Money matters: Revenue diversification for higher education

Higher education institutions around the world are looking to increase stability through revenue diversification. **Chinmay Jhaveri** and **Ashwin Assomull** of L.E.K. Consulting explore how the world's leading universities are tackling the challenge, and what it could mean for the private sector

Emerging economies have fast-growing university sectors, with high demand for available seats. But as they mature, the rapid growth in higher education participation begins to taper off or even decline. For example, enrolment in higher education dipped by about 1% in the US and Western Europe between 2012 and 2017, while over the same period, enrolment in middle-income countries has grown at 3% per year and in lower-income countries at 2% annually.

Stagnation in enrolment in the developed world is particularly concerning as it comes at a time of belt-tightening in the higher education sector. Universities in many countries around the world are grappling with funding cuts to research programmes and other budget cuts.

Tuition fee increases can only partially offset these losses, since hikes can damage enrolment numbers. The stage is, therefore set for higher education institutions to explore new avenues to drive sustainability. Much attention has been paid to cost reduction and efficiencies, but less focus has been given to revenue diversification.

Identifying new sources of income not only builds a bulwark against falling revenue from traditional sources, but it also offers a strong upside: top-line growth, particularly in unrestricted funding, providing institutions with greater flexibility and freedom.

Moreover, these are not strategies just for universities in developed markets facing stagnating student numbers and decreased government funding; in fact, they may be of interest to higher education institutions in emerging markets, which currently derive 8%-15% of their operating revenue from non-traditional sources, much lower than the 20%-25% benchmark for their counterparts in developed countries (see *Figure 1*).

There are four main pillars of revenue diversification strategy, with each pillar representing a substantial opportunity set (see *Figure 2*):

- Non-traditional students
- University IP commercialisation
- Asset utilisation
- Auxiliary revenues

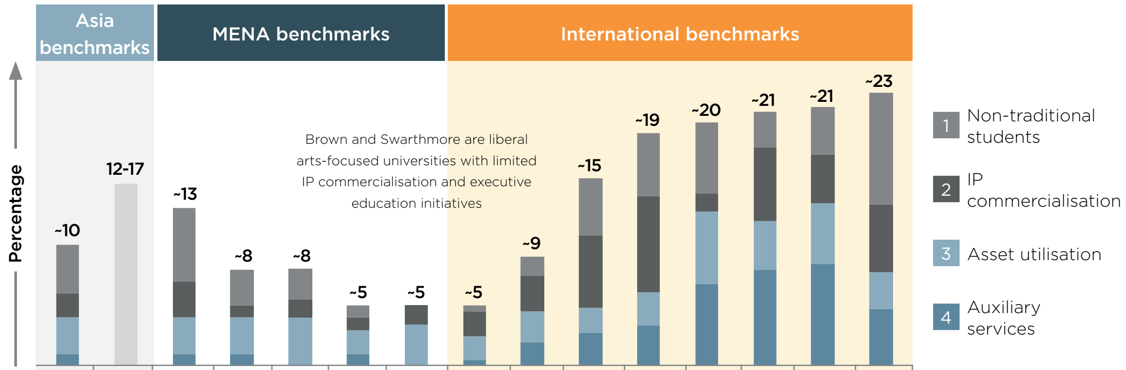
In what follows, we explore each of these in turn.

Back to school: Attracting non-traditional students

Executive education and summer schools are two key options for higher education institution to explore revenue diversification by attracting non-traditional students.

Well-known universities with an international reputation have been able to generate $100 million to $400 million in revenues from executive education programmes. The typical scale achieved in emerging markets has so far, however, ▶

FIGURE 1: DISTRIBUTION OF NON-TRADITIONAL REVENUE AS A PERCENTAGE OF OPERATING BUDGET, 2017/18



	HKU	NUS	AUC	AUS	AUD	AUB	KAUST	Swarthmore	Brown	Princeton	Stanford	NYU	UCL	Uni. of Liverpool	Harvard
Year of establishment	1911	1905	1995	1997	1995	1919	2009	1864	1764	1746	1885	1831	1826	1881	1636
Non-traditional revenue ($US million)	~160	~86	~20	~10	~5	~10	~35	~10	~100	~250	~900	~1,100	~350	~150	~1,030
Operating budget ($US million)	950	~1,920	~160	~110	~60	~250	~700	146	881	~1,600	~4,700	~5,600	~1,600	~650	~4,300
Enrolment (K)	~40	~30	~6	~6	~2	~9	~1	~2	~9	~8	~16	~51	~41	~25	~21
Operating budget/student ($US K)	~30	~64	~26	~18	~19	~28	~700	93	100	201	289	111	40	26	207

Note: Operating budget for all universities excludes hospital-related expenses

Source: University financial statements, industry participant interviews, L.E.K. research and analysis

FIGURE 2: FOUR PILLARS OF REVENUE DIVERSIFICATION STRATEGY

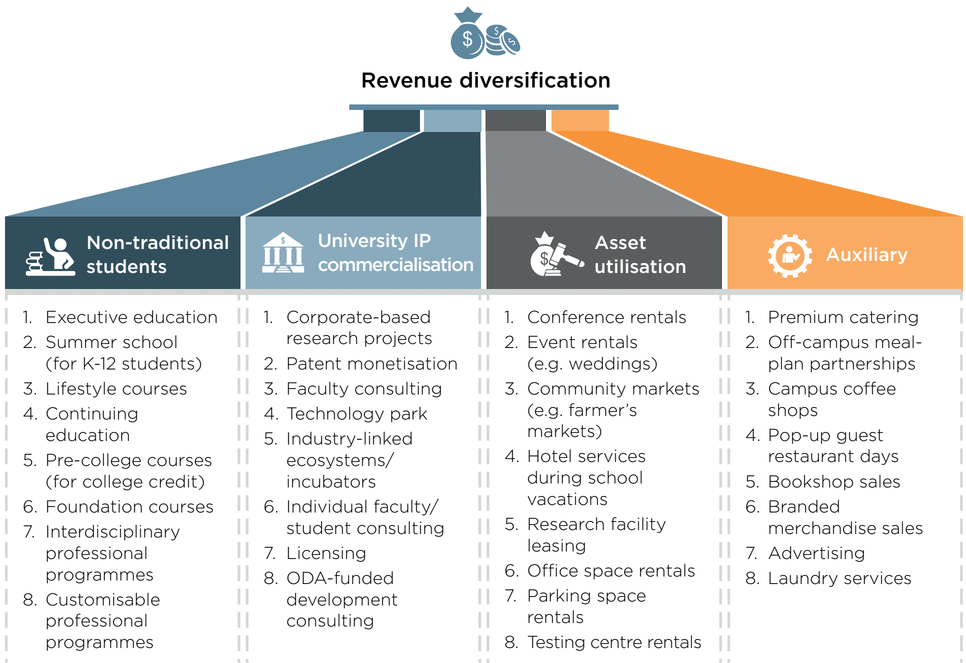
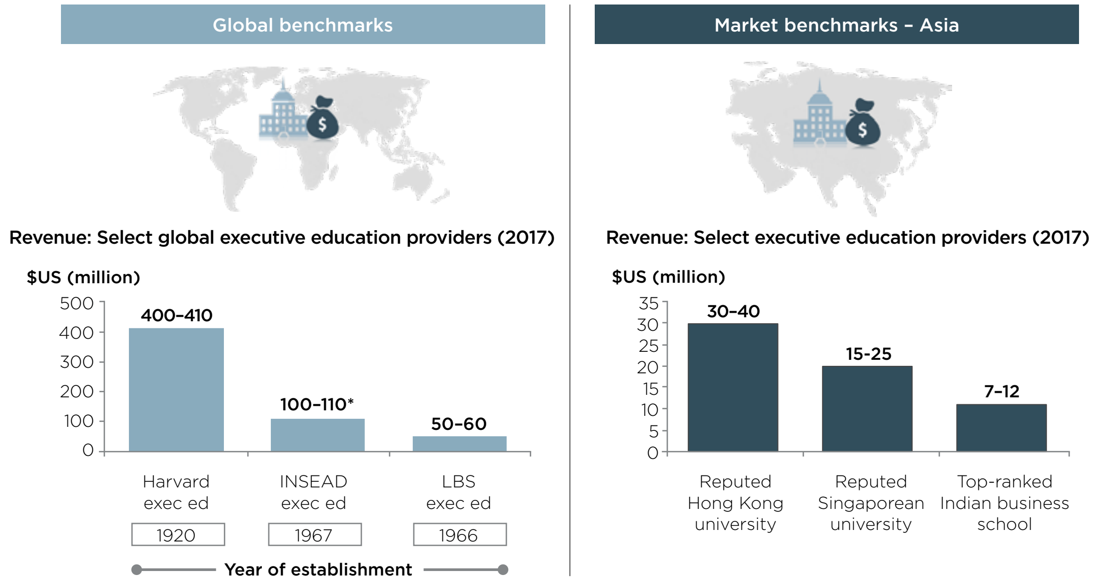


FIGURE 3: SELECT GLOBAL AND EMERGING MARKET BENCHMARKS FOR EXECUTIVE EDUCATION REVENUE SCALE



*Revenue for INSEAD Exec Ed is for 2016

Source: Industry participant interviews

been approximately $10 million to $20 million, indicating significant headroom for growth (see *Figure 3*).

Universities can adopt a two-pronged strategy when developing executive education programmes. One option is to create contract-based programmes targeting corporations, while the second is to focus on direct-access programmes aimed at individuals.

Contract-based programmes typically have one of three models. One model is to put in place long-term contracts between universities and corporations. Another model is custom on-site programmes, where a provider develops tailored executive training, often delivered in-house, for a company's employees. In a third model, providers offer accreditation or professional credentials to attract executive students.

The contract-based model of partnering with corporates has already demonstrated success in international settings, with a noteworthy programme being London Business School's $38 million contract to train senior managers at Kuwait Petroleum Corp. LBS leveraged its Dubai campus to demonstrate understanding of the region and the energy sector.

In addition to tying up with corporates, direct-access programmes attract executive education students interested in career advancement. This strategy relies on a provider's brand name, with good examples including Harvard Business School's Advanced Management Program (with fees of approximately $80,000 for two months of study).

Beyond executive education, another way of attracting non-traditional students is by reaching the pre-university market. Summer school programmes, typically two to three weeks long, give pre-college students an opportunity to experience university life, while creating a pipeline for future enrolment. These programmes comprise academic classes, extra-curricular activities and leadership workshops. The revenue opportunity from this kind of programme is as much as $15 million to $25 million, with EBITDA margins as high as 40%.

Harnessing IP commercialisation

Universities can utilise their intellectual property to create a substantial revenue stream in the medium to long term.

Research-based corporate strategic partnerships have generated high income for some institutions, with collaborations delivering up to $20 million. In these arrangements, universities become research partners that provide advisory services to corporates over a long-term period. Alternatively, corporates provide universities with grants targeting research or the development of infrastructure to enable specific research capabilities. These partnerships and are often related to clinical trials.

These ventures are a win-win opportunity for both the university and the corporate partner, with corporates gaining exposure to cutting-edge research and the first right to commercialisation, while the university and its faculty retain the intellectual property ownership and also receive funding. MIT, Princeton and King Abdullah University of Science and Technology (KAUST) are world leaders in building corporate research partnerships. For example, KAUST has strong support from an ecosystem of companies created by its technology and research park.

Another option is to explore faculty consulting, in which universities provide academic/technical consulting by faculty for external bodies, with a portion of the consulting fee paid to the university. The value-add offered by universities lies in providing help to faculty in negotiating the consulting fee, or in providing insurance, invoicing and administrative support, among other auxiliary aid.

Other options include tech parks, where universities accommodate and foster growth of affiliated tenant firms. This enables knowledge sharing, promotes innovation and aids the progression of research outcomes to viable commercial products. Patent monetisation is another option that secures universities a royalty fee on the use of their patents. This requires support by a team to help researchers secure patents and actively work to commercialise them.

Auxiliary services and leveraging university assets

Universities can use their existing infrastructure and assets to generate additional income by leasing space to retail outlets such as bookstores, renting out sports facilities, or hosting events and conferences.

They can also offer a host of other auxiliary services to bring in revenue from merchandise, offering catering services for events or monetising their academic publishing ventures.

Core levers for value creation

Revenue diversification is just one facet of value creation for universities. Core levers include:

- Optimal discipline mix for local students
- Focus on employability
- Student acquisition
- Attracting international students
- Digitisation

Offering an optimal discipline mix involves identifying growing disciplines in line with local market demand and offering them to attract students. Universities may also pursue a “school within a school” model of setting up specialised schools within an umbrella university.

In today’s economic climate, a strong focus on employability in the courses offered is essential. This is particularly true of emerging markets, where the demand for employment-related courses is growing. Higher education providers can focus on approaches including internships and corporate tie-ups to aid employability.

At the core of value creation in higher education is the ability to attract new students. Building a dynamic student acquisition engine to initiate leads and convert enquiries effectively is essential. Many universities could increase student conversion by making relatively minor operational improvements in recruitment processes that would improve applicant experience.

In addition to these three core drivers, which are focused on traditional higher education students, international students remain a viable and sizeable lever of value creation, with this market maturing. More than five million students now study abroad annually, and opportunities are flourishing for in-market campuses and programmes to draw students who may not have the financial means or inclination to study abroad for a full degree. Digitisation is a final lever that can transform the entire value creation proposition by driving efficiency and improving return on investment, for example by driving efficiency in student acquisition.

An opportunity for the private sector

Private sector institutions can benefit from this new drive for revenue diversification among predominantly public and not-for-profit institutions in a few key ways. As universities in the public and not-for-profit sectors become more commercially minded out of necessity, private sector universities can not only provide an example to them, but could potentially see them as a new customer group.

First, there is a role for private sector institutions in business-to-business service provision, enabling universities to diversify revenue. Opportunities could include student recruitment for executive education or programme management for summer schools.

Second, private sector higher education providers can adapt some of these typically public sector approaches – including asset utilisation approaches and executive education – to increase and diversify their own revenue.

Finally, private sector institutions can focus on supporting core levers of value creation. For example, business offerings in digitisation, student pipelines and support processes are already attractive propositions.

Revenue diversification and value creation agendas are top of mind for university leaders around the world. Those willing to reset their strategies and offer non-traditional products and services ahead of the curve are set to reap the benefits. ■

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L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and rigorous analysis to help business leaders achieve practical results with real impact. The L.E.K. Global Education practice is a specialist international team of 60 consultants and seven partners and principals who have completed more than 650 education sector engagements across more than 90 countries, serving CXOs and boards of some of the world’s largest education organisations. Our experts bring insights on education businesses, investment opportunities, market dynamics and impact across segments from K12 to ed tech.

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