

Create New Opportunities with Strategic Alliances and Partnerships

By Jeremy Wolos, Robert Spencer and Ashley Ramchandani

The pace of strategic alliance activity in higher education has increased dramatically in the past year, with colleges and universities responding to market pressures by finding new ways to partner through mergers, acquisitions, joint ventures, consortium agreements and numerous other channels. This increase in alliance activity represents an exciting realignment opportunity within higher education, a shift that experts have predicted for the better part of the last decade. Yet this realignment does not just benefit those institutions that are already succeeding — it presents opportunities for all institutions, especially those that are taking action proactively.

Institutions that think, plan and act proactively at this moment of realignment will be rewarded. In fact, there may be costs to not being proactive, even for resilient institutions. Being more proactive today helps institutions find competitive advantages, build value and specializations in niche markets, and strengthen resilience over the next decade and for years to come.

At a Glance

10%

A 10% uptick in enrollment among the 10 largest four-year institutions would absorb students from more than 120 of the smallest schools.

40%

Today, 8% of institutions enroll more than 15,000 students, while 40% enroll fewer than 1,000.

4,300

The U.S. academic community is made up of more than 4,300 unique institutions currently. Some schools are part of larger systems, but most are independent entities.

These actions bring more than financial advantages. Academic programs, student profiles, athletics and brand are key strengths to consider when evaluating an institution's path to success and its potential for an alliance. As Ricardo Azziz, author of *Strategic Mergers in Higher Education*, stated in an interview with Huron managing director Peter Stokes, "It's very unusual for an institution to not bring some strengths to the table — unless they wait too long."

LOOKING AHEAD

Declining birthrate will impact colleges and universities, but not equally.

15%

The pool of potential college students is predicted to shrink more than 15% after 2025.

11%

Students at regional four-year institutions may fall 11% by 2029.

14%

Student demand may grow by 14% for elite institutions between 2012 and 2029

Seizing New Opportunities

Ten years from now, the market for postgraduate education will not support the number and variety of colleges and universities that exist today. The pandemic and its aftermath have accelerated long-standing challenges — like shifting student demand, diminishing sources of funds and mounting competition — and heightened the demand for strategic alliances.

On top of this, many experts predict that the population of college-age students will shrink in the mid-2020s due to a sharp decline in the U.S. birthrate over the last decade. As demographics change, an enrollment cliff could make students even scarcer.

As leaders respond to these challenges, the competitive playing field will shift. Strategic opportunities will arise to help institutions foster financial resilience, enhance the value proposition, attract students and support their path to academic success. But unlocking these advantages will require leaders to look ahead at the next decade and carefully consider how an alliance could impact the institution's student population, its vision and mission, and its strategic plan.

Waiting too long to act may leave a college or a university with limited capital, excessive debt, a compromised image or weak enrollment — all factors that diminish an institution's options when an opportunity arises. The compounded impact of these disadvantages may also make it harder for leaders to differentiate their institution or identify a strategic partner willing to join an alliance. Preparing a combined defensive and offensive strategy today will position institutions for success in the event that an opportunity arises.

Incorporating Both Offensive and Defensive Strategies

Strategic alliances can take many forms, and even operationally resilient institutions should weigh the impacts of market realignment on their prospects over the next decade. Consider, for example, the following hypothetical situation in which a healthy, resilient university needs to account for both offensive and defensive considerations:

- **Resilient university considers an offensive strategy:** A university with a healthy 10-year outlook predicts it will survive the challenges of the current moment. When a nearby struggling college determines that its nearterm sustainability is questionable, the resilient university leaders may initially consider making an offensive acquisition. But because the struggling institution has only a few academic programs of interest to the resilient university, along with low student quality, negative cash flow and significant debt, leaders pass on the opportunity to pursue a merger.
- **Resilient university neglects its defense:** In evaluating the scenario above, the resilient university overlooked an opportunity to form a defensive strategy. By failing to consider the possibility that another institution could move into the market and acquire the struggling college, it passed up an acquisition without first evaluating a defensive position.

- **Proactive university takes the lead:**

When a proactive university from across the state announces its intention to acquire the struggling college, the merger creates a satellite presence for the new competitor. The added presence of another university in close proximity could disrupt the current advantages enjoyed by the resilient university.

While this example may not be illustrative across the full competitive landscape, it highlights the range of factors — strategic, financial, academic and legal — that can influence decisions about whether an institution should move forward with an acquisition, merger or partnership. When exploring the market for strategic alliances, it is important to consider the implications of action and inaction, and weigh the many opportunities that could emerge to advance an institution’s mission and strategic objectives.

Honing Your Selection Criteria

Defining a set of criteria to evaluate the best options for a merger, acquisition or partnership is paramount — no matter what form your alliance takes.

When considering the best path forward, institutions may consider partnerships with colleges and universities in different geographic areas where labor markets create demand for key academic programs. Likewise, suburban universities may seek an alliance to launch new graduate programs in urban centers. Acquiring a campus with significant debt or deferred maintenance may present an impasse for stakeholders at one institution, while a different school may believe that the potential for enrollment growth could balance out financial risks.

No two institutions will prioritize the same [opportunity criteria](#) when navigating market realignment, but one thing is clear — proactive consideration is a strategic imperative.

Prioritizing the following tasks will help institutions weigh the best options and home in on a decision.

Mergers and Acquisitions

To date, an [increasingly](#) common strategic alliance is an acquisition or a merger. In these situations, an institution without a sustainable long-term plan may seek acquisition to prevent closure. And by acquiring a distressed institution, an operationally resilient college or university can expand and diversify its academic offerings while providing a service to the absorbed institution’s stakeholders.

Mergers or acquisitions act as a lifeline for struggling institutions and prevent strain on the community and its taxpayers by serving as a source of ongoing enrollment, employment and economic stimulus. And for students, these deals prevent crisis. Without them, learners are left stranded midway through academic programs, perhaps with debt and no path to a degree.

1. Establish and Communicate the Objective:

Think through the institution’s objectives: Are you hoping to build your brand reputation in a new geography, strengthen financial stability by building a larger tuition base, or advance your mission by providing access to key groups of students? Answering these types of questions can determine your objective and the benefits of pursuing a partnership.

List your goals: What does your institution hope to gain by pursuing a strategic alliance?

Consider the relationship between the goals: Evaluate the interdependencies and trade-offs across these objectives.

Monitor the market dynamic: As you consider your goals and what you hope to accomplish, stay ahead of the market to determine when and how you approach potential alliances.

Map your goals to your strategy: Define the [type of alliance](#) that is right for your institution by aligning goals with a long-term strategy.

Reaffirm your value proposition: Just as your institution hopes to gain from a strategic alliance, so will any institution you engage with. Evaluate and refine your institution's value proposition.

2. Evaluate Multiple Pathways

An [increasingly](#) common form of a strategic alliance is an acquisition or a merger, but there are many other pathways to help an institution strengthen its competitive advantage and bolster its business continuity plan, such as:

- **Creating satellite campuses** by acquiring physical campus assets.
- **Building a subsidiary 501(c)(3) entity** by establishing a consortium to share academic and administrative resources.
- **Making a partial acquisition** of some physical campus assets or academic programs.
- **Making a full acquisition** of resources and academic programs.
- **Consolidating two or more healthy institutions** with complementary academic offerings.
- **Planning the future sale** of some acquired assets to another university or entity like local government.
- **Creating accelerated degrees and alternate pathways** to bolster enrollment and offset the rising costs of tuition. This may include certificates, accelerated degree programs or new pathways to degree completion.
- **Seeking partnerships to differentiate academic portfolios** with cutting-edge courses.
- **Establishing strategic corporate partnerships** to provide real-world learning opportunities for learners.

- **Exploring job guarantees for graduates and financial risk-sharing agreements** to respond to growing public skepticism about the value of higher education.

3. Utilize Screening Criteria

At this stage, leaders can determine a few scenarios to guide the search for potential partners.

Consider qualities: Seek a [potential partner](#) based on your objectives and best pathways.

Prioritize criteria: Determine the order of importance.

Screen the market: Seek publicly available data about institutions to facilitate market screening. Examples of criteria to use in screening the market include geography, financial scale and academic portfolio.

Seek focused data: Following an initial screening of the market, conduct a more focused search using detailed criteria you have decided on as being most impactful.

Analyze your findings: Working with the information you have gathered, create a more manageable list of potential partners, enabling you to analyze and diagnose the best fit possible for your institution.

4. Engage With Potential Partners

While the first three steps are more internally focused, this step brings external constituents into the process.

Plan your outreach: Based on your goals and how you want to move forward, determine how you want to engage with the list of institutions you are interested in.

There are different ways of reaching out beyond asking for an exploratory conversation. You can issue a confidential request to see if an institution is mutually interested in speaking further.

In the market screening, you may have discovered that an institution you are interested in has publicly indicated their appetite for an alliance. This can influence the cadence of a potential conversation and allow for a more transparent request.

Reach out: Based on your market screening and outreach plan, reach out to prospective partners.

Build your case: Networking and signaling public intent can be beneficial in some cases. Leverage any existing relationships between the institutions and come to these conversations prepared with high-level materials in hand.

Define the value: Contemplate what a potential partnership could look like and the mutual benefits both parties could hope to achieve.

5. Apply Evaluation Criteria

This is often the last private step in the process before information becomes public (often with a letter of intent). Before initiating further action, validate that moving forward makes sense for your institution.

Exchange data: If the conversation goes well, the initiating university may request data from its potential partner.

Look further: Dig deeper into operational criteria. By looking at data that is not publicly available, an institution can consider whether a potential partner meets additional key criteria. It is critical to determine if the fit is right for both institutions.

Assess the criteria: Once both institutions decide they want to move forward and a letter of intent is signed, there are many next steps, including due diligence, legal contract design, integration planning, accreditation and more.

The comprehensive due diligence effort comes later. Instead, think of this interaction as a preliminary evaluation to see if the potential partner meets your institution's top selection criteria and to confirm whether you want to engage in the in-depth due diligence that is to come.

Key Takeaways

Market realignment presents opportunities for all institutions — especially those proactively seeking partnerships. To succeed in today's higher education environment, leaders must:

Think differently.

Being proactive about strategic alliances does not mean your institution is failing or lacking in some way. Considering alliances as a possibility can help an institution's leaders avoid future inaction.

Plan differently.

Continually evaluate the market and engage in conversations about both short- and long-term goals for the institution. What pathways would you consider? If you were to partner, what would be the most important criteria to prioritize?

Act differently.

Setting objectives and screening the market for potential partners is a worthwhile process that will prepare you for the current landscape of higher education and any future period of transitions your institution may face — even if it does not end in partnership. There are many benefits to gain by engaging in this process.



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