HIGHER EDUCATION COVID-19 RESPONSE: MERGERS AND ACQUISITIONS IN TIMES OF UNCERTAINTY

For years, higher education has been in a period of transition during which many institutions have considered fundamentally transforming their business models to position themselves for long-term sustainability.

More than 400 institutions have closed or merged since 2011, and revenue shortfalls have particularly pressured small, tuition-dependent colleges, where the exploration of mergers and acquisitions (M&A) opportunities may be critical to ensure the survival of their core and competitive offerings. Concurrently, larger and more liquid universities have sought to strengthen their competitive positions through M&A. Their goals are often to bolster existing academic portfolios with more specialized or niche programming that might not feasibly be developed organically.

The emergence of COVID-19 will undoubtedly accelerate the pace at which institutions recognize they may not be able to survive or grow through incremental change (at least two small private colleges announced closures in March 2020), and the pandemic is likely to spur more M&A activity than observed in recent years.

M&A activity in higher education has increased significantly over the past decade, and it will likely accelerate in the coming months and years. While exact outcomes are uncertain, COVID-19 will undoubtedly exert tremendous operational pressure on colleges and universities that were already experiencing declining enrollments, increasing discount rates and precariously tight margins. As these pressures continue to build, struggling institutions must focus scarce resources on their most competitive offerings, reorganize to the greatest extent possible, and begin identifying strategic partnership opportunities to ensure the continuity of their academic, research and community missions.

In a recent white paper, Huron outlined a three-phase framework for higher education's evolution through this pandemic and impending recession. In this framework, the sector enters first into a triage phase, then transitions to a period of stabilization while it begins to explore opportunities for fundamental transformation.

Institutions considering a merger or acquisition can benefit from this model, and there are implications leaders should consider as they navigate each phase.

TRIAGE	STABILIZE	TRANSFORM
Rapid response to urgent pandemic-related needs	*Shift resources to midterm stabilization*	*Implement change to ensure long-term success*
• Scale back or close underperforming or non-mission-critical programs and activities • Identify how activities impact cash flows and cash/ investment balances	• Redirect resources to differentiating programs and activities • Restructure and optimize to remain independently viable or competitively marketable	• Evaluate opportunities and prospective partners for M&A activities • Conduct due diligence on M&A opportunities • Execute on the optimal M&A opportunity

The recommended activities described below are presented for institutions facing financial sustainability challenges.

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Triage: Optimize the Academic Portfolio

While the idea of operating colleges and universities “like a business” may draw skepticism from within, in times of uncertainty it is important to understand the economics of a given institution’s portfolio of activities. Leaders across the sector are more frequently seeking to identify various schools, departments, programs, classes or even sections that generate financial resources as well as those that require financial support from the institution. Such insights are not intended to dictate if given activities should cease or grow (many costly programs are critical to the mission, reputation or character of a university), but should still be considered a critical element of any comprehensive institutional evaluation.

Accordingly, distressed institutions should create frameworks through which to assess the value proposition of the various activities comprising their portfolios, with evaluation criteria that measure program financials along with more qualitative metrics that illustrate how those programs represent a distinct competitive advantage for the institution.

As true core competency programs are identified through such a framework, colleges and universities should explore scaling back or closing those that do not differentiate the institution from peer offerings and market demands. Concurrently, the leaders driving these efforts must develop a laser focus on how both ongoing and prospective restructuring activities affect cash flows, current account balances and other liquidity measures that may impact a merger or acquisition in the future.

Stabilize: Realign Resources to Optimize Performance and Marketability

As non-core-competency programs are scaled back, potentially freed-up resources should be shifted to bolster the strength of those programs that best embody an institution’s value proposition and distinct competitive advantage. At the same time, changes to operations and organizational structures should be considered and implemented to support the leaner, more focused portfolio of academic and other offerings.

More substantive changes to core business models should be top of mind as well. Institutions that are keen to adopt new delivery models (e.g., online), curriculum (e.g., certificates and competency-based programs) or even nontraditional college/career pathways will be better positioned to withstand an economic downturn.

Making changes both to academic and administrative areas will position the college or university to either a) remain independently viable and operational or b) emerge as an attractive, marketable acquisition candidate for a healthier institution that may be considering M&A opportunities.

Transform: Explore Merger and Acquisition Opportunities

If a more focused portfolio of activities and leaner administration do not enable long-term viability, the exploration of partnership or more holistic M&A opportunities should follow. In some instances, an institution’s distinct and even most competitive offerings simply may not be viable without a broader administrative resource base and infrastructure to efficiently support them, which could be achieved through a strategic alliance.

Finding the right partner for such a venture is critical. Studies suggest that the M&A success rate in the corporate sector is between 20% and 50%, and that higher education institutions’ chances of successful integration may be even slimmer given the industry’s complexities and legacy organizational cultures.

Accordingly, institutions should carefully identify potential partners and consider a spectrum of strategic M&A options, including shared back-office administrative services, joint ventures and holistic acquisition. Careful due diligence and financial modeling will shine a light on the most attractive and viable opportunities, some of which may represent the survival — in one form or another — of a distressed college or university.

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