



Grant Thornton
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Financing international student mobility

Higher Education report 2016



Executive summary

Fees from international students offer an incredible boost to Higher Education Institutions' (HEI) financial results. With some gaining as much as 30% of their income from this rapidly growing market – worth £20 billion overall.¹ So institutions are increasingly competing for a share.

The challenge for HEIs is to become more attractive than their competitors. With more data available online than ever before, students can compare institutions at the touch of a button, pushing HEIs to work harder to attract the savvy, price-sensitive international student audience.

The primary financial factor affecting where students choose to study is tuition fees. They will consider paying costly fees as long as the reputation of both institution and country are exceptional – hence a strong international student population in Australia, the UK and the US. But let's not forget living costs. The price of transport and accommodation needs to be right too.

To maximise revenue, the best HEIs are using yield management techniques – of the kind already used by the aviation and tourism sectors. However, they also pay attention to who gets given a place to study, as this shapes campus diversity and improves reputation.

We've seen new business models, from partnerships to branch campuses, featuring in the sector. Get it right, and HEIs can increase opportunities for international study. For example, the UK's Herriot-Watt University benefits from close relationships with local communities in the UAE.² Get it wrong, and you might find your organisation in a difficult position, like New York University, which faced criticism on its Abu Dhabi campus for “entering a country where dissent (by labourers) is not tolerated”.³

In such a dynamic market, getting your finances right is vital. This report recommends three ways to do this:

- **Follow the leaders:** learn from other industries and develop robust financial models which protect and grow the income you receive from international students

- **Provide an incentive to study:** offer extra financial support to reduce the cost of living for international students
- **Be diligent:** consider your international enterprise options. Assess the financial risks of partnerships and overseas campuses. And recognise the challenges of working in regions with different social and ethical norms.

International student mobility continues to have a huge impact on HEIs' financial health. And the recruitment of international students will frequently appear near the top of an institution's corporate risk register. The subject is complex and governing boards need to be satisfied that the institution's executives are adequately addressing the risks.



“If you plan ahead and adapt to change, you’ll gain resilience and grow. If you stand still and fail to prepare for threats to your international enterprises, you risk being yet another high profile casualty in an increasingly competitive market.”

Carol Rudge

Partner and global leader – not for profit,
Grant Thornton



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Important trends

Tuition fees

Tuition fees and cost of living greatly affect where students choose to study. HEIs must balance income generation with sufficient financial support to stay attractive.

Many HEIs are heavily reliant on the money they get from international students. Our analysis reveals that international students' tuition fees accounted for 12% of UK and 17% of Australian HEI total income in 2014/15.⁴ The analysis shows that in the UK, nine universities draw more than a quarter of their total income from non-EU international students.

HEIs should set fees that maximise income yet keep them attractive to students. As Mark Oster, national managing partner of the not-for-profit and higher education practices at Grant Thornton US, points out: "the US has a strong domestic market so HEIs don't have to rely as heavily on international students to achieve enrolment targets as their peers in other countries. Plus, studying in the US is appealing to many international students. American HEIs often take advantage of these circumstances by charging international students at full, non-discounted rates." Other countries can learn from this approach.

Barry Lodewyk, partner at Grant Thornton South Africa, says HEIs in his country are "looking to the UK and the US to learn how international student fees can be used to fund opportunities for domestic students."

HEIs must also grasp the other factors that students consider when deciding where to study, plus how that affects what they think are appropriate fees. As Brent Kennerley, partner at Grant Thornton New Zealand, says, "price needs to match reputation." Less traditional host countries cannot rely as heavily on reputation to charge high fees. In Finland, for instance, the president of the National Union of University Students warned that the introduction of mandatory fees "will be the end of many of the international programmes at our higher education institutions."⁵

But high fees don't deter all international students if the country is attractive enough. As Richard Shaw, head of education at Grant Thornton UK,

"HEIs can struggle to achieve the balance between maximising income and remaining competitive when structuring fees."

Scott Hartley
Partner
Grant Thornton Australia





notes “the most popular destinations for international students – the UK, the US, Australia – are also the ones that charge the most.” While Bill Dow, associate vice president of student services at British Columbia Institute of Technology (BCIT) in Canada adds “students attending BCIT are very focused and are willing to put in the hard work, commitment and pay the tuition necessary, provided they see their effective connection to the job market.”

HEIs in countries with a low cost of living can also use this to their advantage. For example, many Canadian universities highlight the fact that Canada regularly tops polls of the most affordable foreign study destinations.⁶

And Christine Regimbal, partner at Raymond Chabot Grant Thornton, explains “the exchange rate has a significant impact on the attractiveness of a country to international students. The strength of

the US dollar makes the Canadian option very attractive for our neighbours to the south.”

But living costs change depending on exchange rate movements, causing increased uncertainty for HEIs and their international students. One impact of Brexit for UK HEIs is an approximate 10% fall in the value of sterling against other major currencies. This may make the UK a more affordable place for international students to study. However, it has also meant a 10% increase in many of the costs incurred in the recruitment of these international students.

“Although South Africa isn’t yet top of the reputation rankings, international students are becoming aware that our institutions offer quality education at affordable prices.”

Huba Boshoff

Coordinator of key international partnerships,
Stellenbosch University, South Africa

International students’ tuition fees accounted for

**12% of UK and 17%
of Australian**

HEI total income in 2014/2015⁴



Important trends

International enterprises

Partnerships or branch campuses overseas can help HEIs attract international students. They also create opportunities to send domestic students abroad. But transnational education brings significant challenges and institutions must manage financial and reputational risks.

Because not all students are able to travel and pay full international tuition fees, some HEIs have created new business models to attract international students and give opportunities to domestic students.

Brent Kennerley, partner at Grant Thornton New Zealand, says, “HEIs used to compete to grab students for themselves. But now the approach is more collaborative and institutions are looking at how they can share students. Offering opportunities for students to study around the world lifts a university’s profile, improves ratings and boosts revenue.” Universities in Egypt and the UK recently signed ten new partnership agreements to increase scientific research and develop new opportunities for student and staff exchange. And the governments of both countries are now looking to develop 20 more partnerships in the next two years.⁷

Barry Lodewyk, partner at Grant Thornton South Africa, urges HEIs to develop partnerships that play to their strengths. He says, “the University of Cape Town is globally respected for the quality of its research and should partner with other research-intensive institutions. On the other hand, Stellenbosch University is focused on business programmes so its partnerships should reflect that expertise.”

Overseas campuses have become increasingly popular in the past two decades.⁸ Studying at a branch campus can be a cost effective alternative for students concerned about expense. Scott Hartley, partner at Grant Thornton Australia, gives an example: “students studying medicine at a branch campus in Malaysia benefit from a lower cost of living but receive the same qualifications as domestic students and can practice in Australia after graduation.”

While some branch campuses have been successful, others have not. In 2015, sociologists at the University of Kassel in Germany reported that there had been five closures out of 26 branch campuses foundings in Dubai International Academic City.⁹ Some haven’t attracted enough students to be financially sustainable and they often don’t have the same reputation for excellence as the host HEI. Critics also speculate that overseas academics can be too focused on teaching. They have little time for research so may not be suitable candidates to supervise master’s students’ dissertations,¹⁰ which limits the institution’s appeal.

“Overseas campuses can represent a considerable opportunity for HEI’s but institutions must balance the risks against the rewards”

Elaine Daily
Partner
Grant Thornton Ireland



Overseas campuses present an interesting challenge. On the one hand, they must meet local needs. On the other, they must still be desirable to students who want the same experience as peers at the host university.

HEIs also have to be prepared for the risk of becoming hostage to political

changes or to host governments who remove financial support. International legislation, foreign tax environments and local culture can all affect the success of a transnational education enterprise. Simon Bevan, partner at Grant Thornton UK, says of China: “the breadth and depth of academic

and commercial opportunities for British universities in China is vast. However, the differences between China and the UK in terms of the business environment, regulation and culture can present a range of challenges.¹¹”

Models of international enterprise



Local marketing and recruitment

An overseas team recruits international students directly to the host institution.



Collaborative delivery in partnership with an overseas institution

The host institution contributes to the course design and/or sends teaching staff to deliver content. But degrees are awarded in the name of the partner university only.



Formal joint school or programme with an overseas institution

Design and delivery of courses are collaborative and degrees are jointly awarded in the name of the host and partner institutions.



Foreign campus overseas

A permanent institution, which is usually a joint venture, with course structure and content heavily influenced by the host institution. Staff and degrees are awarded solely in the name of the host institution.

Considerations

HEIs that consider international enterprises must think carefully about their legal and financial arrangements so they don't fall foul of foreign regulation.



Recommendations

Follow the leaders

HEIs can learn from other industries. They should develop robust financial models which protect and grow income from international students.

Revenue from international students can be used to fund strategic priorities. But this means that any small dip in student numbers has a knock-on effect on wider initiatives.

To prevent this, HEIs should develop more sophisticated financial arrangements. They should maximise available revenue but be resilient enough to withstand market shocks. As Elaine Daly, partner at Grant Thornton Ireland,

says, “although international students represent a significant proportion of HEIs’ income, and yet too many institutions do not fully understand how to get the most out of them.”

HEIs can learn from successes in aviation and tourism, for example. These sectors already use yield modelling techniques which can be applied to international student recruitment to help HEIs understand

the ‘tipping point’ where higher fees outweigh reduced international student numbers. This is when income will fall.

HEIs can also use cost-effective financial support packages to attract students who make broader contributions to the institution. This in turn boosts reputation.

Case study: Dollars and discounts

US HEIs offer scholarships and discounts on tuition fees to attract the brightest and best students. It’s a good example of how HEIs can use yield management techniques.

More than three quarters of all first-time, full-time undergraduate students receive some kind of financial aid in the US.¹² Traditionally, this was a charitable exercise, but over the last three decades it has become a strategic tool. In the past, finance offices would use student aid to make sure their budget was under control. Although for some time now, they have seen it as a way to manage both the quality and net revenue of the class.¹³

International students also benefit from scholarships to US HEIs. Iowa State University’s International Merit Scholarship offers up to US\$8,000 a year to international students – namely

to those who demonstrate outstanding talent in maths and sciences, arts, community service, leadership, innovation or entrepreneurship.¹⁴

Similarly, the American University’s Emerging Global Leader Scholarship supports international students who have overcome obstacles. To be eligible, students must demonstrate commitment to leadership, volunteerism and advancing the needs of people in their home country.¹⁵

These examples show that applying yield management techniques is more complex for an HEI than it is for a hotel or airline. They must consider who takes a place, not just whether it’s being filled

or not. HEIs in the US don’t offer discounts to all students regardless of quality. Instead, they focus their support on those who bring the most value – whether that’s through academic achievement, civic contribution or sporting prowess.

HEIs need financial models that ensure their seats are filled by the most desirable students. And they should target discounts at international students most likely to be influenced by reduced fees, not those who would likely pay full price to attend.



Recommendations

Provide an incentive to study

HEIs should offer extra financial support to reduce the cost of living for international students.

Cost of living strongly influences where international students choose to study. HEIs in expensive regions can improve how competitive they are by offering financial support beyond just discounts on tuition fees.

The main living expenses for international students are usually transport and accommodation.

Property prices tend to be higher close to campus or in the town centre. But students are reluctant to live further away and spend time and money travelling long distances. Donna Diskos, partner at Grant Thornton Canada, says “it’s increasingly difficult for international students to find housing in cities like Toronto or Vancouver because of high

property costs. So HEIs must consider ways of making affordable housing available to international students, in addition to attracting them through courses and tuition fees.”

Case study: Covering the costs in Australia

Australia is one of the most expensive destinations for international students.¹⁶ And only 1% of domestic students choose to study abroad.¹⁷ But Australian HEIs are working to change this. Thanks to government programmes, inbound and outbound international students now have access to cost of living support.

The Australian Postgraduate Award scheme offers students AUS\$26,000 each year to support the cost of living. This subsidises students with excellent research potential to study for a research master’s or doctorate degree. It more than covers the estimated AUS\$23,000 annual cost of living in Australia.¹⁸ Since 2011, it has also been open to international students who study in the country.¹⁹

The government also provides OS-HELP loans to domestic students studying abroad if their degree is awarded by an Australian HEI. These loans can be used for airfares, travel

and accommodation expenses, and students can borrow up to AUS\$7,764 for a six-month study period.²⁰

In a similar way, the New Colombo Plan Scholarship Program provides AUS\$2,500 a month towards living costs, as well as AUS\$5,000 towards travel and establishment overseas, for Australian students who spend up to a year studying in one of 38 Indo-Pacific locations.²¹

Scott Hartley, partner at Grant Thornton Australia, stresses the importance of financial support to cover living expenses. He says “accommodation costs are a huge

consideration for Australian students thinking about studying abroad. The majority of students here live at home and commute onto campus for lectures, so they are not used to paying rent. The government support programmes have been a real boost to HEIs wanting to send more students overseas.”



Recommendations

Be diligent

HEIs must remain aware when they consider international enterprise options. They must assess the financial risks of partnerships and overseas campuses. They should also recognise the challenges of working in regions with different social and ethical norms.

International enterprises present a clear opportunity for HEIs to increase revenue and improve reputation. But the jury is still out on which models are best. While there are many success stories, there have also been high profile failures.

Andrew Mandebura, director of international development at the University of Huddersfield in the UK, points out some of the pros and cons to international enterprises: “On the one hand you are accessing a market you don’t currently have access to, but on the other hand the cost is high. For instance, you have to fly academics to foreign locations and pay them the

same amount as they would receive back at home. And you have to meet quality assurance standards.”

HEIs also face scrutiny from students, staff and policymakers. These are groups quick to criticise any arrangement they see as contradicting the institution’s values. For example, New York University received criticism after a New York Times investigation. It claimed that labourers at its Abu Dhabi campus suffered harsh working conditions²² – a violation of the University’s Statement of Labour Values.²³

Mark Oster, national managing partner of the not-for-profit and higher education practices at Grant Thornton US, highlights that “political and cultural differences are a real challenge when thinking about international operations. HEIs may not agree with the values of countries in which they most want to establish overseas campuses. Ultimately, institutions need to remember that they will answer to their domestic constituents – faculty, students, alumni and donors – on behaviour in the countries where they establish outposts.”

Case study: Scottish success in the UAE

The UK is home to a significant proportion of HEIs with international branch campuses. Its institutions have received their share of criticism for expanding inappropriately, but some, like Heriot-Watt University, are seeing their international campuses flourish after careful planning and starting small.

2015 marked Heriot-Watt University’s 10th anniversary of being in the United Arab Emirates. When the University started its campus in Dubai in 2005, it was the first international university to open a campus in the Dubai International Academic City (DIAC) and had just 120 students. But a decade later it has almost 4,000 students from over 100 countries.²⁴

The University has been praised for the quality of its campus in Dubai. In 2016, it was one of only two out of 11 UK providers that the Quality Assurance Agency believed had the range of facilities in the UAE that a student could expect at a UK campus.²⁵

And Heriot-Watt University’s reputation has been enhanced both in the UAE and internationally by its approach to local engagement. The University works

closely with communities in the UAE to identify areas where its research and teaching would be beneficial. It then creates courses that respond to these local needs, such as its master’s in energy and water resources.²⁶ Head of campus Professor Ammar Kaka says the University’s subject areas are “all very job-focused” and the institution is “trying to link with local businesses” to improve the employability of its students.²⁷

Conclusion

International students provide up to a third of income for many HEIs. So institutions must have robust financial models to protect that revenue.

One way to do this is to offer support packages that meet students' demands so they stay attractive. HEIs must also think very carefully about partnerships and overseas campuses. Only those who plan ahead and adapt to political and cultural sensitivities will survive.

We already work with HEIs around the world to develop strategy and assess financial risk. We've a wealth of

experience in the higher education sector. Our specialist teams span over 130 countries so we're well-placed to help you implement the suggestions in this report.

Visit www.grantthornton.global to connect to a specialist in your country.



Footnotes:

- ¹ Grant Thornton estimate [based on reported income from tuition and fees in the US (US\$ 19,754,000,000 [£13.8 billion as of 16 June 2016]: The Economic Benefit of International Students. Washington D.C.: NAFSA, 2014. Web. 7 June 2016.) and analysis of HEI income in the UK (£4 billion: Grant Thornton UK LLP. Adapting to Change. 2016. Web. 7 June 2016. The Financial Health of the Education Sector.) and Australia (A\$4.7 billion [£2.4 billion as of 16 June 2016]: Ibid.)
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- ¹⁷ In 2013, 11,065 Australian students graduated abroad (International Mobility of Australian University Students. Australian Government Department of Education and Training, 2015. Web. 7 June 2016.) out of a total domestic student population of 931,761 ("Higher Education Sector | Australia | Project Atlas". lie.org. N.p., 2016. Web. 7 June 2016.)
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130 countries, are focused on making a difference to the clients, colleagues and the communities in which we live and work.

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