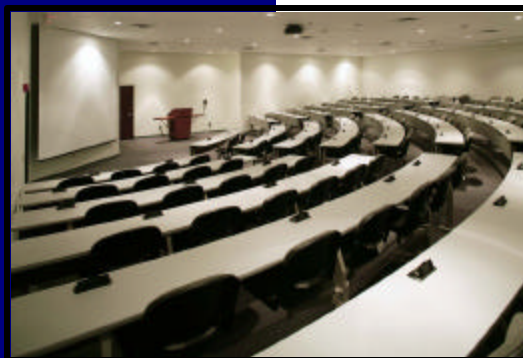


# Higher Education Services

Research Coverage Report

*"Market Intelligence for Industry Players"*

*Q1 2007*



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BOSTON



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## Research Coverage Report

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## EXECUTIVE SUMMARY

Over the last 20 years, the higher education market has undergone significant changes. As the US economy has evolved, the value of post-secondary education has increased. Access has also expanded, making post-secondary education available to a broader universe of applicants. There are more than 17 million students enrolled in higher education programs, and the percentage of 18 to 24 year old high school graduates attending programs has increased to 46%, from 32% in 1980.

In addition to student population expansion, other dynamics have altered institutions' operational environment. Competition has intensified, thus elevating pressure on institutions to recruit and retain top students and faculty and increase focus on service quality. Rising costs have also forced educational institutions to become more efficient. In response to these dynamics, schools are reevaluating the manner in which they provide services to their various constituents.

Increasingly, institutions are adopting commercial market strategies to improve efficiency and service quality, a trend commonly referred to as the "privatization" of higher education. This "customer-focused" view has increased demand for non-core activity outsourcing, through which third-party service providers increase operating leverage and enable schools to focus on their primary responsibility, instruction. Broader technology utilization and improved customer acceptance has created an opportunity for service providers to add value in segments of the value chain previously performed exclusively in-house by the institutions.

Certain activities such as student loan administration, food service provision, and bookstore management have long been outsourced. Over the last several years, a large and diverse universe of companies has emerged to satisfy customer demand for additional value-added services. These dynamics are expected to continue to affect educational institutions' resource allocation decisions, driving higher education-related outsourced services and technology market growth.

*Increasingly, institutions are adopting commercial market strategies to improve efficiency and service quality, a trend commonly referred to as the "privatization" of higher education.*

## THE HIGHER EDUCATION SERVICES MARKET

**Market Size** – Capstone estimates that total expenditures made by institutions of higher education, including for-profit and non-profit schools, were approximately \$370 billion in 2006, and will grow to \$500 billion by 2011. These expenditures have increased from about \$260 billion in 2001. The portion of this being allocated toward outside service providers continues to increase each year.

*As competitive pressures have increased, educational institutions are increasingly evaluating the use of outside providers to augment core activities, including admissions, financial aid, student services, and in some cases, instruction.*

**Growth Drivers** – Increased operating and tuition costs; heightened competition among institutions; growing college participation rates; demographic shifts; and the availability of new technology have increased demand for outsourced services that improve efficiency and enable institutions to provide a higher quality product to their customers. Additionally, robust student enrollment growth continues to increase demand for direct-to-consumer educational services.

**Market Segmentation** – Capstone categorizes the higher education services market into four key segments based on operational function: enrollment, financial aid, academics, and student life.

**Increasing Market Acceptance** – Schools have long relied on outside providers for non-core services such as food services and buildings and grounds maintenance. As competitive pressures have increased, educational institutions are evaluating the use of outside providers to augment core activities, including admissions, financial aid, student services, and in some cases, instruction.

**Technology-Enabled** – Technology-enabled solutions are increasingly penetrating the educational services market. Operational efficiency and service quality can be improved significantly by leveraging the availability of web and server-based applications. These platforms are being utilized in multiple administrative activities, including admissions and financial aid. Distance learning technologies that improve student/teacher communications and broaden program availability have also achieved greater acceptance among educators.

**Direct-to-Consumer** – Students are more often bypassing the institution, looking directly to third-party providers for certain services. Direct-to-consumer demand has created new market opportunities for and helped sustain a broader universe of service providers.

**Broadening Service Offerings** – Although providers generally focus on one or two individual services, some competitors are expanding their product offerings to capitalize on new market opportunities. Segments such as financial aid and enrollment have been particularly conducive to expansion, enabling niche providers to extend their service offerings beyond their traditional focus. Capstone expects this trend to continue as more providers move toward multi-service platforms to drive revenue and gain share among institutions.

**Consolidation** – Individual segments within the higher education services market are generally served by a few large players and a multitude of niche providers. Although there has been a high level of M&A activity over the last few years, the market remains very fragmented. There are significant opportunities for companies to strengthen ties to customers and gain market share by consolidating smaller competitors with attractive operating models, technology, or customers. Capstone expects robust consolidation activity to continue among larger players seeking service and market expansion opportunities. We also expect niche players to increasingly recognize the strategic benefits of partnering with larger firms that offer greater financial resources and market reach.

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