rpk GROUP
from mission to market

Issue Brief: Strategic Partnerships

WHY STRATEGIC PARTNERSHIPS AND WHY NOW?

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Historically, higher education institutions have largely operated as if all of their programs and services must be offered directly by the institution. This belief has limited what is a widespread practice in other fields: the exploration of strategic partnership opportunities.

The resistance to strategic partnerships is now being tested, however, as institutions struggle to sustain their business models in the face of long-standing challenges from enrollment declines, cost increases, and limited public funding support. The need to consider strategic partnerships has become even more acute post-pandemic, as federal and state funds provided during the pandemic are exhausted.

This rpk GROUP Issue Brief explores the opportunity for strategic partnerships as a means to bring institutional mission forward in new ways. The Brief covers the following topics:

1. What do we mean by strategic partnerships?
2. What are the current trends?
3. Why is starting with a shared future vision essential?
4. How do institutions identify the ideal partner(s)?
5. What's the due diligence needed when considering a potential partner?
6. What are the common timelines and challenges for completing a strategic partnership?

Defining Strategic Partnerships

One of the hurdles in approaching strategic partnerships is that they are often defined too narrowly as a merger or acquisition. While mergers and acquisitions may be an appropriate solution, strategic partnerships should be considered across a much larger continuum. Specific examples include:

- **Consolidation:** Two or more institutions are collapsed into one new institution, usually with a different name, mission, and scale of operation.
  - Example - Consolidation of the four-year institutions in Vermont (Castleton University, Northern Vermont University, and Vermont Technical College) into Vermont State University.
- **True Merger:** One institution is blended (merged) into a dominant institution with that institution serving as the exclusive legal successor.
  - Example – Boston University acquires Wheelock College.
- **Joint Venture:** Two or more institutions, without losing their institutional identities, enter into a joint venture to address redundancies. The joint venture has its own name and identity.
  - Example – Loyola University Maryland and Notre Dame of Maryland University jointly create and operate a new library.
- **Consortium:** Collegial collaboration for common resource-sharing agreements, such as cross-registrations, shared facilities, common technologies, shared operations, etc.
  - Examples – Five colleges in Boston agree to share programs and faculty, as well as certain administrative functions (Amherst College Hampshire College, Mount Holyoke College, Smith College, UMass Amherst).

Moving beyond a too narrow view of strategic partnerships also includes a consideration of non-academic entities. These can include hospitals, local governments, or even businesses.

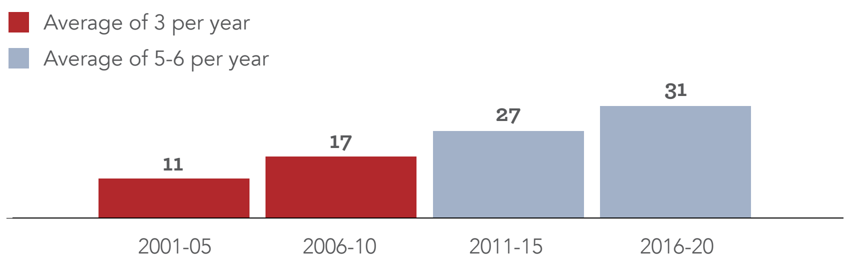
The key take away is that **institutions should not lock themselves into 'merger/no merger' thinking,** or a look only to other academic institutions. Rather, every type of strategic partnership opportunity available should be considered.

Current Trends

Reporting from [The Hechinger Report in January 2024] indicated that 30 colleges closed in the first 10 months of 2023. That total included 14 nonprofit colleges and 16 for-profit colleges. Those figures compare to 2022 data in which 23 nonprofits and 25 for-profits closed. Prior to 2022, no more than 13 nonprofit colleges had ever closed in a single year.

This uptick tracks an overall increase in merger and acquisition activity over the past two decades, as shown in the graph below.

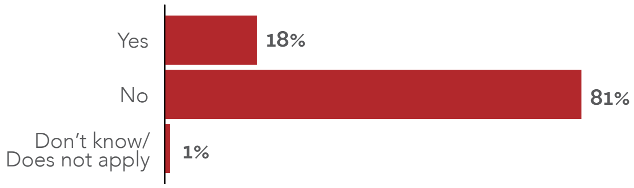
Number of Mergers and Acquisitions in Higher Education



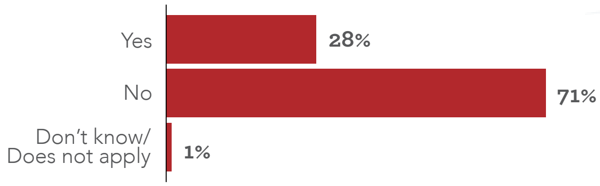
Source: McKinsey, 2024

Despite the opportunities that strategic partnerships provide, few leaders appear ready to begin that exploration. Inside Higher Ed's 2023 Survey of College and University Presidents indicated that less than 20% of institutions were having discussions about mergers.

Have Senior Administrators at Your College Had Serious Internal Discussions in the Last Year About Merging with Another College or University?



Have Senior Administrators at Your College Had Serious Internal Discussions in the Last Year About Consolidating Some of its Programs or Operations with Another College or University?



Source: Inside higher Education, 2023 Survey of College and University Presidents

But institutional transformation can take many forms, and far more of those institutions (28%) would consider strategic partnerships that include academic programs or administrative operations. This suggests that campus leaders would be wise to consider the full spectrum of strategic partnerships - from shared administrative services to joint program or faculty offerings, and all the way to full mergers.

How might the next five years unfold for strategic partnerships? At rpk, we believe that the years ahead will bring an increase in strategic partnerships of all kinds, from smaller partnerships built around shared programs and services, to the creation of new networks of institutions, to outright mergers. This increase in strategic partnerships will likely be driven by growing challenges to the higher education business model. As recently noted in an rpk webinar with John MacIntosh, Managing Partner of SeaChange, "The pressures are real. It's very seldom that institutions do a hard thing like explore mergers just for the hell of it, where you have two institutions that think things are fine, as far as the eye can see, and say 'Let's explore coming together.'"

Starting with Shared Future Vision

Too often, institutions begin their discussion of a strategic partnership by considering a specific partner – often a partner that has reached out to the institution. The correct first step, however, must start with the institution itself. Specifically, what is the institution's shared future vision?

Shared future vision asks the hard, forward-looking, strategic question of the institution – three to five years from now, what will the institution look like? What academic programs and administrative services will the institution focus on, and who will they be delivered to and how? How big will the institution be, both in terms of enrollment and physical size? How will the institution earn a living – meaning, what will the primary revenue streams look like and what are costs likely to be? And is this shared future vision financially sustainable?

Once a clear shared future vision has been established, the institution can next consider whether it can achieve the vision on its own, or if a strategic partner is needed for success. If a strategic partner is needed, what kind of partner is ideal? Creating a profile of the ideal strategic partner typically focuses on gaps. When all the institution's own assets are considered, what gaps exist that would threaten achievement of the shared future vision? Gaps can include specific academic program needs, administrative services such as technology platforms, or physical space, just to name a few examples.

Finally, the institution needs to consider what is non-negotiable, i.e., what needs to be true after the partnership occurs? Examples could include preservation of the institution's name or certain mission associated academic programs, utilization of the existing campus, or a continued focus on specific student profiles. Whatever the list of non-negotiables is, the institution needs to have agreement on that list before entering into an exploration of strategic partnership.

One maxim when considering strategic partnerships is certainly true – the combination of two financially weak institutions does not create a financially strong institution.

Proactively Finding Strategic Partners

Once the institution is clear about its own shared future vision and has determined not only the need for a strategic partner but the kind of strategic partner needed, the institution can begin proactively searching for partners.

Much of the proactive search for partners can begin using public data sources. At rpk GROUP, we find the following data elements are often key for beginning a search. These include:

Geography

Does the partner need to be contiguous, within a certain distance, within the same state, or is geography not a factor (e.g., if the partnership will focus on remote learning)?

Sector

Is the ideal partner public or private? What higher education sector would they come from? Depending on the shared future vision, institutions should not limit themselves only to institutions from the same sector.

Size

Does enrollment size matter? If so, what is the ideal size?

Program Mix

Given the gaps identified earlier in the shared future vision exercise, what program mix is desired? This includes a consideration of program concentration by level (certificate, associate, bachelor, graduate, PhD), as well as by discipline.

Financial Health

One maxim when considering strategic partnerships is certainly true – the combination of two financially weak institutions does not create a financially strong institution. The institution should consider the overall financial health of a prospective partner. In addition, the institution should assess its need for investment to ensure that sufficient resources at the potential partner exist.

Conducting Due Diligence

Based on the creation of an institutional shared future vision and a review of publicly available data sources, institutions should be prepared to proactively reach out to a narrowed group of potential strategic partners. If those identified partners are receptive to a partnership exploration, institutions can begin their additional due diligence.

That due diligence typically covers the following areas:

- Strategy
- Program Fit/Enhancement
- Assets and Liabilities
- Market Impact
- Efficiencies
- Legal
- Regulatory/Accreditation
- Transition Costs

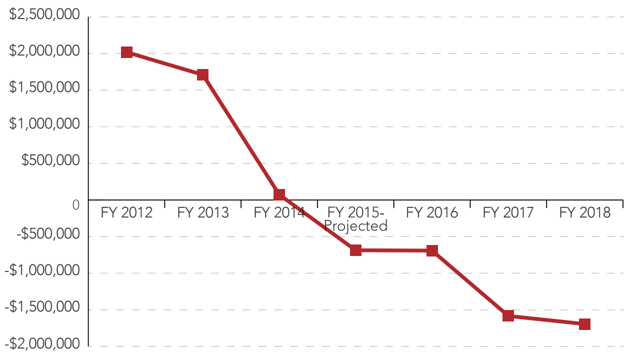
It is important to note that due diligence should be approached using a 'go/no go' strategy. Institutions, for example, will want to consider strategy and program fit/enhancement and confirm that the partnership exploration still makes sense before moving on to additional financial or legal reviews.

Understanding Financial Impact – the 'J Curve'

Even in the best of circumstances, strategic partnerships usually require significant investment and structural change. Positive financial outcomes take time. This is usually seen in the 'J Curve' when institutions create financial projections (see example below). Projections are critical in order to understand the level of needed investment, when a payback on that investment might occur, and what the longer term impact might be on the bottom line."

In the two graphs shown below, a single institution is modeled. The graph on the left shows the projected institutional net revenue trend under current operations. The graph on the right shows the projected net revenue after a proposed merger. While the net revenue ultimately improves after the merger, the graph on the right points out the additional decline in net revenue due to transition costs.

Annual Net Revenue - Without Savings and Transition Costs - Trend Analysis



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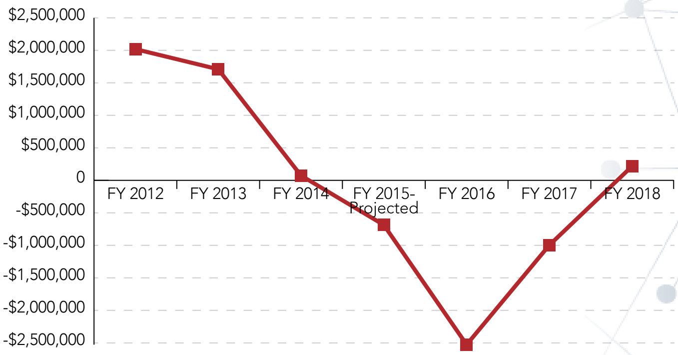

Source: rpk GROUP, analysis of institutional merger impact

Beyond the need to understand levels of investment and return on investment, projection models are also essential for setting expectations with key institutional stakeholders – especially stakeholders that might have unrealistic expectations about how quickly positive results can be achieved.

Timelines and Challenges

The creation of a shared future vision and a related move toward strategic partnership generally is not quick. Most initiatives unfold over the course of one to two years, often with 'hiccups' along the way. These timelines are under the threat of even further extension given recent regulations from the Department of Education which give the federal government more oversight authority of these proposed deals.

In addition to the regulatory hurdles, institutions often face push back from key campus constituents, including students, faculty, and even members of their own boards. Board challenges are especially problematic where institution alumni represent a majority of membership.

In the face of these timelines and challenges, leaders should first keep in mind the biggest mistake that institutions often make – waiting too long. By delaying a consideration of strategic partnership and pushing off the start of partner identification, institutions risk becoming weaker and, thus, becoming less attractive candidates.

KEY STEPS FOR EXPLORING STRATEGIC PARTNERSHIPS

Here are the necessary questions that lead to a proactive consideration of strategic partnership:

01 First (always first) – **What does your institution want to become?** This is the shared future vision that must be created. You must know where you're headed if you're going to have an honest conversation about how you'll get there and what you'll need.

02 **Do you need a partner to achieve that shared future vision?** What gaps need to be filled by a strategic partner, in order for the shared future vision to be realized?

03 **If you need a partner, what does an ideal partner look like?** What should their program offerings reflect? What cultural traits are essential? Does geography/proximity matter?

Having addressed those questions, institutions should now be positioned to find strategic partners that best reflect the ideal and begin their deeper due diligence.

rpk GROUP is a leading consulting and advisory firm in higher education, helping institutions support mission and student success through the creation of business models that last. Ready to explore strategic partnership opportunities? More information can be found on rpk's resource page, including the deep dive needed to get to data-informed decisions.