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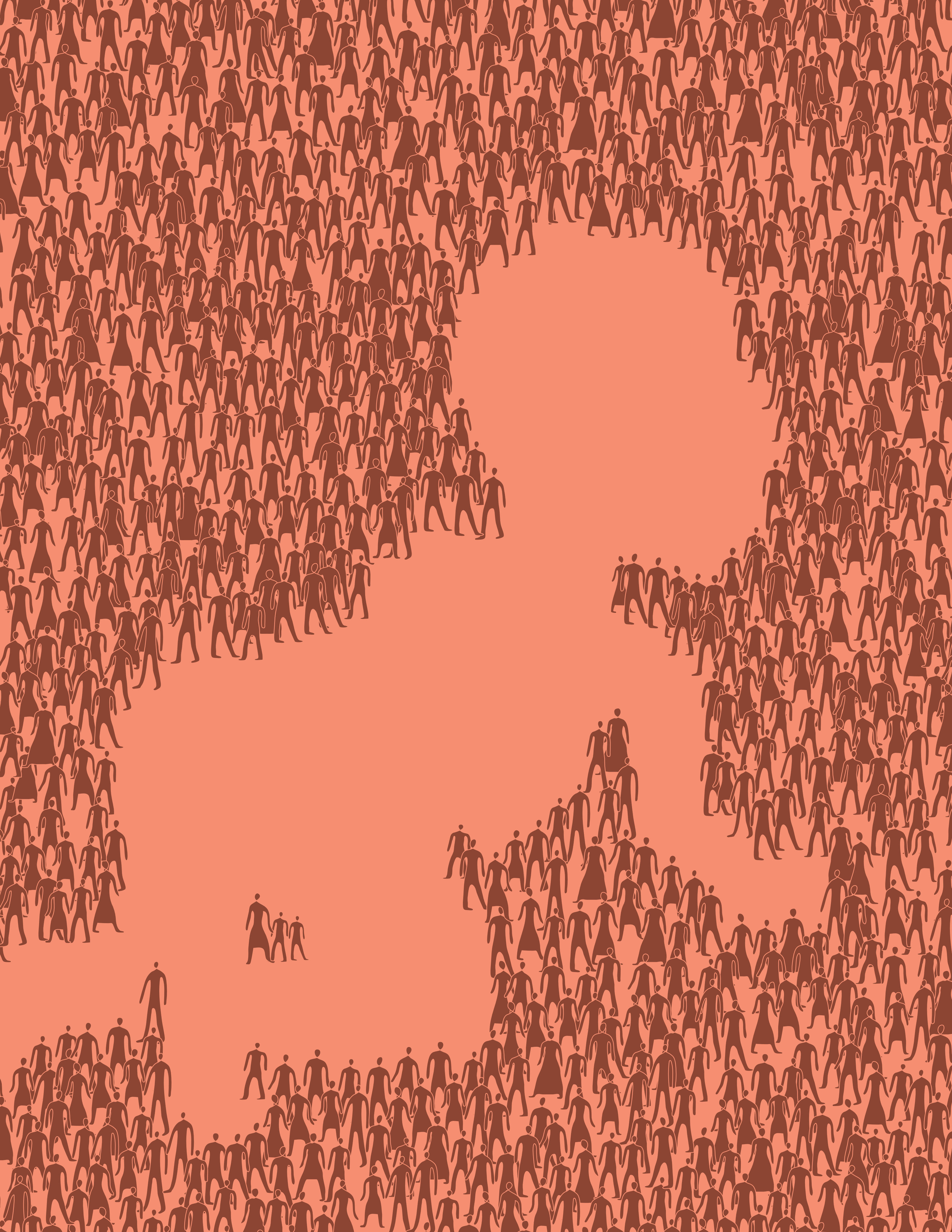
FILLING $EATS

The World of Enrollment Management

How to fight attrition, get demography savvy, learn from 2008, and pick the right financial aid partner.



REVERSE MUSICAL CHAIRS

As the U.S. birth rate declines and fewer students enter school in many areas, how will your school respond? ***Studying local demographics*** *can help.*

BY CHAD TEW

Imagine a game of musical chairs played in reverse. Instead of taking away a chair each time the music stops, some participants are removed. There are fewer and fewer players each round for the same number of seats. Now picture the chairs as student desks—700,000 of them spread among 2,000 independent schools across the United States. For the foreseeable future, each year the annual enrollment music stops, there will be fewer full-pay students to fill those desks. This is the demographic reality of at least the next half decade.

During the next five years there is a good chance that one in 10 of the independent schools in your area will close or be forced to merge with another school if all other things are held constant. This is thanks to demographics: those quantifiable statistics of a given population, especially with regard to density and capacity for expansion or decline. In this case we are talking about a decline in the number of children.

THEY CAN'T COME TO SCHOOL IF THEY WEREN'T BORN →→→→→→→→→→

The birth rate is declining around the world, most notably in the wealthiest, developed nations. In the United States the fertility rate has dropped to 1.93 births per woman, below the basic replacement rate of 2.1. We know how the decline in the agrarian age led to a big reduction in family size from 1800–1920, how the Great Depression cratered the birth rate in the 1930s, and how it came roaring back with the baby boom.

The surprise is what's happened recently. With more two-earner households, many families are having just one or two children. Exacerbating smaller family size, married couples now make up only 50 percent of households and the number of childless non-traditional or single person households is on the rise.

People who do marry are doing so later and often delaying children until careers and relationships are firmly established. On top of all these trends, we recently lived through our own

ILLUSTRATION BY OTTO STEININGER

Great Recession moment, where economic struggles and uncertainty dampened the reproduction rate.

In the recent study "Knocking 2012," the Western Interstate Commission on Higher Education found that the number of U.S. high school graduates is projected to decline by 2 percent between 2009 and 2020.

The news is worse for regions like the Midwest and Northeast, where the drop is projected to be between 7–8 percent. States such as Maine, Michigan, New Hampshire, and Vermont will see decreases in the 18–19 percent range, and Washington, DC, will be hit with a 23 percent decline.

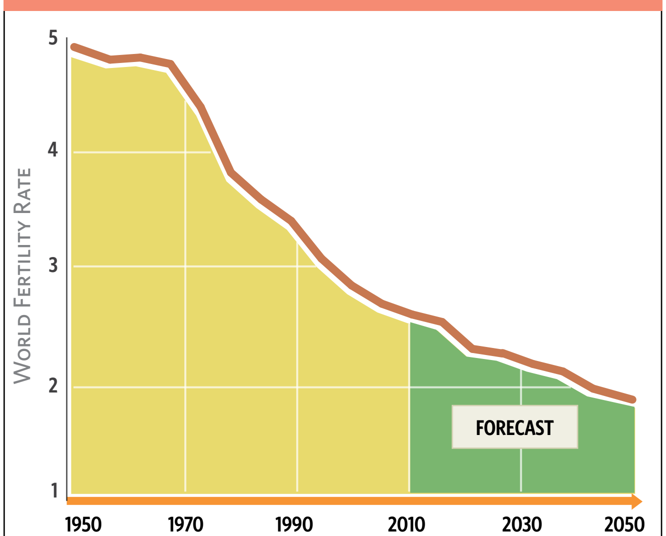
These declines may seem unbelievable, since we just experienced a record number of high school graduates in 2010 and 2011, but the numbers fell off significantly in 2012 and 2013. The drop in the number of high school graduates is expected to moderate after this year, but begins to decline again sharply in 2025.

This is big news for colleges, which are responding to the current decline, but have a decade to plan for the next cliff. However, if you do the math, you'll calculate that the high school graduating class of 2025 entered kindergarten this past fall of 2012.

The falling kindergarten application numbers, which many schools experienced, will continue downward for the next several years. This won't be the case everywhere. The numbers are growing in the Rocky Mountain States and in Texas. However, states with the largest concentration of independent schools will see marked declines.

In my home state of California, the number of high school graduates is projected to decline by about 12 percent between 2010 and 2025. These are not rough estimates. The children who graduate in 2025 have already been born. We know their numbers and where they currently live. The only things that alter this picture are unanticipated changes in relocation and immigration.

CHILDREN CAN'T COME TO SCHOOL IF THEY WEREN'T BORN



Source: UN Population Division

NO MORE KUMBAYA?

Are we entering a period of Demographic Darwinism? It's not hard to envision a "survival of the fittest" scenario in a shrinking market. Certainly, competitive pricing will become increasingly important. Schools will contemplate adapting their mission in ways such as expanding summer or adult programming. Many schools are already tapping demand from international markets to fill the unsold seats.

Increasing competition could also spell the end to the Kumbaya era of school collegial cooperation. Few industries share and collaborate as much as independent schools, where we have often seen ourselves as brother and sister educators working side-by-side in our respective schools to provide stellar independent education.

We may find that only works when there are more kids than seats. As the empty seats multiply, does the world of independent schools turn into the Lord of the Flies—a cut-throat game of "kill or be killed" domination? To survive an attack by a bear while hiking, you don't need to outrun the bear; you just need to outrun your slowest hiking companion! Schools could use the same philosophy.

However, surrendering to natural selection is not the only option. Our schools must learn how to operate differently in order to survive and thrive. To create a different paradigm, independent schools as a whole need to build market share and take a bigger slice from the public school world. This pressure to build market share will take place against an unprecedented landscape of new market entrants, including charter schools, virtual and home schools, and online courses.

To attract a broader slice of the total student pie most of us need to become more affordable. We must also become tighter on the expense side. More businesslike operations can support the same high level of program for a lower cost, but that might mean cutting declining programs. To address these challenges, independent schools will need to develop a more competitive mind set.

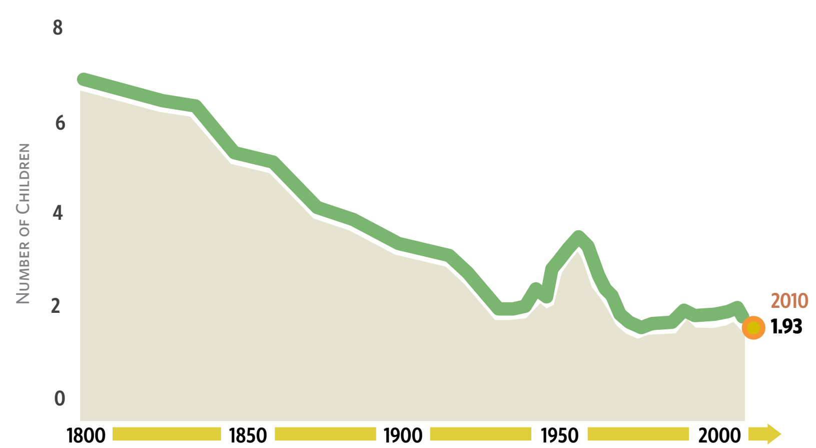
COMPETITIVE ANALYSIS

Schools are great at grading and ranking students. We are also obsessed with benchmarking. We want to know what peer schools are paying for a librarian or lower-school teacher. We want to stack our annual fund results up against similar schools. However, we generally spend our time comparing ourselves to independent schools that mirror us in mission and shared attributes.

In this view we often miss some of the schools with which we actually compete. The true competition comes from cross-over schools: schools with which we cross applications and enrollment. Cross-over schools are generally defined by geography and may include public, charter, and parochial schools with structures and price points very different than our own.

A sophisticated competitive analysis focuses on cross-over schools and looks at how they differ at each main entry grade. A K-8 independent school brings in a large number of

AVERAGE NUMBER OF CHILDREN PER WOMAN IN THE U.S.



Source: WSJ 2/12/2013

students in kindergarten, but also likely in seventh grade, where they either grow or must replace students who leave after sixth grade for larger 7–12 schools.

A K-12 school will have multiple entry grades, which could include kindergarten, seventh, and ninth. The cross-over schools at each entry grade will be different. Kindergarten is likely defined by a tight geographic circle consisting of parents of 5-year-olds who want to keep them close to home.

These parents may be looking closely at the neighborhood public school, so your main kindergarten cross-over may not be charging tuition at all. This could be very different at seventh grade, where students from private K-6 and K-8 schools are applying to the top private schools in a larger geographic radius. These families will be used to paying tuition and will be more knowledgeable consumers of our independent school product.

A competitive analysis of each entry grade will include data on each of the cross-over competitors at that grade. In addition to list-price tuition, try to calculate what their net tuition is—the average amount a student pays after subtracting financial aid.

Nonprofit corporations list their gross tuition and financial aid on their IRS 990 tax returns, which are available for review through sites such as www.guidestar.org. Looking up financial data on cross-overs can help your school better understand the strengths, weaknesses, and priorities of your true competitors.

SUSTAINABILITY IS ABOUT MORE THAN JUST TUITION

Current demographic trends put an exclamation point on the discussions many schools have been having about tuition sustainability. We've all done the projection showing how your tuition nearly doubles if you raise it 6 percent a year for 13 years.

That pricing policy creates a significant problem if inflation remains low, but there is no reason why a school that charges $20,000 per year for an entering kindergartener shouldn't cost $40,000 per year when that student is in 12th grade if inflation has run at 5–6 percent a year, as it did in the 1980s. At that level of inflation the family that could afford kindergarten would also be making twice as much by 12th grade. That's just nominal inflation. The problem is many schools kept raising costs and tuition at 1980s rates even as inflation dropped to an average of 2.5 percent during the past decade.

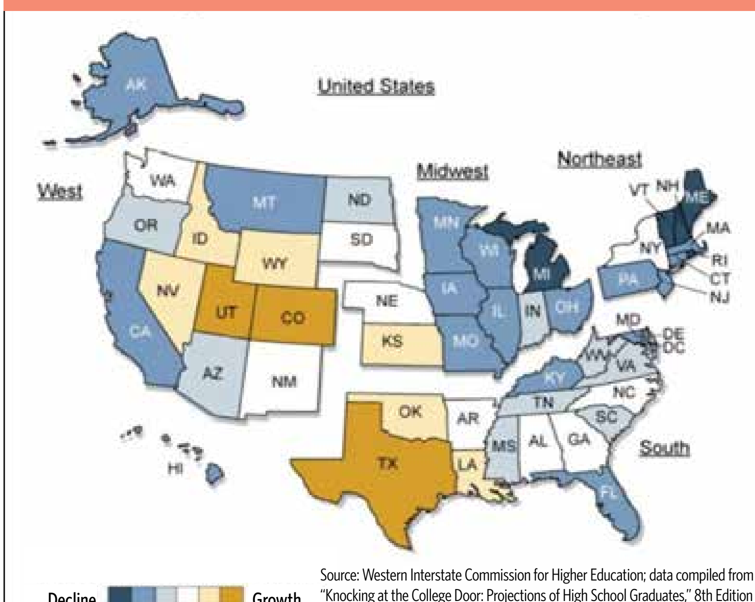
Where tuition level becomes more important is when we are trying to grow the market segment that chooses independent education. This is where financial aid plays a key role, making our schools accessible to a broader cross-section of families. Building market share is a key way to combat overall decline in market size.

However, most schools have paid for expanding financial aid by leveraging the high tuitions paid by full-pay families, which were growing in number for the past two decades. The stark reality now is that the full-pay student cash cow that supported this discounting model is declining in size along with every other segment of the market.

The good news, if you can call it that, is that wealth in the United States is becoming more concentrated and the core full-pay audience has a stronger resource base even as their numbers of children dwindle. Finding ways to better tap the generous support of your wealthiest friends and families will become increasingly important as schools seek to establish donor-funded aid and financial aid endowments to support broader access and affordability.

Most schools also need to do a better job mapping their target markets and understanding the demographic profile

PERCENT CHANGE BETWEEN 2008-09 AND 2019-20 IN TOTAL HIGH SCHOOL GRADUATES



Source: Western Interstate Commission for Higher Education; data compiled from "Knocking at the College Door: Projections of High School Graduates," 8th Edition of the communities they serve. Many neighborhoods that once yielded a number of students are now graying. The kids have grown and moved out, but unlike prior generations of empty nesters, today's older residents are working longer and staying put in their homes rather than decamping to retirement communities in Florida or Arizona.

Income trends within neighborhoods also shift over time. It is important to augment the historic knowledge and "gut feel" of school leadership with recent quantitative demographic data. NBOA offers free demographic data trends reports to its members.

Independent demographers can also provide customized profiles for a modest investment. Using a data-based picture of your market to allocate limited outreach dollars and time is the sophisticated approach that will help your school overcome demographic challenges.

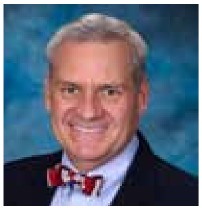
Finally, we need to embrace something Tom Peters and Bob Waterman called "Stick to the Knitting" in their landmark book, *In Search of Excellence*. Stick to the knitting basically means focusing on what you know and do best.

In the current business vernacular, it means knowing and promoting your brand. Without focus, the temptation when faced with an enrollment challenge is to try and be more like the school that you perceive is stealing your applicants. Maybe you hire more and better coaches if you're losing championships or you expand theater performances and concerts if another school is rising in the arts.

That's fine if you are a sports school or an arts academy, but you can't be everything to everyone. You can go broke trying. Success in a competitive market comes from tightly defining your product and brand, then building on your strengths.

If you are perceived as the top academic school in your area, then embrace and polish that image. Let another school go to the state championship game in football and zero in on being the best in your bracket. You'll draw students by walking the talk and by being who you are.

Shrinking demographics, rising competition, and advancing technology are providing our industry with what our faculty call "a teachable moment." How we respond will either reveal an independent school industry under siege or a reborn, dynamic educational model headed toward a solid future. ■



Chad Tew *is Chief Financial Officer and Treasurer at Viewpoint School/ Viewpoint Educational Foundation in Calabasas, California.*

HOW VIEWPOINT SCHOOL ADDRESSED

I was inspired to examine tuition sustainability at Viewpoint School after I returned from a fall 2010 session with NBOA Executive Director Jeff Shields, in which he presented a PowerPoint entitled "Igniting the Vision: What will make your school financially sustainable."

Shields sent me a copy of the presentation, which I customized and shared with my board of trustees. The resulting discussion sparked creation of an ad hoc tuition sustainability task force in spring 2011 composed of trustees from the finance and strategic planning committees as well as key administrative leaders at Viewpoint School.

This group was not born from crisis. Viewpoint was fortunate that enrollment remained strong during Great Recession, although we experienced slightly higher turnover in enrolled families. Nonetheless, we recognized the importance of affordability and the need to more deeply understand our market.

The task force started by considering Viewpoint's strategic priorities, such as increasing financial aid, and how those priorities impacted tuition. We set out to determine the price point where the amount of tuition would significantly alter demand; and also to evaluate and determine whether, and to what extent, tuition increases in our historical 6.5–7 percent range were sustainable.

The group also wanted to analyze to what extent price sensitivity differed by division in our K–12 school. Finally, these important questions needed to be reviewed in relation to Viewpoint's mission, the quality of our educational product, the affluence of the applicant pool, and other projected income and cost elements.

The task force met four times in the spring and summer of 2011. The initial meeting provided the group with extensive background data, included a discussion on strategic priorities (such as brand identity and financial aid) and conversations on fundraising impact and product quality. In hindsight, this was a vital session that got everyone on the same page regarding current and historical data and trends.

The second session focused on competition. We drilled down and looked specifically at cross-over schools at each major entry grade and compared tuition and other available data as gleaned from those school's annual reports and publicly available tax returns.

We looked not only at these competitors' list price tuition, but also estimated their net tuition by subtracting the financial aid reported on the tax returns. Analysis of specific entry grades also divulged distinct differences.

The main cross-overs in kindergarten were neighborhood public schools. There was really no price sensitivity here in the stark choice between $27,000 for private tuition and free public schools. Competitive price differentials were much more meaningful in seventh and ninth grades, where cross-overs included most local private schools with similar tuitions.

We also discussed changes in the competitive landscape, focusing on market entrants, growing or struggling schools, and the few schools that had closed or merged.

Early on the group knew we needed to better understand the demographic changes in our community, so during the early months I found and engaged a demographic researcher and put him to work analyzing our target markets.

We worked to define and map the markets for each major entry grade. For example, the market for kindergarten was very tight and close to campus, and the target market expanded when we looked at middle and high school entry grades, where students were willing to travel farther using our outsourced daily bus service.

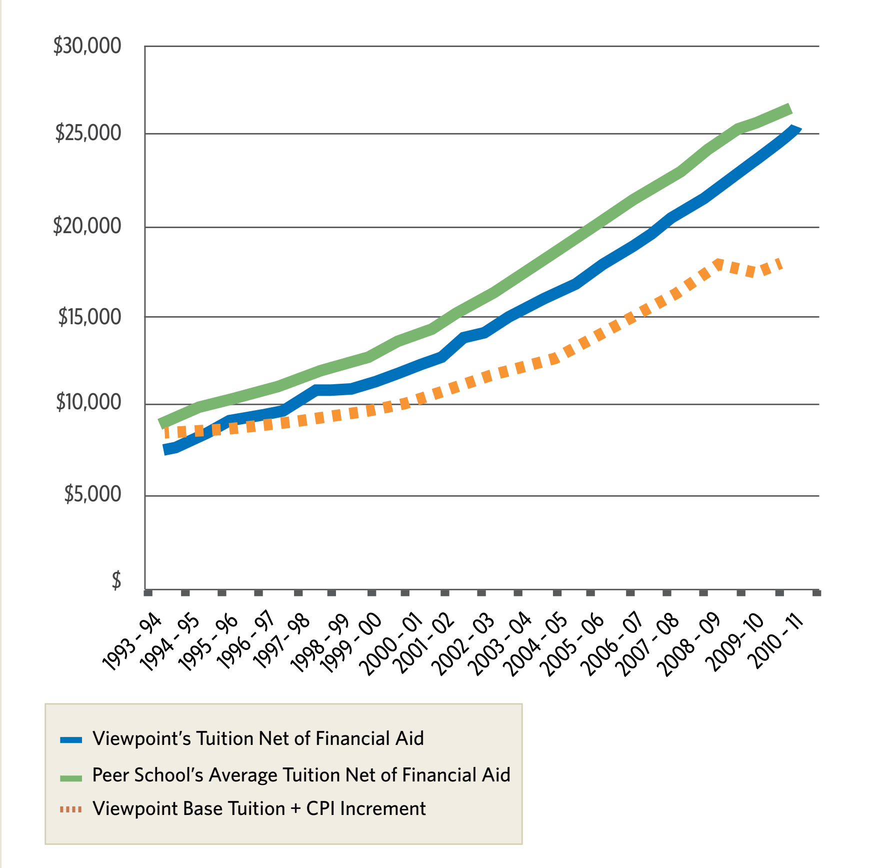
This detailed demographic information, including maps and income concentrations, was shared in the third task force meeting. The data confirmed our perception that our area was graying. The number of school-aged children was declining, especially at the youngest age range.

This knowledge helped guide efforts toward expanding outreach to a broader market in the higher grades, fine-tuning the expectations of kindergarten enrollment, and adjusting the enrollment distribution plan across our 13 grades.

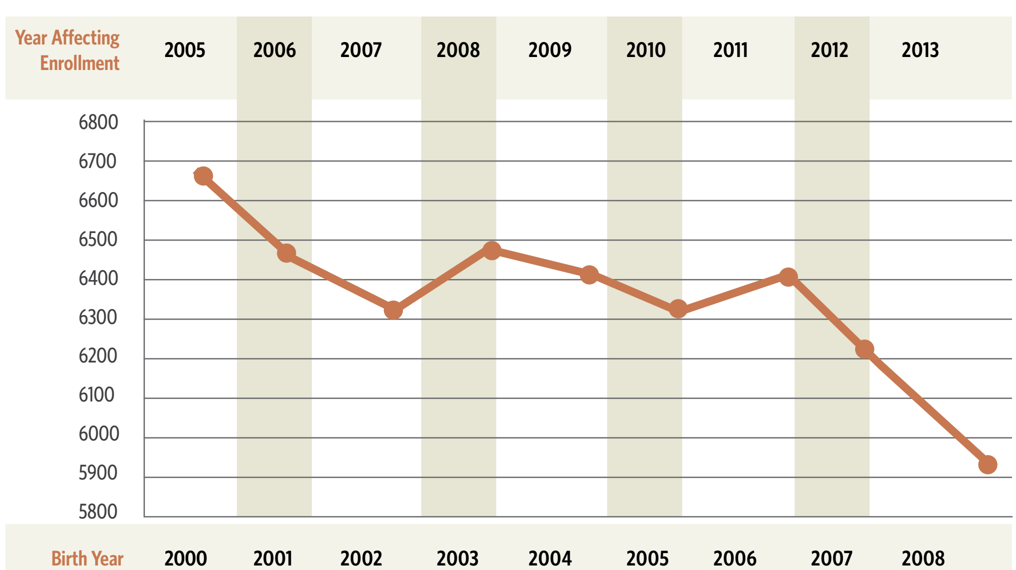
The fourth and final meeting focused on the role of financial aid in attracting and retaining quality students. This discussion involved looking at not only the awarding of aid, but the sources. Since the main source of aid was the tuition-supported operating budget, a cost-benefit analysis was reviewed, as well as the counteracting desire to keep tuition affordable and sustainable.

Viewpoint's tuition sustainability task force provided a great vehicle to develop a shared understanding among the board and administration on critical topics.

COMPARISON OF NET TUITION GROWTH BETWEEN VIEWPOINT SCHOOL AND ITS PEER SCHOOLS



Graying of the Kindergarten Market • BIRTHS IN VIEWPOINT HOUSEHOLD AREA



* Births tend to correlate with kindergarten enrollment five years later.

Source: California Department of Public Health