



# TEACHING THE WORLD

Opportunities and challenges in higher education call for substantive realignment. Is it time for a new business model?

With increasing globalisation, digitalisation and a burgeoning middle class in former developing countries, students the world over are increasingly considering studying abroad. The English-speaking countries (UK, USA, Canada, Australia and New Zealand) have a natural advantage here. But the Bologna process of standardisation in university degrees, fast growth in BA/BSc and MA/MSc programmes taught in English in non-English-speaking countries, coupled with substantially lower tuition fees and housing costs, means that international students are also looking at opportunities in Western Europe, alongside traditional destination markets such as the UK.

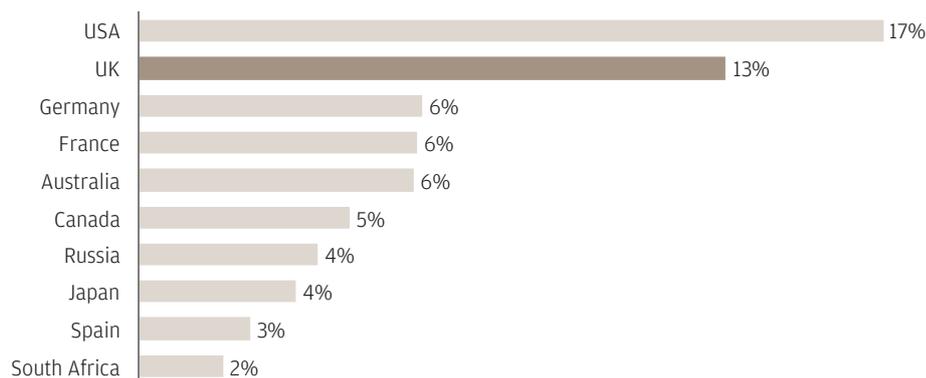
Despite high tuition fees, the UK has a very strong higher education brand, making it one of the most popular study destinations (see Figure 1). It is expected that international students will generate up to £12 billion (€14.6 billion) for UK universities by 2020, an increase of about 10% per annum. A report published by OC&C Strategy Consultants in collaboration with Google, Britain's Higher Education Empire, forecasts future trends based on a number of sources across the 50 most important 'source' markets for international students. This analysis reveals booming demand for higher education outside of students' home countries. International students who choose to pursue higher education in the UK are expected to generate a total of £7 billion (\$11.9 billion) in fee income alone by 2020.

In addition to opportunities in the UK, international students taking degrees through distance learning programmes and at international branch campuses represent a growing opportunity for British universities, with the potential of

generating an additional £5 billion (\$8.5 billion) of fee income by 2020. Growth in inbound international student enrolments has historically outperformed growth in domestic enrolments and this trend is expected to continue (see Figure 2), with most students coming from Asia and Africa (see Figure 3).

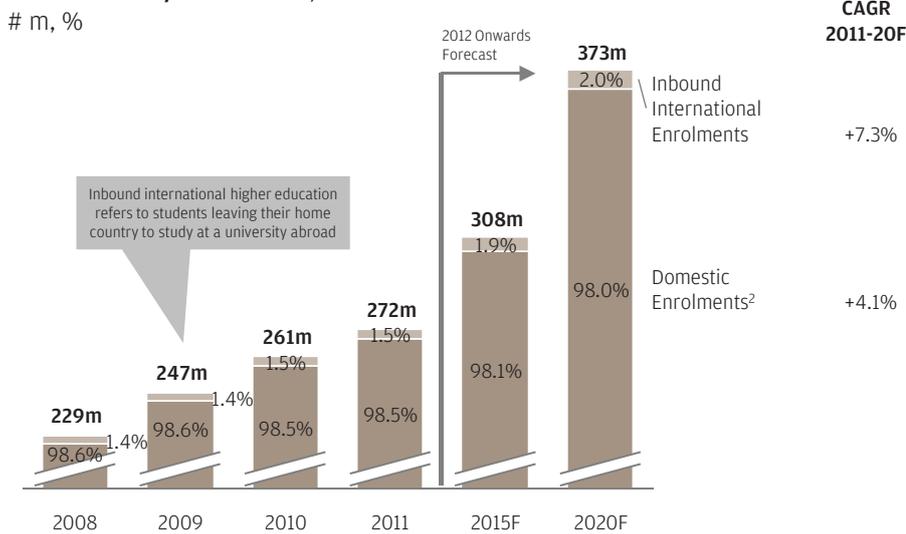
Against the background of these opportunities, many universities in Western countries are grappling with other market dynamics, including pressures on funding. Traditionally, universities have relied for their primary funding on a combination of national or federal research grants and student aid, state appropriations, endowments, philanthropy and, of course, student tuition fees. However, these funding sources are increasingly under threat. For example, in the USA, state and local higher education appropriations per public institution have fallen from \$7,488 per FTE student in 2008 to \$6,200 per FTE student in 2011, with 2011 representing a 25-year low in state and local per-student contributions to higher education.

**Figure 1:**  
**Top 10 Destinations for International Students, 2011**  
% Share of International Students



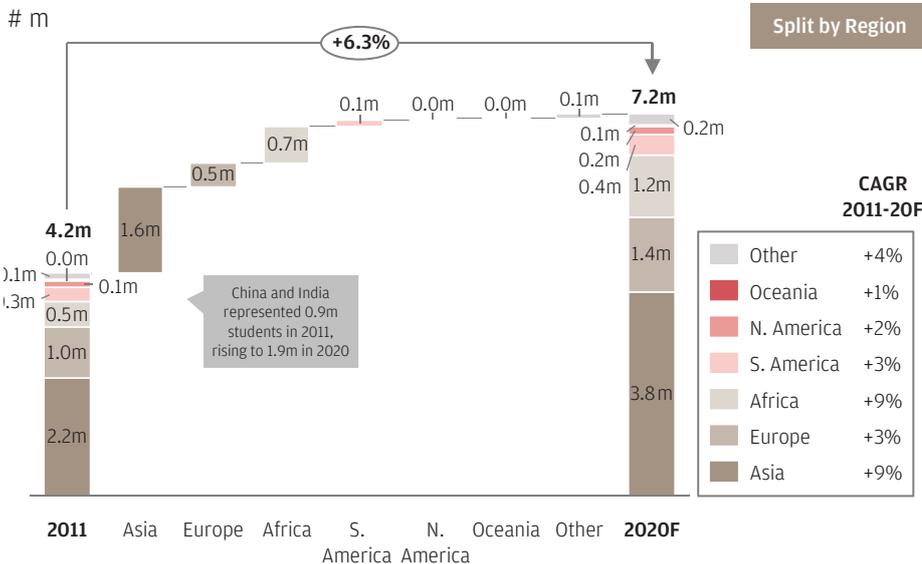
Source: OECD, OC&C analysis

**Figure 2:**  
Global Tertiary Enrolments, 2008-20F<sup>1</sup>



1. Year refers to academic year, ie, 2005 refers to 2005/06 academic year - this applies throughout the document  
 2. OC&C forecasts based on historic trend and GDP correlation  
 Source: UNESCO, IMF, British Council, World Bank, OC&C analysis

**Figure 3:**  
Global Distribution of International Students by Origin, 2011-20F<sup>1</sup>

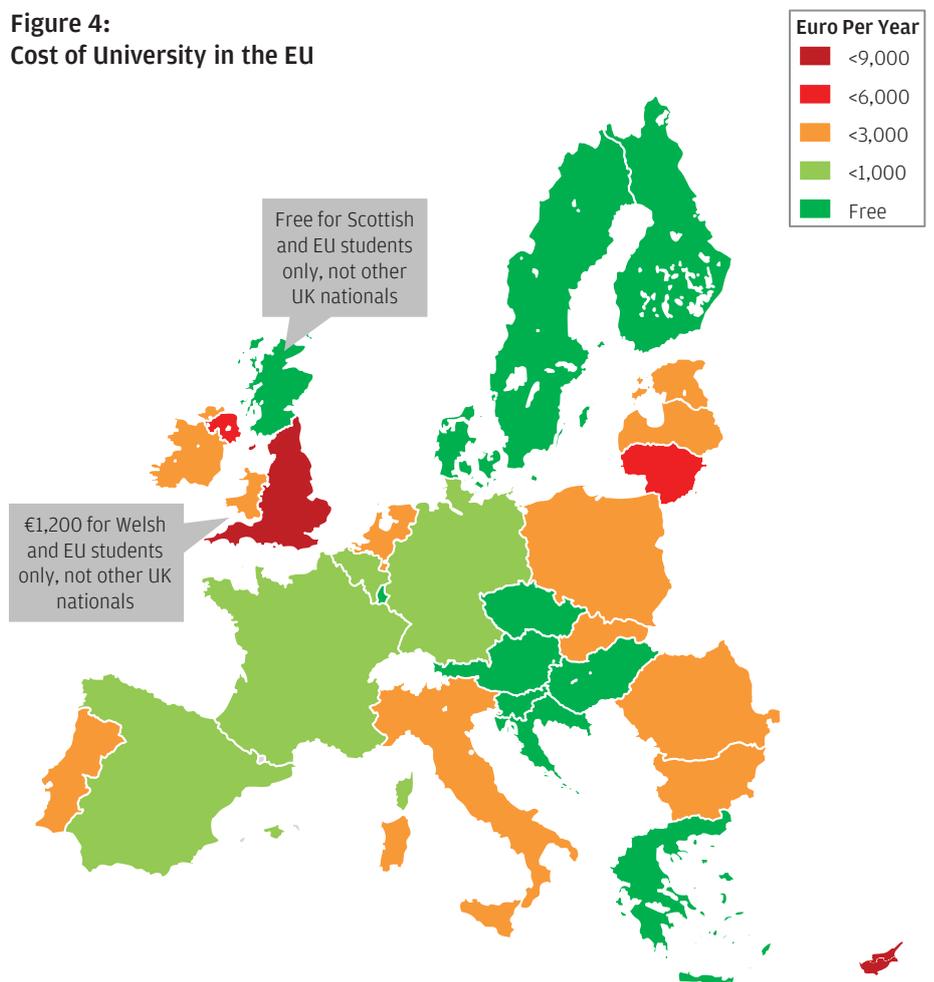


1. Growth forecasts are based on historic total tertiary enrolment trends for each respective region  
 Source: OECD, OC&C analysis

International students pay higher tuition fees and offer a partial solution to this financial problem. For example, international (non-EU) students studying for an undergraduate degree at Imperial College in London are currently required to pay tuition fees of £25,500 per annum, compared with £9,000 per annum for local and EU students. International students also bring a cultural benefit, in the form of greater student diversity. Interviews with administrators at 60 universities in the USA by OC&C Strategy Consultants in 2013 revealed that the primary reason for their desire to increase numbers of international students was to diversify the student body, followed by increased revenues. The return on investment for international students who get a degree education in the UK or the USA is substantial, including improving employment prospects after graduation, whether they return home or not.

However, the basic product of universities may come under threat in the future. Globalisation and digitalisation are creating a disruptive new entrant in higher education, in the form of Massive Open Online Courses (MOOCs). There is an explosion of informal ways of learning, including in developing countries. These low-cost competitors can provide global, easy and affordable access to higher education. Traditional university institutions may in future struggle to demonstrate that the cost, both direct and indirect, of physically attending an established higher education location delivers value for money. Both in terms of funding and in relation to the type of education they deliver, universities will need to make a fundamental shift in how they operate and this will require more strategic, international thinking.

**Figure 4:**  
**Cost of University in the EU**



## MEETING THE CHALLENGES

Many Western universities already have well thought-through strategies designed to capitalise on these opportunities and challenges. For example, recognising the 'pull' of the UK - and specifically London - for international students, many overseas universities are moving to London. These range from fully fledged campuses (such as the Delaware-registered Richmond University and The American International University in London) to business schools (such as the University of Chicago Booth School of Business) and small study centres (New York University, Florida State University, University of Notre Dame and Syracuse University). Asian universities, too, such as Malaysia's Limkokwing University opened in Piccadilly in 2007 and India's non-profit Amity University set up in Bedford Square in 2009. A number of UK universities such as Liverpool and Coventry have also opened campuses in London.

Elsewhere, some universities have embarked on a more ambitious international strategy and established international branch campuses in key source markets. In 2004, the University of Liverpool established a new autonomous institution - the Xi'an Jiatong-Liverpool University - with Xi'an Jiantong University in China. There are currently 6,000 students on campus, with a further 1,600 studying at Liverpool under a partnership agreement. Around 10,000 students on campus are targeted by 2015. The University of Nottingham has gone a step further, establishing a campus in Malaysia in 2000 and in Ningbo, China in 2004 - the first Sino-foreign university to open its doors in China.

Internationalisation strategies have also embraced distance learning. The University of Liverpool entered into a partnership with Laureate Online Education to offer a range of professional degree programmes at Masters level, including Health Studies, Business & Management, and Law. These programmes are highly flexible with several start dates throughout the year and students are offered round-the-clock access to tutors online, with more than 50 tutors available globally. Online participation has created a large, truly international student body, despite the restrictions on class sizes for online courses (of 15-20). To date, around 4,000 graduate students from over 130 countries have signed up.

# UNIVERSITIES NEED A CLEAR STRATEGIC FRAMEWORK WITHIN WHICH THEY CAN RESPOND TO THE FAST-CHANGING GLOBAL COMPETITIVE ENVIRONMENT

## ORGANISATIONAL IMPLICATIONS

Those universities that haven't considered internationalisation as a priority need to act quickly to avoid being left behind. They need to adopt a more entrepreneurial approach to management and formulate a clear strategy for internationalisation backed up by dedicated resources.

One of the best hopes for survival is for universities to target international markets. This will allow them to meet the threats of diminishing revenue and a changing higher education landscape. By attracting international students, they will be able to benefit from more diverse revenue streams, while exploring options for more diverse forms of education. For traditional, domestically focused universities, however, this is no simple task. There are a number of capabilities that they will need to develop to attract international students.

### A clearly articulated internationalisation strategy and vision

Universities need a clear strategic framework within which they can respond to the fast-changing global competitive environment. Many universities have adopted a somewhat opportunistic approach to internationalisation historically, with mixed results; indeed, some UK universities have had to withdraw from international markets, often as a result of poor strategic planning. Universities will need to adopt a more commercial approach to decision making, with the ability to respond quickly and decisively to challenges. They will also need to ensure a better understanding of acceptable risks and compromises.

Figure 5: Internationalisation Roadmap

		Transnational Education		
		Inbound International Students	Online & Distance Learning Programmes	Transnational Campuses
Definition	<ul style="list-style-type: none"> <li>Students study at a physical campus outside of their native country</li> </ul>	<ul style="list-style-type: none"> <li>Students study via the Internet or correspondence</li> </ul>	<ul style="list-style-type: none"> <li>Students study at a satellite or partner campus of their institution in a different country to the main campus</li> <li>Includes independent campuses, local partnerships and franchises</li> </ul>	
Analysis	<ul style="list-style-type: none"> <li>Driven by excess demand for tertiary education, the desire for a Western-based higher education and increasing affordability</li> <li>China and India are two key markets, where large pools of English speaking students look abroad for a good quality university education</li> <li>Smaller more internationally integrated<sup>1</sup> countries also rank highly</li> </ul>	<ul style="list-style-type: none"> <li>Requires English speaking students, connected to the Internet...</li> <li>...and a regulatory framework that allows foreign accreditation</li> <li>Apart from the most internationally ready markets, less developed countries with large pools of excess demand represent an opportunity at limited cost</li> <li>These countries include the Philippines, Nigeria, Sri Lanka, Pakistan and Vietnam</li> </ul>	<ul style="list-style-type: none"> <li>Requires high levels of investment. Universities considering an international branch campus will therefore apply a high threshold to areas such as regulatory conditions and ease of doing business</li> <li>Our Market Readiness Framework<sup>2</sup> therefore promotes smaller, developed, internationally integrated markets such as Singapore, Hong Kong and Malaysia...</li> <li>...but also highlights other potential opportunities such as China, India, Indonesia, Chile and Saudi Arabia</li> </ul>	

1. 'Internationally integrated' refers to countries with high levels of international student mobility, openness to foreign education and active policy encouraging TNE

2. The Market Readiness Framework can be used to understand the readiness of a market to support transnational education. The Framework takes into consideration a country's 'Operational Readiness' - the level of risk and effort required to enter a market - and its 'Strategic Readiness' - the size and quality of the market opportunity

Source: OC&C Analysis

# IN PURSUING NEW SOURCES OF REVENUE, UNIVERSITIES WILL NEED TO DEVELOP A WIDE VARIETY OF STRONG AND FLEXIBLE PARTNERSHIPS ACROSS THE WORLD

## International expertise and leadership

The strategic shifts required to succeed internationally will lead to fundamental changes in organisational culture and lecturers will need to develop cross-cultural skills. Universities should consider allocating resources that focus specifically on international expansion, including appointing a senior academic champion to build support internally – for example, opening up new positions such as a ‘Dean for International’ to act as an internal lobbyist. These comments are echoed by a recent report by Moody’s Investor Services, which notes that colleges will need to rely on more strategic leaders who address these challenges through better use of technology to cut costs, create efficiency, demonstrate value, reach new markets and prioritise programmes.

## Programme development and delivery tailored to local requirements

As well as honing their digital marketing skills, universities are introducing a host of new capabilities to help them succeed in their quest for international expansion. Firstly, developing and offering a range of programmes, content and delivery mechanisms to suit new markets and new ways of learning is key. ‘Think global; act local’ is the phrase that many use, and with good reason. Even though students have a strong desire to be able to choose from the best education the world has to offer, they will be applying the knowledge they gain to their own, individual circumstances. New technology means that education can now be personalised, tailored to individual needs. Lecturers thus become more like coaches or mentors.

## Building partnerships and leveraging new capabilities

In pursuing new sources of revenue, universities will need to develop a wide variety of strong and flexible partnerships across the world. This may include potential competitors, but also other forms of relationships: with businesses and government institutions, and cross-border co-operations. For example, transnational education, where students stay in their home country but study for degrees from abroad (refer Figure 5), represents a major opportunity for UK universities seeking to internationalise. For example, the University of London’s International Programmes enable students to study for a prestigious qualification without leaving their home country. Degree programmes developed by the University of London can be studied by distance learning or flexible learning through a local independent teaching institution.

## Conclusion

Even though there are major threats that are currently causing a great deal of instability in the higher education sector, this is also an exciting time with many opportunities, particularly new ways of learning and delivering education. Those institutions that recognise the opportunities for change, and are resourceful enough to make it happen, will be the ones to survive.

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