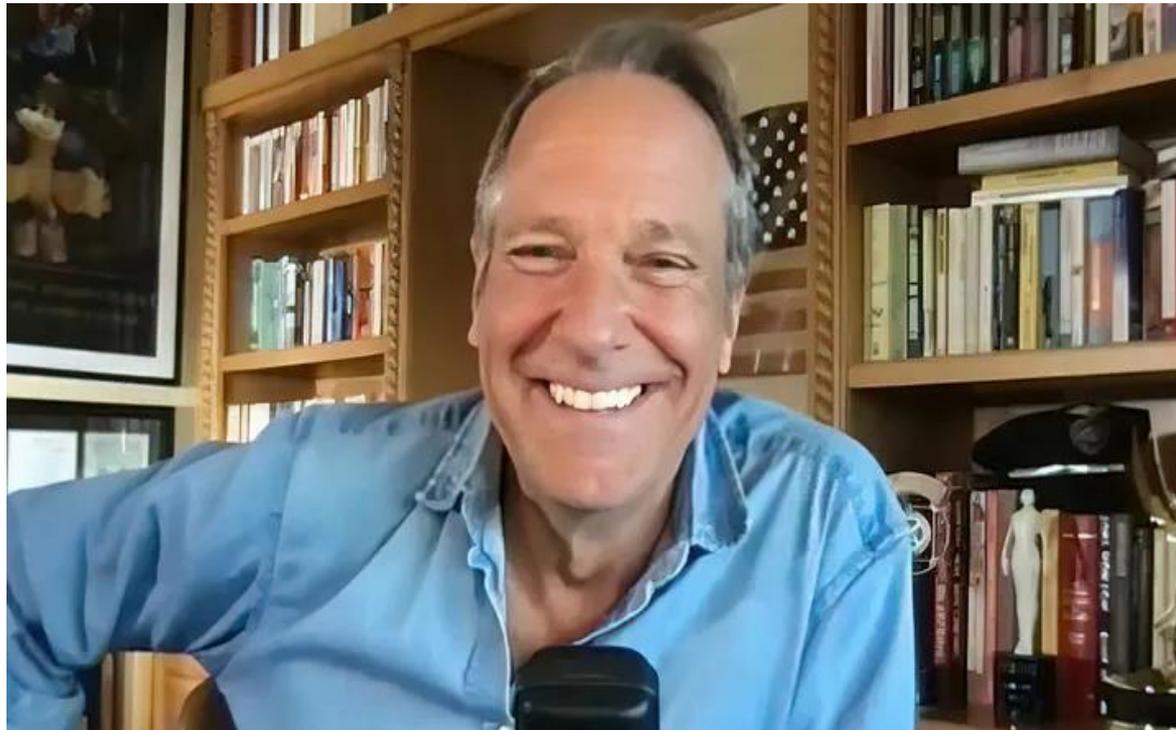


# Alternatives to College

## Good Jobs without Degrees

### Mike Rowe- Blue Collar Champion

### “Jobs without Degrees”



Source: Altus (2023).

# BCG Matrix

## RELATIVE MARKET SHARE POSITION

INDUSTRY SALES GROWTH RATE %

	High 1.0	Medium .50	Low 0.0
High +20	Stars	Question Marks	
Medium 0	Cash Cows	Dogs	
Low -20			

Source: David & David (2015).

# BCG CATEGORIES

## Stars

- **Ivies**
- **Seven Sisters**
- **Top 50**
- **Distance Learning**  
**Winners: SNHU, ASU, WGU, UM Global**

## Question Marks

- **Advancing remote learning**
- **Capella**
- **University of Phoenix**
- **Liberty University**

## Cash Cows

- **Large universities with strong support from athletic budgets:**
- **Big Ten, PAC10, SEC, etc.**

## Dogs

- **Small private colleges**
- **Tuition dependent institutions**

# Higher Education

## National Center for Education Statistics- 2021- 2022

- **3,899 postsecondary, degree granting institutions**
  - **1,582 Public institutions**
  - **1,626 Private nonprofit institutions**
  - **691 For-profit institutions**
- **Financial viability?**
- **Increasing trend in higher education combinations**

Source: NCES (2023).

# The Nonprofit Trap

- **Nonprofits are not subject to the same return on investment pressures as institutions in the private sector.**
- **They can muddle through beyond the point of financial viability by:**
  - **Underpaying faculty and staff**
  - **Deferring maintenance**
  - **Dipping into savings and endowment**

# The Nonprofit Trap

- **Trustees have ultimate authority but tend to be risk averse; no penalty for putting off decision but high potential for conflict – with alumni, faculty, and the community - when proposing radical change.**
- **Conclusion: Stick with the status quo while tying up resources in non-productive uses**

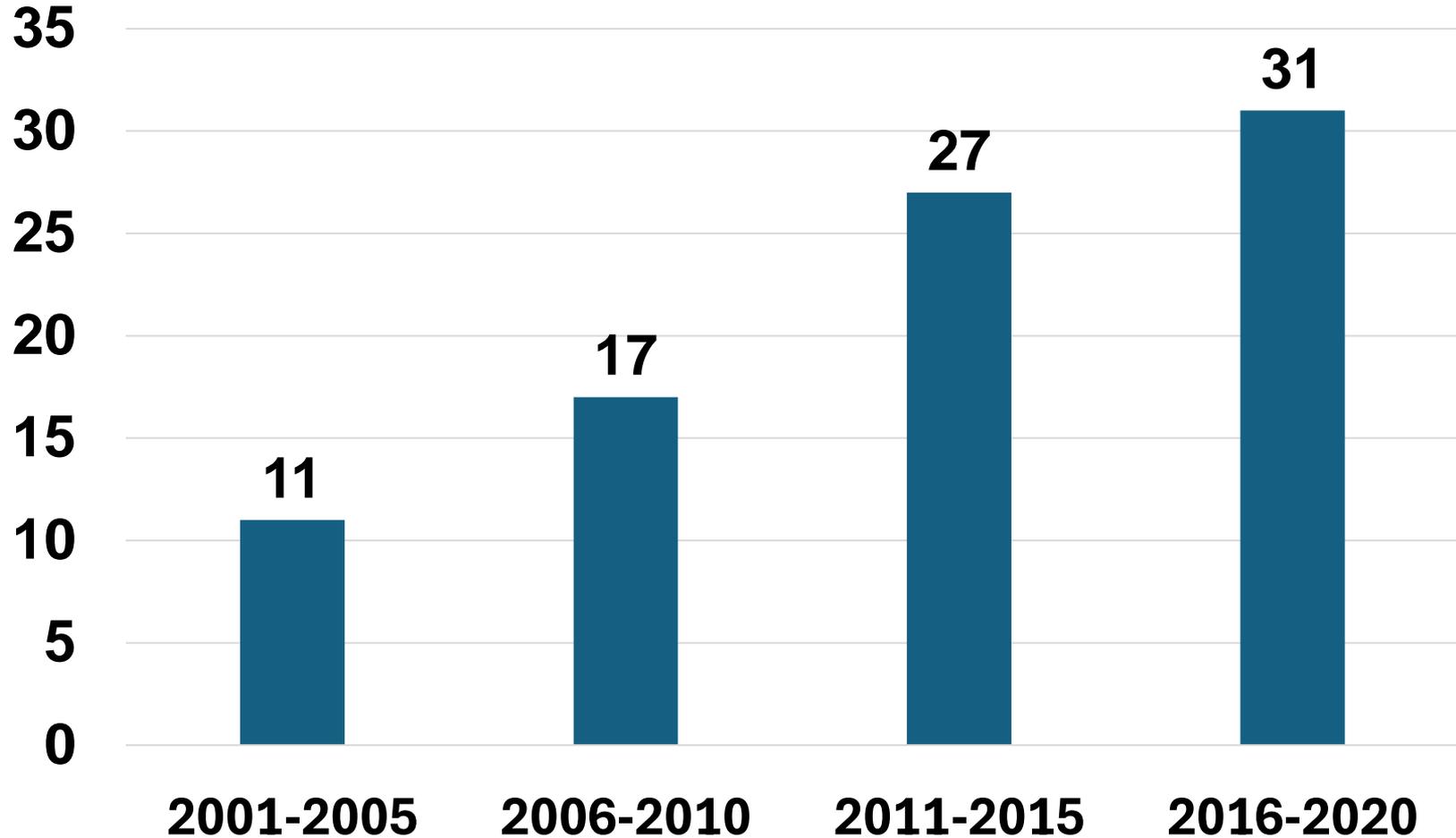
# “Death Spiral”

- **Institution never assessed cost of operations**
- **High reliance on L/T 3P’s (public-private partnerships)**
- **Cannot estimate when the institution will hit its inflection point**
  - **Cannot cover costs & expenses with liquid assets**
- **LOC dependency in summer**
- **Considering liquidating parts of its endowment**

# Closure Risk Factors

- **Enrollment < 1,000 students**
- **No complete online program developed**
- **Annual tuition increases > 8%**
- **Tuition discount > 35%**
- **Tuition dependency > 85%**
- **Ratio- Endowment to annual expenses < 3:1**
- **Debt service > 10% of expenses**

# Mergers & Acquisitions in Higher Education



Source: Bryant & Jefferson (2023).

# Higher Education

## Closures & Consolidations

- **48 private nonprofit and public institution closures between March 2020 – December 2023**
  - **28 closures**
  - **20 mergers**
- **52.9% of students impacted by sudden closure do not re-enroll**

Source: Castillo & Welding (2024).

# Business Combinations

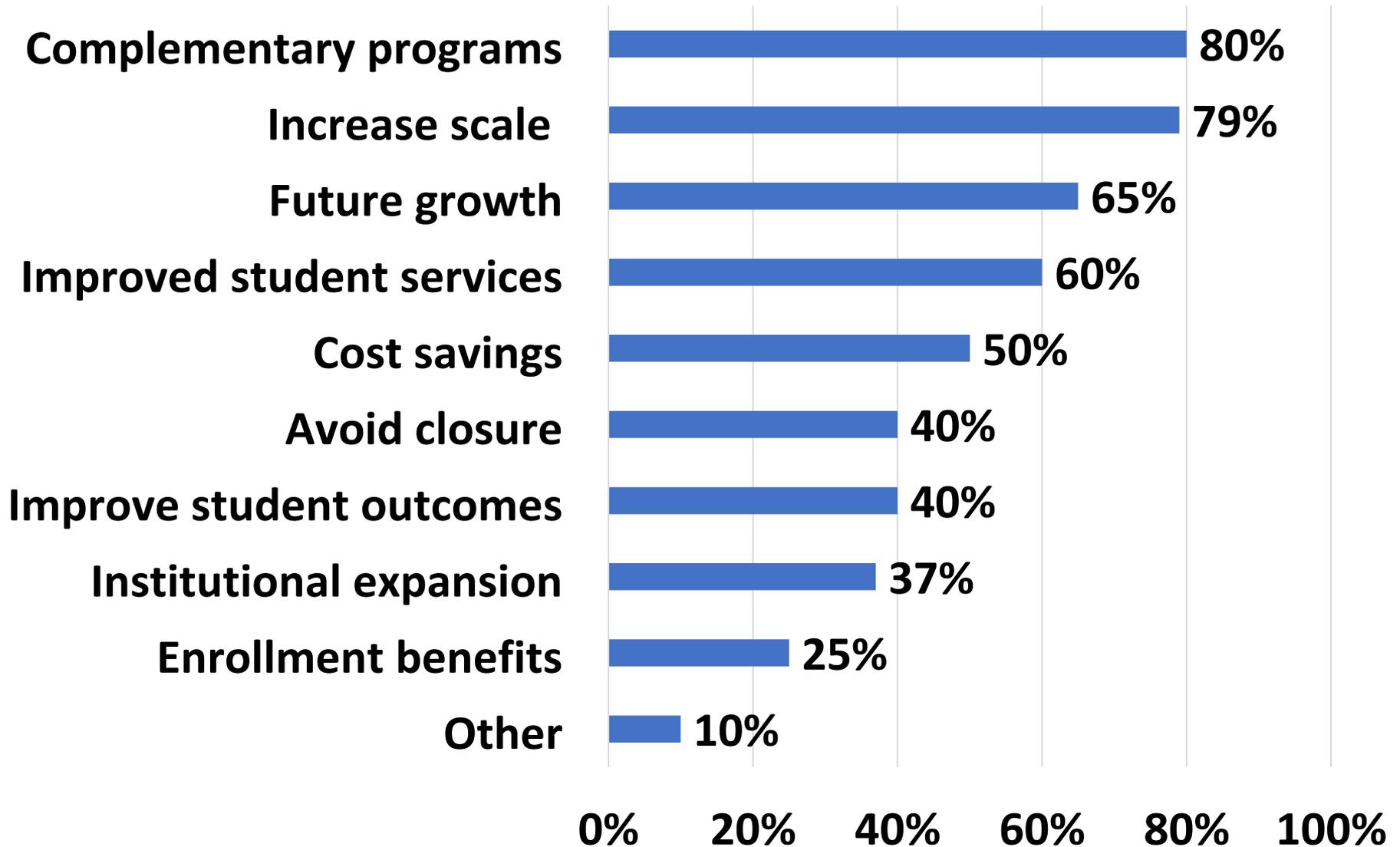
- **Mergers**
- **Acquisitions**
- **Consolidations**
- **Liquidations & Asset Transfer**
- **Joint Ventures**
- **Coalitions**

# Mergers

## Model Nonprofit Corporation Act

- **Allows mergers of nonprofit organizations**
- **State laws → additional regulation & guidance**
  - **State decision to allow mergers of nonprofit with other nonincorporated nonprofits or entity outside of the state**
  - **Additional regulations if nonprofit merged out of existence into for profit entity**
- **Approvals**
  - **Federal- IRS, DOE**
  - **State- Revenue Department, AG, Secretary of State**
  - **Accreditors**

# M&A Strategic Objectives



# Valuation Methodology

- **Asset-Based Approach**
  - Net asset value
- **Market-Based Approach**
  - Compare organization to comparable organizations
  - Assess financial performance relative to comparables
- **Income-Based Approach**
  - Discounted future projected cashflows
  - Potential to generate sustainable revenue & donor support

# Valuation Methodology

- **Assets- FMV or Book Value of Specified Assets**
  - **Current Assets**
  - **Endowment**
  - **Grants**
  - **Real Estate**
  - **Plant & Equipment**
  - **Other Fixed Assets**

# Valuation Methodology

- **Intangible Assets- Valuation?**
  - **Intellectual Property**
    - **Patents**
    - **Course content in Learning Management System**
  - **Trademarks, Copyrights**
- **Liabilities- Specified Liabilities Assumed**
  - **Current Liabilities**
  - **Long-Term Debt**

# Valuation Methodology

## Other Valuation Considerations

- **DCF: PV of future cash flows at reasonable risk adjusted discount rate**
- **Growth potential**
- **Market Valuation Multiplier**
- **Economic contribution multiplier**

# Valuation Methodology

## Other Valuation Considerations

- **Brand and reputation**
- **Alumni networks**
  - **Donor base- Funding Sustainability**
- **Human capital talent**
- **Comparable Institutions → Little available data**

# Merger Costs

- **Branding, communications, institutional relations**
- **Human capital needs**
- **Program growth & synergies**
- **Infrastructure**
- **Opportunity costs**
- **Political capital expenditures**

# Merger Costs

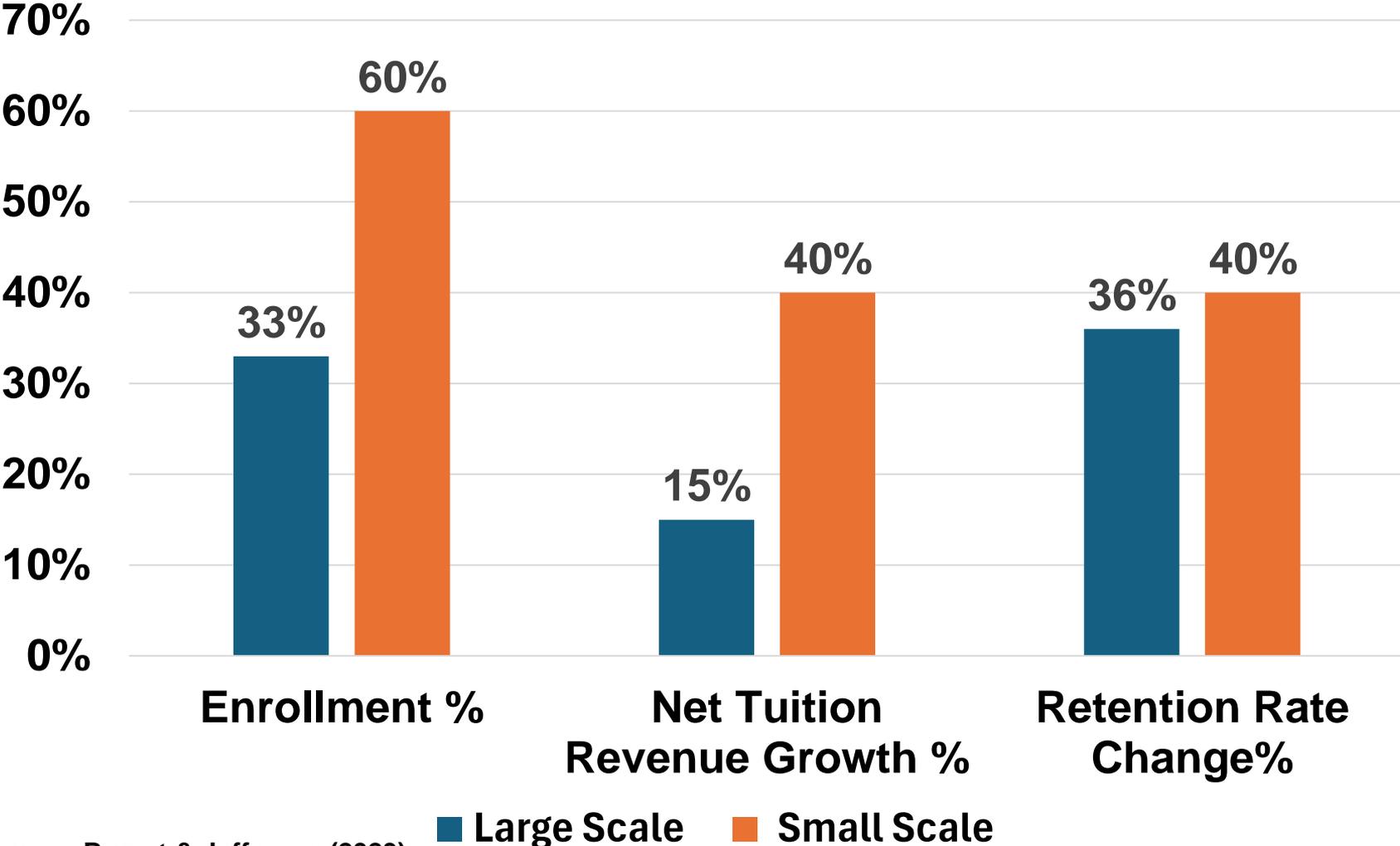
- **Considered as a case of last resort instead of as a proactive strategy→**
  - **Diminished Asset / Resource availability**
- **Tendency to underestimate cost**
- **Tendency to overestimate increased revenues / cost savings**
- **Substantial upfront cost / investment**
- **Gap in timing of returns vs. investments**

# Post- Merger Strategies

**Unlock residual value trapped in the new market segments**

- **Comparable & Complementary programs**
- **Unique programs from each institution**
- **Program expansion**
  - **Online development**
  - **New workforce-related programs**
- **Asset underutilization → Finance expansion**

# Merged Institutions Experiencing Post Merger Growth



Source: Bryant & Jefferson (2023).

# Merger Examples



- Merged in 2020
- Pine Manor Institute for Success
  - Messina College
  - 2 Year College
  - Middle & high school enrichment program
  - Enhance educational opportunity for under-represented, first-generation students
- BC acquired all assets
- BC- Invest \$100 million in new enrichment programs

# Merger Examples



WHEELOCK  
COLLEGE

- **Merged 2017**
- **Asset acquisition**
- **Wheelock- Nationally recognized education program**
- **BU-Need to enhance existing education program**
- **Boston University Wheelock College of Education and Human Development**

# Merger Examples



- **Merged 2017**
- **Bi-coastal merger**
- **Mills- Legacy in equity, social justice, and leadership by women**
- **NU-Diverse and global experiential learning**
- **Mills College at Northeastern University in Oakland, CA**

# Merger Examples



**Berklee**  
College of Music



- **Merged 2016**
- **Merger of Equals**
- **Complementary Programs**
- **Berklee College of Music was the surviving entity**
- **Boston Conservatory at Berklee**

# Merger Examples



- Merger June 2024
- Asset Acquisition
- Career / Adult / UG & Graduate Programs
- Double enrollment to + 5,000 students
- AWC online growth & shared programs
- Satellite footprint in Eastern MA & Puerto Rico

# What if ???



# What if ???

- **Comparable & complimentary programs**
- **Tuition dependent**
- **Financially challenged**
- **Competing for the same students in the same geographic markets**
- **Substantial administration costs & human capital costs**

# What if ???

**International Universities  
Asia, India, Middle East, South America,  
Europe, China**



**Nonprofit or  
For-Profit Online  
Institution**

**Acquisition Target  
Outside Investor  
or Other Institution**

# Final Thoughts

- **Adopt mergers as a proactive strategy**
- **Targeted focus**
- **Substantial investment in time & money**
- **Focus on elements that create strategic value**
- **Valuation & operational challenges**

# Thanks for Listening

**We would appreciate your help ...**

- **Comments**
- **Data Sources**
- **Case Studies**

**to**

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# Questions

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