Leading Trends

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What A Second Dip Means for Schools

The beginning of another school year (in the Northern Hemisphere) brings yet another series of violent oscillations in the world's economic conditions. In August, markets were up or down 3 to 5% daily almost as a matter of routine. Leading financial analysts wondered whether these swings heralded entry into another recession, the so-called "double-dip" after the first in 2008-09. Most worrisome of all is the fact that the instigating factors to the current downturn are likely to be with us for quite some time:

- Unemployment at or just below 10% in the United States;
- Impending default by one or another European country--it's not just about Greece and Iceland anymore;
- The intrusion of fiercely partisan politics into economic decision-making in the United States;
- Unacceptably high levels of sovereign debt in the West (even as personal debt begins to decline); and
- The still unfolding global economic restructuring that is propelling Brazil, India and China.

Taken together, these factors form a long-term economic context that suggests any recovery will be anemic (and it has been), and that there may well be other dips ahead.

In 2008-09, independent and international schools responded to the recession with a variety of ploys: increase financial aid to retain families that would otherwise leave, especially in the later grades; defer capital projects; limit tuition increases to a 2% to 4% range, rather than the customary 5 to 7%; reduce staffing through attrition and/or layoffs; increase the student:teacher ratio by one or two pupils; reaffirm the school's value proposition; and in some cases begin thinking about being a permanently smaller school. The good news is that the tactics worked! Independent school enrollment dipped a fraction, but many schools reported historic enrollment highs in 2010-11.

The bad news is that few schools have the resources available to do the same things in a second economic dip. It will be some time before we know for sure whether a full-blown recession will take hold, since it takes several months of data before governmental agencies define the exact point when growth turned negative. And, even if a full-blown recession doesn't happen, the level of confidence consumers and investors feel in the markets is extraordinarily low. We think the ephemeral confidence factor is especially meaningful for independent schools; after all, the decisions to enroll or to give require a certain amount of confidence that one can afford it.

So, what should schools be doing now?

Engage in scenario planning. Anticipate at least three different economic futures--start with one that looks much like your current budget, only off, say, 5% on the annual giving side and with a handful of second semester requests to withdraw students for financial reasons. The second could be a more painful 15% drop in giving (along with unmet pledges to any ongoing capital campaigns), plus a 5% drop in re-enrollment contracts returned in the spring. The third could be even more dire, say, a drop in next year's enrollment of 10-15%

Watch the indicators, both macro and micro. Keep your eyes on the various "canaries in the coal mine" for the global economy; e.g., what happens as the Eurozone countries cover (or don't) toxic debt levels in Greece, Spain, Italy and elsewhere; how the U.S. Congress deals with the next budget; whether stability or chaos emerges from the "Arab Spring;" and more. Any of these, while thousands of miles away, have the potential to send markets into flux. The micro factors, mostly local in nature, are even more crucial; e.g., admissions funnel data for fall; capital pledge commitments honored; annual giving pledges made; re-enrollment patterns in the spring; trends in the local housing market; etc.

Get in front of the conversation by talking publicly about the brutal facts and the important role school plays during times of crisis; e.g., as a stable center of community; as a safe place for students to be sheltered from the negative; and as an affirmation that they, above all, must continue preparing for lives that will unfold afterwards.

Be especially cautious about sizable capital expenses or program additions, unless these add significantly to your competitive advantage by positioning the school to capture expanded market share post-dip. This is not the time for "nice-to-have" amenities; rather, use capital strategically to set the stage for thriving in recovery. For example, constructing a new practice gymnasium for the upper school would relieve the pressure on existing sports facilities, but might not be the same sort of strategic advantage as using the capital to purchase, say, a struggling feeder elementary school or adding free or low-cost transportation services to enlarge the school's drawing area. While tempting to ignore needed infrastructure repairs, in the long run this will only add to enrollment issues as families see the lack of upkeep as symptomatic of a struggling school.

Conserve cash. Cash is never more vital than when times are tough, so retain every available dollar, dinar, euro, ringgit or pound.

Develop an international strategy, if you do not already have one. Boarding schools should aggressively diversify the nationalities of its overseas students beyond China and Korea, and day schools should consider innovative ways to attract international students without adding dorms; e.g. via home stays in the community.

Use the second dip as a motivation for giving online education a trial. This as a viable way to expand offerings, connect to the global community and provide students the opportunity to practice 21st Century skills. It also allows potentially for you to redeploy or shrink your faculty. For that matter, use it as rationale for any number of experiments with nontraditional learning systems that leverage productivity using technology.

Finally, if enrollments drop to the outer margins of your scenario planning, **consider previously unthinkable options** such as merging with a competitor to maintain school size or closing low-demand divisions.

Perhaps the most significant error that schools can make now is to assume that the new dip is transient and that a sustained recovery lurks over the next hill. Very few global economic indicators point in such a direction.

Comments or Feedback?

Thinking Ahead

Planning to plan? Strategizing about strategy? Grappling with governance?

Triangle Associates helps schools from as few as 20 students to as many as 2,100 understand their markets, refine business models, and formulate strategic directions. We solve governance conundrums and help effective boards excel.

Contact us with what you have on the drawing board and we will be happy to suggest ways Triangle can help.