2016 Guide to the Higher Education Market

The U.S. higher education market presents a tremendous opportunity for companies seeking to do business in the segment. Colleges and universities rely on a wide array of products, services and technology to educate students, manage their campuses and maintain their operations. Enrollment and spending have been growing significantly over the past two decades and are projected to continue growing over the next decade. The overall market has recovered from the 2008 recession, spending is growing at a steady rate and institutions are increasingly reliant on more products, technology and services. In order to succeed in the higher education market, however, it is important to understand what makes it unique.

Formative trends shaping the current market

College and university enrollment experienced exponential growth over the past two decades, across all types of institutions, both public and private, two-year and four-year, and is projected to continue growing over the next decade. From 1997 to 2011, total enrollment at postsecondary institutions increased by 45 percent, from 15 million to 21 million students, and is projected to increase another 14 percent by 2023 to 24 million students, according to the National Center on Education Statistics (NCES).

During roughly the same period, the overall number of institutions has remained comparatively steady, at 7,310 in 2015, an increase of only 13 percent since 2000 (NCES). This means that most individual institutions have experienced significant enrollment growth.

Complicating the enrollment story, however, have been the effects of the recession of 2008. College and university enrollment typically swells during an economic downturn, and the Great Recession was no different. Enrollment grew by 37 percent between 2000 and 2010— including significant gains after 2008—but began slowing and then declining as the economy stabilized and improved, growing by just 0.2 percent in 2011, then declining by 1.8 percent in 2012, by 3 percent in 2013, by 1 percent in 2014 and by 1.7 percent in 2015 (NCES and The National Student Clearinghouse Research Center).

These factors create a complex environment when it comes to enrollment. In the long term, enrollment is projected to continue its significant growth, but in the short term, declining enrollment from the recession-era high has dramatically intensified competition between institutions for attracting and retaining students.

Also during the same period, the price index for college tuition grew by nearly 80 percent between August 2003 and August 2013, according to the U.S. Department of Labor. The rising cost of a college education is now an ever-present controversy and is a political issue in every state and discussed in every election cycle. As a result, most institutions and their leaders are experiencing tremendous pressure to keep costs down, do more with less, improve administrative efficiency and minimize tuition increases.

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These concurrent trends—long-term enrollment growth, intense competition to recruit and retain students and pressure to contain costs—have resulted in many colleges and universities relying even more heavily on products, services and technology than in the past, to manage the institution more efficiently, create more engaging learning experiences for students and reduce administrative costs. All the data point to this trend only continuing for the foreseeable future.

As an illustration of these conditions, in a 2015 survey of the *University Business* audience, respondents were asked to identify the issues driving their institution's purchases of new technology, products and services. The leading answers included "The need to upgrade/enhance academic programs" (73%), "The need to make more efficient/productive use of our staff" (60%), "The need to conduct activities at lower cost" (55%), "The need to attract different types/

levels of students" (51%) and "The need to meet or exceed the offerings of competitive institutions" (45%).*

Spending and investment growth

Spending is also growing significantly. Total expenditures by all higher education institutions were $499 billion in 2012-2013 (the latest year for which NCES data are available), an increase of 48 percent from the $338 billion spent in the year 2000 (NCES). Spending on all products, services and technology was estimated to be between $20 billion and $25 billion in 2015 (Eduventures), with $6.6 billion spent on IT-related products alone (IDC Government Insights).

In the *University Business* survey, respondents indicated that an average of nearly $17 million will be spent per institution on all products, equipment, systems, technology and services combined during the 2015-2016 school year. Some 93 percent reported plans to make changes to facilities in the next two to three years that will require significant purchases of technology, equipment and other products; the most frequently cited planned change was "Will modernize existing facilities" (72 percent), followed by "Will build new facilities" (50 percent) and "Will expand facilities" (44 percent). An average of 95 percent said there would either be an increase or no change in their institution's spending across all categories of technology, products and services.

As a result of this stable and growing spending, venture capital investment in education technology companies has reached record levels, as investors are seeing education as a sector poised for growth, stable in the long term, and ripe for disruption. Total venture capital investment in education technology across K-20 reached $2.98 billion in 2015, more than four times the total investment of $640 million in 2011, according to CB Insights.

Marketing to decision makers

Given these market conditions, pursuing the right marketing strategies, both in terms of messaging and target audience, will be key to success. First, it is crucial to understand the governing structure of most institutions; specifically, that purchasing and implementation decisions are made by executive leadership and/or committees. Targeted marketing efforts to this audience—presidents, vice presidents, CIOs, business officers, deans and other executive leaders—will yield far greater results over pursuing marketing efforts to a broader higher education population that may include professors, instructors and others who do not make decisions for the institution.

Demonstrate efficacy

In addition to targeting decision makers, marketing efforts must also project the right messaging to succeed. Given the current environment in higher ed—particularly rising costs and intense pressure to contain tuition increases—college and university leaders are also under pressure to justify purchases, will be held accountable for expenditures in the future and are, understandably, generally risk-averse.

The implication for vendors is that they must demonstrate the efficacy of their product or solution as much as possible through effective marketing. Testimonials, recommendations and case studies from existing higher ed customers are vitally important to higher ed leaders as part of their decision making process, serving to establish credibility and brand awareness, and reassuring them that the prospective purchase is low-risk. Marketing messaging must also be solutions-oriented, clearly emphasizing how a product or service solves a common challenge in higher education, enables institutions to work more efficiently, and ultimately, if possible, contributes to the mission of student learning.

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In the *University Business* survey, almost 90 percent of institutions indicated they are experiencing changes in their relationships with vendors compared to four or five years ago. When asked to specify how these relationships have changed, the leading answer was "The evaluation of vendors/products is now more rigorous and analytical" (55%), followed by "We are now evaluating products/equipment more closely for increased efficiency and productivity" (54%), and "We now require vendors to provide, up front, greater proof of performance" (51%).

Taking a long-term approach

It is also important to note that effective marketing in higher education takes time. Colleges and universities are large bureaucracies, decisions often have to be made in committees, and the resulting sales cycle can be long and slow compared to other markets. Vendors therefore need to not only target decision makers, position their products as solutions and demonstrate efficacy as much as possible, but do all of these repeatedly, through multiple media channels and over the long term, establishing brand awareness and credibility through authentic engagement with the market.

Some 68 percent of respondents to the *University Business* survey, for example, said they now have less time to meet with sales representatives to learn about new products compared to four or five years ago, and 89 percent said they were likely or very likely to continue doing business with vendors that they have an existing relationship with. However, 63 percent said they were likely or very likely to seek out a new vendor if they were familiar with them already because of their market visibility through advertising or sponsorships. Just 22 percent said they were likely or very likely to do business with a vendor they've "never heard of."

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About UB

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**Source: "Trends in Purchases by Higher Education Institutions: 2015," Martin Akel & Associates*