

RIGHT TO INFORMATION

DETE CONSULTANCY OUTLAYS

1 JULY 2012 TO 23 MAY 2013

Description	Consultant	Duration	YTD spend (Ex GST)
Develop Feasibility Study and Business Case for a Co-located High School at James Cook University	Marsden Jacob & Associates	5 months (Jul 12– Dec 12)	\$ 228, 852.70
Conduct a review of current and future requirements for ICT support services and to provide strategic advice on potential options for delivery of a solution that is consistent with relevant DET IT strategies and TAFE business strategies	KPMG	4 months (May 12 – Sep 12)	\$ 173,302.71
Conduct a review of current and future requirements for an integrated student management system and to provide strategic advice on potential system and support options for delivery of a solution that is consistent with relevant DET IT strategies and TAFE business strategies	Price Waterhouse Coopers	5 months (Oct 11 – Mar 12)	\$ 9,000.00
Queensland Post-Secondary Education and Training Review	Allen Consulting	12 Months (Jun 11 – Jun 12)	\$ 3,345.45
Specialist communication services to support the implementation of the outcomes of the Queensland Skills and Training Taskforce	Rowlands Group	12 months (Dec 12 – Dec 13)	\$ 91,915.00
Specialist change management services to support the implementation of the outcomes of the Queensland Skills and Training Taskforce	Price Waterhouse Coopers	12 months (Jan 13 – Jan 14)	\$ 425,545.00
Assist the department to review its internal control framework to ensure that resources are targeted appropriately to control or manage risk as efficiently, effectively and economically as possible	Ernst & Young	4 months (Jan 13 – May 13)	\$ 70,000.00
TOTAL:			\$1,001,960.86

URGENT MINISTER MEETING BRIEF REQUEST

Template :	<i>Ministerial Briefing Note</i>
To :	STRATEGIC POLICY & PORTFOLIO RELATIONS HUMAN RESOURCES
Subject :	MEETING: Minister Langbroek and Craig Sydney, Partner Ernst & Young - Tuesday 19 March 2013
Time/date required :	3PM, Thursday, 14 March 2013
Today's date :	Monday, 27 May 2013

MEETING BRIEF REQUEST:

The Minister's office has requested a Ministerial Meeting brief to support the Minister's meeting with Craig Sydney, Partner Ernst & Young.

Key Meeting Details:

When: Tuesday 19 March 2013

Topics:

Regarding the meeting next week, 19 March 4.30pm. it is designed to cover off on these areas below:-

- ❖ Introduce Stephanie Fahey, our new Ernst & Young Oceania Education Lead Partner

To read the press release on Stephanie's background:

<http://www.ey.com/AU/en/Newsroom/News-releases/Ernst-and-Young-appoints-Deputy-Vice-Chancellor-to-lead-national-education-practice>

- ❖ Discussion on current areas of focus for Minister Langbroek - opportunities and challenges in the sector
- ❖ Further discussion on Higher Education and the Power of Choice (following on from the boardroom luncheon we hosted last year with Minister Langbroek)
- ❖ Productivity in the workforce

Attending the meeting from Ernst & Young will be:-

Craig Sydney

Daniele Bird

Stephanie Fahey

Should you have any further questions, please do not hesitate to contact me.

Lucinda Kaye | Marketing Senior Manager - Queensland | Marketing

Ernst & Young

Office: +61 7 3011 3333 | Direct: +61 7 3243 3608 | lucinda.kaye@au.ey.com

Mobile: Act - Disclosure would, on balance

Departmental Liaison Officer

☎ 3006 4614 ~ ✉ ministerial.dlo@dete.qld.gov.au

The brief should address/include, without restricting it to, the following:

1. Address any issues that may be raised-or may exist-regarding the meeting subject, attendees and/or venue.
2. Provide detailed information about any relevant contentious issues and suggested responses to those issues.
3. Provide only relevant background information that may assist understanding of any issues.
4. When a departmental representative is requested to attend, please ensure they have noted the appointment in diary for attendance. Please also advise the requesting officer of the rep and indicate in the briefing and in TRIM notes.

Preparation instructions

- ❶ If this brief requires additional information from another branch/directorate within the Department, please liaise with the appropriate person to submit one consolidated response.
- ❷ Please TRIM brief and any attachments to *zz Departmental Liaison Officer*, indicating in the TRIM notes that it has been approved by the appropriate officers.

Note: the brief must progress from the DLO to the DG for approval prior to meeting the MO deadline.

Departmental Liaison Officer

☎ 3006 4614 ~ ✉ ministerial.dlo@dete.qld.gov.au

Minister's Office File Ref:	
Department File Ref:	12/85444

Briefing Note

The Honourable John-Paul Langbroek MP
Minister for Education, Training and Employment

Action required: For Noting

Action required by: 14 March 2013

Urgent – Minister meeting with Ernst & Young on Tuesday, 19 March 2013

SUBJECT: MINISTER LANGBROEK MEETING WITH MR CRAIG SYDNEY, PARTNER, ERNST & YOUNG ON TUESDAY, 19 MARCH 2013

Summary of key objectives

- To brief the Minister prior to his meeting with Mr Craig Sydney, Partner, Ernst and Young on Tuesday, 19 March 2013.

Key issues

1. Ernst & Young meeting attendees will be:
 - Mr Craig Sydney, Partner;
 - Ms Daniele Bird, Partner; and
 - Professor Stephanie Fahey, Oceania Education Lead Partner.
2. Ernst & Young advise that the meeting is intended as an opportunity to introduce Professor Fahey and discuss:
 - Opportunities and challenges in the sector;
 - *Higher education and the power of choice*; and
 - Productivity in the workforce.
3. The Ernst & Young *Higher education and the power of choice* report highlights five key findings:
 - a. Increases in competition will place significant pressure on the business models of established universities.
 - b. With respect to key drivers of student choice, there are significant gaps in market perception between Tier 2 and Tier 1 universities, and within the set of Tier 2 universities. This will create significant exposure for Tier 2 universities in an increasingly competitive market place.
 - c. To survive and succeed in the face of increased competition, universities at risk of losing market share will need a clearly differentiated market position and a strong alignment of the student experience and brand promise.
 - d. As the market becomes more consumer-driven, incumbents should consider strategies and techniques used in consumer marketing industries, for example, the creation of focused market positions based on the principles of psychographic segmentation, and multi-brand strategies, which could enable universities to serve multiple segments without diluting their core brand.
 - e. Universities, especially those at risk, may also need to consider more fundamental restructuring, including mergers and divestment strategies related to courses, degrees and possibly research and development (R&D) centres.
4. Tier 1 universities are those with large student enrolments and research-intensive operations and Tier 2 universities are those with smaller student enrolments with mainly teaching operations.

Minister's Office File Ref:	
Department File Ref:	12/85444

5. Following this report Ernst and Young published *University of the Future*, which outlined five major pressures affecting universities and predicting the standard university business model would not be sustainable beyond 2025.
6. Mr Sydney and Ms Bird of Ernst & Young met with the Assistant Minister on 28 February 2013 to discuss international education and higher education research, including the 2012 Ernst & Young paper *University of the Future*. This paper was criticised in the media (as detailed in Ref: 13/63033).
7. University representatives and media commentators have acknowledged the veracity of the findings in these publications but criticised the conclusions drawn. Discussions at the Higher Education Forum indicate that university Vice-Chancellors are acutely aware of the fundamental need to adopt a student perspective in shaping their respective university's business model, offerings and operations.

Implications

8. There are no financial, operational or media implications.

Background

9. Professor Fahey will be introduced in her new role as Oceania Education Leader, a role she was appointed to late 2012. A media release reports that Professor Fahey's appointment aligns with Ernst & Young's expansion of its education practice to include an increased focus on the early and secondary education sectors as well as a continued focus on the higher education sector. Professor Fahey joined Ernst & Young after a distinguished academic career, which recently included responsibility for Monash University's international education and research programs.
10. Ernst & Young released a paper titled *Higher education and the power of choice* in 2011. The paper discussed reform competition and the emerging consumer-driven market in Australian higher education and found that increases in competition will place significant pressure on the business models of established universities.
11. Queensland universities contribute approximately \$4 billion annually to the Queensland economy including up to \$1 billion in innovation and research related activity.

Right to information

12. I am of the view that the contents or attachments contained in this brief **are not suitable** for publication.

Minister's Office File Ref:	
Department File Ref:	12/85444

Recommendation

That the Minister

Note the content of this brief prior to the meeting with Ernst & Young on Tuesday, 19 March 2013.

NOTED**APPROVED/NOT APPROVED
ENDORSED/NOTED****FIONA CRAWFORD****Chief of Staff****Office of the Hon John-Paul Langbroek MP****Minister for Education, Training and
Employment****JOHN-PAUL LANGBROEK MP****Minister for Education, Training and
Employment**

/ /

☐ Copy to Assistant Minister

Minister's comments

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14/3/13
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Minister's Office File Ref:	13
Department File Ref:	12785444

Briefing Note

The Honourable John-Paul Langbroek MP
Minister for Education, Training and Employment

Action required: For Noting

Action required by: N/A

Urgent – Background information to support Minister's meeting with Ernst & Young on 19 March 2013.

SUBJECT: MINISTER MEETING WITH MR CRAIG SYDNEY, PARTNER, ERNST & YOUNG

Summary of key objectives

- To brief the Minister prior to his meeting with Mr Craig Sydney, Partner, Ernst & Young on 19 March 2013.

Key issues

- Ernst & Young meeting attendees will be:
 - Mr Craig Sydney, Partner;
 - Ms Daniele Bird, Partner; and
 - Professor Stephanie Fahey, Oceania Education Lead Partner.
- Ernst & Young advise that the meeting is intended as an opportunity to introduce Professor Fahey and discuss:
 - Opportunities and challenges in the sector;
 - *Higher education and the power of choice*; and
 - Productivity in the workforce.
- The Ernst & Young *Higher education and the power of choice* report highlights five key findings:
 - Increases in competition will place significant pressure on the business models of established universities.
 - With respect to key drivers of student choice, there are significant gaps in market perception between Tier 2 and Tier 1 universities, and within the set of Tier 2 universities. This will create significant exposure for Tier 2 universities in an increasingly competitive market place.
 - To survive and succeed in the face of increased competition, universities at risk of losing market share will need a clearly differentiated market position and a strong alignment of the student experience and brand promise.
 - As the market becomes more consumer-driven, incumbents should consider strategies and techniques used in consumer marketing industries, for example, the creation of focused market positions based on the principles of psychographic segmentation, and multi-brand strategies, which could enable universities to serve multiple segments without diluting their core brand.

Minister's Office File Ref:	
Department File Ref:	12/85444

- Universities, especially those at risk, may also need to consider more fundamental restructuring, including mergers and divestment strategies related to courses, degrees and possibly research and development centres.
- 4. Tier 1 universities are those with large student enrolments and research-intensive operations and Tier 2 universities are those with smaller student enrolments with mainly teaching operations.
- 5. Following this report Ernst & Young published *University of the Future*, which outlined five major pressures affecting universities and predicting the standard university business model would not be sustainable beyond 2025.
- 6. Mr Sydney and Ms Bird of Ernst & Young met with the Assistant Minister on 28 February 2013 to discuss international education and higher education research, including the 2012 Ernst & Young paper *University of the Future*. This paper was criticised in the media (Ref: 13/63033).
- 7. University representatives and media commentators have acknowledged the veracity of the findings in these publications but criticised the conclusions drawn. Discussions at the Higher Education Forum indicate that university Vice-Chancellors are acutely aware of the fundamental need to adopt a student perspective in shaping their respective university's business model, offerings and operations.

Implications

- 8. There are no financial, operational or media implications.

Background

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- 11. Queensland universities contribute approximately \$4 billion annually to the Queensland economy including up to \$1 billion in innovation and research related activity.

Right to information

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Minister's Office File Ref:	
Department File Ref:	12/85444

Recommendation

That the Minister **note** the content of this brief prior to the meeting with Ernst & Young on 19 March 2013.

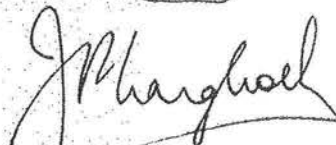
NOTED


FIONA CRAWFORD
Chief of Staff
Office of the Hon John-Paul Langbroek MP
Minister for Education, Training and
Employment

17/3/13

☒ Copy to Assistant Minister

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ENDORSED/NOTED



JOHN-PAUL LANGBROEK MP
Minister for Education, Training and
Employment

18/3/13

Minister's comments

Action Officer Trudy Steele Senior Policy Officer Tertiary Education and Training Tel: 3222 2781	Endorsed by: Manager Greg Thurlow Tertiary Education and Training Tel: 323 71885 Mob: Date: 14/03/2013	Endorsed by: Executive Director Justin Murphy Tertiary Education and Training Tel: 323 79606 Mob: [disclosure would, or] Date: 14/03/2013	Endorsed by: ADG Andrew Walker Strategic Policy and Portfolio Relations Tel: 323 71327 Mob: [disclosure would, or] Date: 14/03/2013	Endorsed by: DDG Gabrielle Sinclair Policy and Programs Tel: 324 73365 Mob: [disclosure would, or] Date: 15/03/2013	Endorsed by: DG Annette Whitehead Education, Training and Employment Tel: 323 71077 Mob: Date: 15/3/13
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Briefing Note

Mrs Saxon Rice MP

Assistant Minister for Technical and Further Education

Action required: For Noting

Action required by: N/A

Urgent – Assistant Minister is meeting representatives of Ernst and Young on 28 February 2013.

SUBJECT: MEETING MR CRAIG SYDNEY, ERNST AND YOUNG REGARDING INTERNATIONAL EDUCATION AND HIGHER EDUCATION RESEARCH

Summary of key objectives

- To provide background information relevant to the Assistant Minister's meeting with Mr Craig Sydney and Ms Daniele Bird, Partners, Ernst and Young.

Key issues

1. The Ernst and Young paper titled *University of the Future* outlines five driving forces of change to the standard university business model, namely:
 - Democratisation of knowledge and access – increasingly easier access to content and higher participation.
 - Digital technologies – use of portable devices to deliver courses "anytime, anywhere" with increasing customisation, and to revolutionise on-campus delivery.
 - Contestability of markets and funding – increased pressure in domestic and international markets especially from major global institutions but also from government policy.
 - Global mobility – increased internationalisation including sourcing of academic expertise and the emergence of global brands.
 - Integration with industry – increased pressure for industry partnerships, competition from industry providers and greater emphasis on industry based learning.
2. The paper was roundly criticised in the media from sources such as Universities Australia and the former Minister for Tertiary Education, Skills, Science and Research, such as the *Campus Review* (see article provided), (**Attachment 1**), as universities are acutely aware of the pressures for innovation and competition.
3. Although criticism is justified on the basis that universities have adapted to significant change over time, the paper is probably correct that the standard business model needs revision, or at least substantial modification, if universities are to be sustainable by 2025.
4. Ernst and Young representatives might promote thought leadership as a means of implementing transformational reforms. Thought leadership is an approach that emphasises action by leaders to capture the imagination and vision of others who then implement and manage reforms (www.leadersdirect.com/thought-leadership) (**Attachment 2**).

5. Ernst and Young representatives might also use terms such as "tier 1", "tier 2", and "second estate" higher education providers, with the following meanings:
 - Tier 1 - large, prestigious, research-intensive universities;
 - Tier 2 - small to medium, comprehensive non-metropolitan-based universities; and
 - Second estate - overseas institutions operating internationally at slightly below Organisation for Economic Cooperation and Development (OECD) standards but at a fraction of the price
www.icu.edu.au/future/public/groups/everyone/documents/guide/icu_111334.pdf.
(Attachment 3)
6. The Ernst and Young paper focused on challenges to the university business model, but parallels could be drawn for the vocational education and training (VET) and schooling sectors, albeit with modification. However, plans for reform should be informed by advice and appropriate consultation with sector stakeholders, such as that undertaken by the Queensland Skills and Training Taskforce.
7. Similarly, the Queensland Government's recent approval for a merger of Central Queensland Institute of TAFE and Central Queensland University, to create Queensland's first dual sector university, is based on a tested detailed proposal which would be difficult to modify at this stage.

Implications

8. There are no financial, operational or media implications from the meeting.

Background

9. In October 2012, Ernst and Young published its paper *University of the Future* on challenges to the traditional business model of universities.
10. Mr Justin Bokor, Executive Director of Ernst and Young Advisory Business, Melbourne is attributed in the paper as the leader of the project. Mr Bokor will not attend the meeting.
11. In mid-2013 the Queensland Government will announce a Five Year Action Plan, its blueprint for the future of VET, completing its response to the Skills and Training Taskforce.
12. Queensland universities contribute approximately \$4 billion annually to the Queensland economy including up to \$1 billion in innovation and research related activity.
13. International education, involving provision across higher education, VET, schooling and English Language Intensive Courses for Overseas Students (ELICOS), contributed \$2.347 billion to the Queensland economy in 2011 (Australian Education International Research Snapshot, May 2012). It is Australia's highest export service industry and Queensland's fourth highest export industry (International Education Association of Australia, 2012).
14. International student numbers have declined approximately 16.3% in Queensland from a peak in 2009. Declines have occurred in all sectors with higher education experiencing the smallest impact (-5.9% from 2010 high) and VET and ELICOS experiencing the highest impact (-45.3% and -41.7% respectively). Similar trends have occurred across Australia.
15. Minister Bowen released a report titled *Australia – Educating Globally* (www.aei.gov.au/ieac2/thecouncilsreport/pages/the-council's-report.aspx) **(Attachment 4)** on 27 February 2013, prepared by the International Education Advisory Committee containing 35 recommendations to enhance Australia's international education industry. The Commonwealth plans to produce a Five Year Strategy in response to the report by the end of 2013.

16. Preparations are underway for a meeting of the Higher Education Forum, which comprises the Vice-Chancellors of all Queensland universities chaired by the Minister, focusing on International Education. A forum involving wider representation by stakeholders from all sectors in international education may also be held.

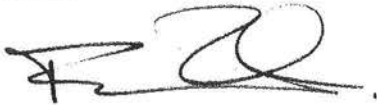
Right to information

17. I am of the view that the contents or attachments contained in this brief **are not suitable** for publication.

Recommendation

That the Assistant Minister **note** the background information relevant to the meeting with Mr Craig Sydney, Ernst and Young.

NOTED



FIONA CRAWFORD
Chief of Staff
Office of the Hon John-Paul Langbroek MP
Minister for Education, Training and
Employment

2 / 3 / 13

NOTED

MRS SAXON RICE MP
Assistant Minister for Technical and
Further Education

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Assistant Minister's comments

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CAMPUS REVIEW

WWW.CAMPUSREVIEW.COM.AU | VOL. 22 | NO. 21 | OCTOBER 30, 2012

NEWS
Gay mentoring 6

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Mighty metals 8

COMMENT
VET reform 15

Success for LGBT workforce scheme



Aviation giants fly south



ACPET chief hits back at critics

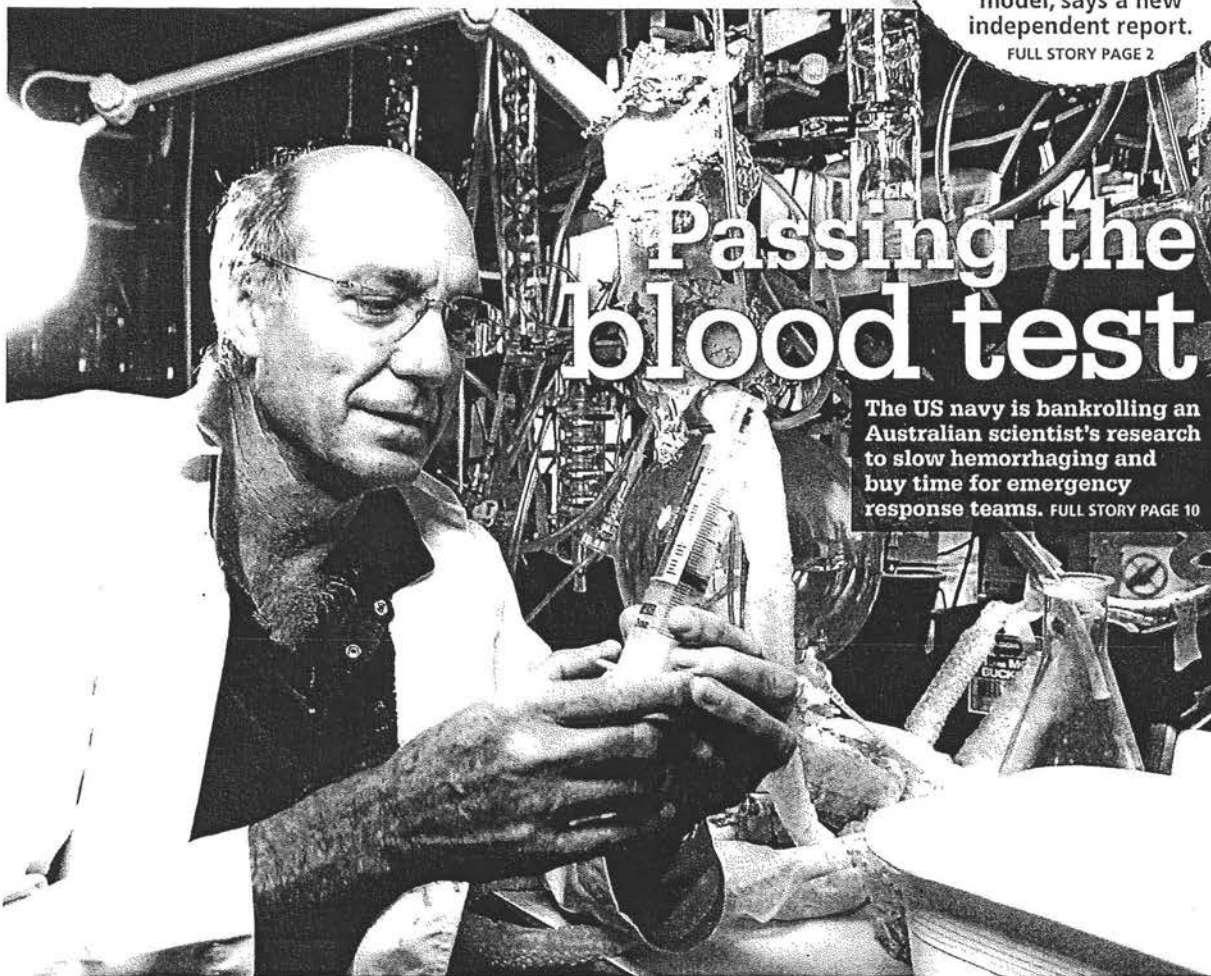


BREAKING NEWS

Adapt or die, universities told

No Australian campus will be viable after 2025 under the current business model, says a new independent report.

FULL STORY PAGE 2



Passing the blood test

The US navy is bankrolling an Australian scientist's research to slow hemorrhaging and buy time for emergency response teams. FULL STORY PAGE 10

Research hit by \$1bn government cuts

Despite Julia Gillard's great "crusade" on education, the federal government has just announced deep spending cuts that will reduce funding for universities and tertiary students by \$1 billion.

Almost \$500 million will be slashed over the next four years

from the sustainable research excellence program which helps universities with indirect research costs. Universities thought when the scheme was announced back in 2009 the problem of funding research had been solved.

The program was expected to offer a gradual increase in funding, from

20c per research grant dollar in 2008, to 30c in 2012 and 50c in 2014, said Universities Australia.

UA chief executive Belinda Robinson said the announcement means that the funding contribution will remain at or below 30c.

Robinson said research-intensive universities will be hit hard. "It

will have a substantial impact on those universities that have made investment commitments on the basis of the funding announced in the 2012-2013 budget," she said.

The mid-year budget funding cuts will also have an impact on students and staff in universities.

Continued on page 2 ▶

BREAKING Senator ref



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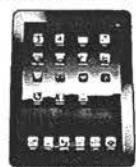
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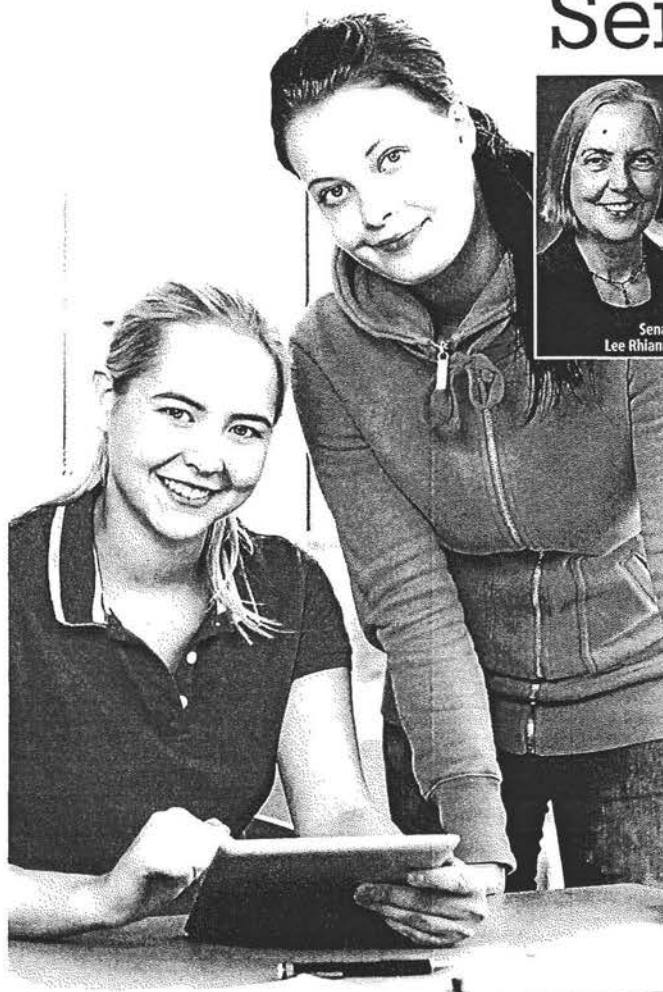
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As at April 2012

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THE WINNER
of the **Campus
Review Reader
Survey iPad:**
Michael
Fitzgerald, from
the Australian
National
University,
Scullin, ACT



Senator
Lee Rhiannon

A "doom and gloom" analysis on the future of Australia's universities has been downplayed by some leaders in the sector, who say many changes are already underway.
Louis White reports

An Australian senator has questioned a report by a renowned international consultancy firm that states that "There's not a single Australian university that can survive to 2025 with its current business model". Senator Lee Rhiannon, the Australian Greens spokeswoman on higher education, has described the Ernst & Young report *University of the Future* as being "over the top" and "all doom and gloom".

"Who exactly do Ernst & Young want to save the day for?" Rhiannon says. "And who actually commissioned the report?"

"I mean universities have survived for hundreds of years and I am certain they will survive into the future but there does need to be some

Unis react to \$1bn budget cuts

◀ From page 1

First-year university scholarships will be frozen at \$82.3 million from 2014 until 2017, whilst income support for masters students will be delayed until 2017, saving the government \$167 million.

Institutions also took a hit with \$270 million being scrapped from facilitation performance funding from 2014.

The National Tertiary Education Union national president, Jeannie Rea, said the cuts are "short-sighted". She said any short-term savings made by the government will have an impact on the longer economic and social benefits of investing in higher education.

Rea said the cuts will also affect job security within university research departments.

"Today's cuts cannot be justified especially when taken into account with other recent savings measures which have impacted on universities and their students to the tune of \$1.5 billion over the last two years," she said.

Robinson concluded that we are in a "budget pickle" because the government relied too heavily on the "resources sector".

She said the irony was that research into other industries could provide us with long-term solutions and "economic transformation". ■

Melbourne

Access to the national broadband network will reach Melbourne University in the next 12 months as part of the next phase of the \$37 billion network's expansion.

Lygon Street, North Ballarat and Melton in Victoria will also gain access to the network.

Federal Communications Minister Stephen Conroy said the network is going ahead with construction commencing for 165,800 homes and businesses around Australia with 27,600 homes and businesses in Victoria.

Professor Rod Tucker from the Melbourne School of Engineering at the University of Melbourne said the

NEWS

Universities Ernst & Young report

Democratisation of
knowledge and access

- Ubiquitous content
- Broadening of access to higher education
- Increased participation in emerging markets

Contestability of
markets and funding

- Fiercely competitive domestic and international student markets
- Challenges to government funding
- Competing for new sources of funds

Drivers of change

Digital technologies

- Bringing the university to the device — MOOCs and the rise of online learning
- Bringing the device to the university — the use of digital technologies in campus-based learning
- Blended learning

Global mobility

- Emerging markets becoming global-scale competitors in the international student market
- Academic talent increasingly sourced from emerging markets
- Emergence of elite, truly global university brands

Integration
with industry

- Scale and depth of industry-based learning
- Research partnerships and commercialisation
- Industry as competitors in the certification and delivery of content

change coupled with greater federal government funding."

While Rhiannon acknowledged that there were valid points within the report, she was also highly concerned by the push for Ernst & Young to advance the private sector involvement into universities. "The report is fashioned to smooth the entry of private sector providers at the expense of a robust and equitable public university sector, as well as to win Ernst and Young business," she says.

"Market contestability" and 'competition' are buzz words designed to paint increased funding cuts to public universities as inevitable and the private sector as the saviour of universities. Universities have already

been cut to the bone but this report talks of 'new, leaner business models' 'run like corporations' to 'exploit profitable market niches' using 'Darwinian' forces.

"This report forecasts cutting 'unprofitable' disciplines, slashing administrative staff and outsourcing back-office functions. It belittles the dominant university model — a broad-based teaching and research institution."

The Ernst & Young report says that traditional university business models are outdated and won't survive new technologies, increased competition and flat-lining government funding.

It is the culmination of a six-month study on the changes occurring

in Australian and international universities. The study included interviews with more than 40 leaders from universities, private providers and policy makers including extended interviews with 15 vice-chancellors around Australia.

"We've seen fundamental structural changes to industries including media, retail and entertainment in recent years — higher education is next," says report author Justin Bokor, executive director in Ernst & Young's education practice.

"At a minimum, universities will need to get much leaner, both in terms of the way they run the back-office, and in use of assets."

Ernst and Young sets out three models as to how universities can survive with the first focusing on providing more online learning opportunities with private sector partners and the second emphasises "niche dominators" which will see universities provide a small, world-class range of teaching and research programs. The third model focuses on the evolution of the "transformer" future model, which will be led by private providers and new entrants, not incumbent public universities.

"Innovators" in the report would "extend the definition of a higher education customer to include content wholesalers, content consumers, financiers, employers and parents" as well as creating a value chain for new areas of specialization, as well as "combining traditional education services with services in related industries such as media and entertainment, financial services and venture capital".

"This is a sector that, more than any other, will shape Australia's future as a high-performing knowledge economy," Bokor says. "But, to succeed, Australian universities will need to forge new business models that are dynamic, modern and are fit for the decades ahead."

Edith Cowan University vice-chancellor Professor Kerry Cox was in total disagreement with the report's prediction. "No," was the response he gave when asked if he agreed with the report's prediction that no university in Australia could survive until 2025 with its current business model. Cox said that the university had put in various measure to attract private funding to maintain quality of courses and staff.

"A service focus for the communities we were established to serve for starters," Cox says.

"Increasing use of digital technology for learning and assessment; continuous adjustments, making use of technology, to improve cost effectiveness and explicit rewards systems for students and staff and those involved in governance. ECU will continue to phase in new courses and phase out those that are at lower priority long into the future, and will continue to make appropriate staff adjustments to have the expertise to deliver the agreed priorities."

Edith Cowan was awarded university status in 1991 (formerly the Western Australian College of Advanced Education) and has more than 27,000 students at both undergraduate and postgraduate levels. About 5500 of these are international students from more than 70 countries. It offers more than 400 courses, through four faculties: Business and Law; Computing, Health and Science; Education and Arts, which includes the Western Australian Academy of Performing Arts (WAAPA) and regional professional studies.

Belinda Robinson, CEO of Universities Australia, acknowledges some valid points in the report, but certainly doesn't agree with everything. "It correctly observes some key drivers of change," Robinson says. "The democratisation of knowledge, increasingly tight public budgets, the digital economy, globalisation and the integration of education and industry as well as an increasingly competitive international environment are already pushing the sector to a crossroad."

"On the impact of the digital era, however, I don't believe though that the university sector will be in the same situation, say as media, where it is was talked about and talked about and then 'bam' one day we woke up and everything was different."

"Universities have been talking about these issues for a long time and adapting and re-shaping their business models and practices accordingly."

"Universities have been around since the ninth century and survived catastrophic changes. The challenge though, will be to ensure that we have the policy, regulatory and funding frameworks in place that will enable each institution to find their place in this brand new world." □

welcomes NBN rollout

broadband network will be beneficial to both staff and students at the university.

He said the network's rollout will enable students and staff to better access and share teaching and learning resources, including "material, research data, library resources, and digital artefacts in the university's cultural collections".

"The network will also enable better research collaboration with the sharing of large amounts of data including large files like medical images," Tucker said.

Access to the network will assist the university to position itself as a world leader in broadband-enabled education, he said, adding that the

system will give students equitable access to resources.

Conroy said network construction activity is happening in every state and territory in Australia, including in South Penrith, Carlton, Prospect, Nudgee, Gungahlin, Darwin, and Meadow Springs.

"Over 24,000 Australians are already using the NBN, across all three of its technologies. The NBN is here and it is happening now," he said.

"The only threat to the NBN's fast, affordable and reliable broadband is the Coalition, whose leader Tony Abbott says that the NBN is 'an investment we don't need'." Conroy said.

NTEU RESPONDS, page 13. See the full Ernst & Young report at www.campusreview.com.au. A full analysis will be in the next Campus Review

THOUGHT LEADERSHIP

Written by Mitch McCrimmon, Ph.D.



Thought leadership is radically different from traditional top-down leadership. It can be directed up as well as down or sideways, has nothing to do with position or managing people, is the basis of innovative change and is egalitarian because it can shift rapidly from one person to another.

Thought leadership can't be monopolized. It has nothing to do with climbing a hierarchy. It changes how people think, hence no action is necessarily implied. Implementation is a separate phase - a managerial undertaking.

Kouzes and Posner base their view of leadership on the metaphor of a journey. Their leaders sell the tickets for the journey AND help followers reach the destination. By contrast, thought leadership merely sells the tickets for the journey, leaving it to others to get to the destination on their own or with the help of managers, coaches, facilitators and catalysts.

If this sounds like leadership cut in half, think about leading by example. It also stops at selling the tickets for the journey. It demonstrates what needs to be done, leaving others to follow without helping them get there. Of course, you could help people get to the destination, but then it wouldn't be leading by example. Thought leadership can be shown by example too, as well as by advocating a better idea. In general, leadership of all kinds can be defined as: *showing the way for others either by example or by promoting a better way.*

What is thought leadership?

Whenever you advocate a new idea to your colleagues or boss, you show thought leadership. It isn't necessary to have inspirational influencing skills, which is necessary for senior executives because they need to win over the entire organization and beat off their internal competitors for top jobs. Also, to initiate organization-wide change, it helps to be inspirational. But a thought leader can focus on smaller scale changes - ideas for a new product or changes to an existing one. Thought leaders can persuade others using logic, evidence or an actual demonstration of a prototype to win support.

To be a thought leader, you need to immerse yourself in your professional domain and search for new things to say that add value to your organization's objectives. Traditional, top-down leadership depends on personal credibility or character because such leaders are asking people to join them on a difficult journey and they have a great deal of power over their followers. Hence, we need to trust them. The stronger your content, the more content becomes king, and the less powerful your influencing skills need to be.

Thought leaders could actually have weak interpersonal skills and an indifferent character. They could be loners or eccentrics. All that counts is the credibility of their new idea. This is why we can buy innovations offered by odd creative types who we would not entrust to manage any part of an

organization. If you can demonstrate the value of your idea and explain it with conviction, you might not need inspirational influencing skills. Think of the stereotypical artist who has no time to socialize or even sleep and can be quite hard to get along with, but if his or her art is highly original, leadership by example will be shown despite the lack of interpersonal skills and emotional intelligence.

Thought leadership traits

Thought leadership is based on youthful rebelliousness - the willingness to risk group rejection in the pursuit of a better way of doing things. Hence, thought leadership is not a learned skill. Only the content of your discipline or field is learned. Traditional, top-down leadership is portrayed as a collaborative effort between leaders and followers to achieve shared goals. But thought leadership has a more competitive edge. Thought leaders are saying, essentially, that they know of a better product or way of doing things than anyone else in the team or organization.

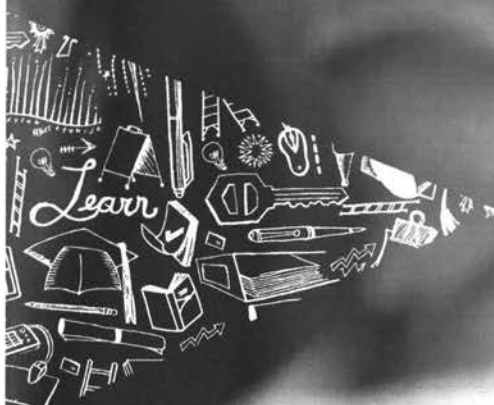
Thought leadership ends when the target audience accepts the idea. It may be that you are using hard evidence to persuade others to avoid dumping a current process for a passing fad. In this case, your leadership does not result in any action taken. This enables us to define leadership as the initiation of new directions and categorize the implementation of new ideas as a managerial activity.

This is important because we tend, traditionally, to focus on the PERSON in charge of a group as the leader who may both champion a new direction and implement it. Hence we think that leadership is about managing change. The real value of examining thought leadership is that it helps us to see that there is a critically important distinction between leadership and management. When executives move from championing a new idea to its implementation, therefore, they are switching hats from leadership to management. The bottom line is that leadership is about the initiation of new directions. Implementing them is a managerial undertaking.

Thought leadership can be shown bottom-up or sideways to colleagues. See **Bottom-up Leadership** for more on this idea or the related topic: **Organic Leadership**. The leadership traits it takes to show thought leadership are the same ones you need to show any kind of leadership as a one-off act of influence as opposed to being in charge of people.

Reform, competition and the emerging consumer-driven market in Australian higher education

Reform, competition and the emerging consumer-driven market in Australian higher education



ERNST & YOUNG
Quality In Everything We Do

The Australian higher education sector will increasingly operate like a 'consumer-driven' market, introducing new demands and risks



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Introduction and executive summary

Over the next five years, the Australian higher education sector is expected to undergo major change as the *Bradley review* recommendations are progressively implemented. One of the key elements of the reform agenda is the move to a demand-driven funding model, imposing greater dependence of universities on the power of student choice.

Our view is that the sector will increasingly operate like a consumer-driven market, introducing new demands and risks for higher education institutions. The shift to a demand-driven model may stimulate growth at a system-wide level, but it will also drive significant increases in competition, with clear winners and losers. To test this view, we conducted an industry-wide study of the key drivers of student choice, the competitive performance of different universities and institutional responses to the introduction of demand-driven funding. We interviewed twenty executives from seven Victorian universities, including three dual sector universities, and conducted a survey of 1,000 students on the drivers of choice. Our study has provided important insights on the potential future state of the Australian higher education sector.

Our findings and views have crystallised around five key points:

1. Increases in competition will place significant pressure on the business models of established universities, driven in particular by:
 - ▶ Battles for market share between established players, affecting in particular tier 2 institutions with weaker brands and reputations
 - ▶ Further market reform and the threat of new entrants, especially from non-traditional providers targeting higher margin student segments and course offerings
 - ▶ Growth of the 'second estate' in international markets, that is, Organisation for Economic Co-operation and Development (OECD)-standard education in emerging markets at mid-tier price levels, diverting volumes from the already vulnerable international student market

2. With respect to key drivers of student choice, there are significant gaps in market perception between tier 2 and tier 1 universities, and within the set of tier 2 universities. This will create significant exposure for tier 2 universities in an increasingly competitive market place.
3. To survive and succeed in the face of increased competition, universities at risk of losing market share will need a clearly differentiated market position and a strong alignment of the student experience and brand promise.
4. As the market becomes more consumer-driven, incumbents should consider strategies and techniques used in consumer marketing industries, for example, the creation of focused market positions based on the principles of psychographic segmentation, and multi-brand strategies, which could enable universities to serve multiple segments without diluting their core brand.
5. Universities, especially those at risk, may also need to consider more fundamental restructuring, including mergers and divestment strategies related to courses, degrees and possibly research and development (R&D) centres.

This report discusses our study, key findings, and recommendations for key players in the Australian higher education sector. It challenges the sector to draw parallels and lessons from other consumer industries and from other sectors that have experienced deregulation and rapid increases in competition. We believe the paper provides food for thought as the sector prepares for an increasingly competitive and dynamic higher education market place.

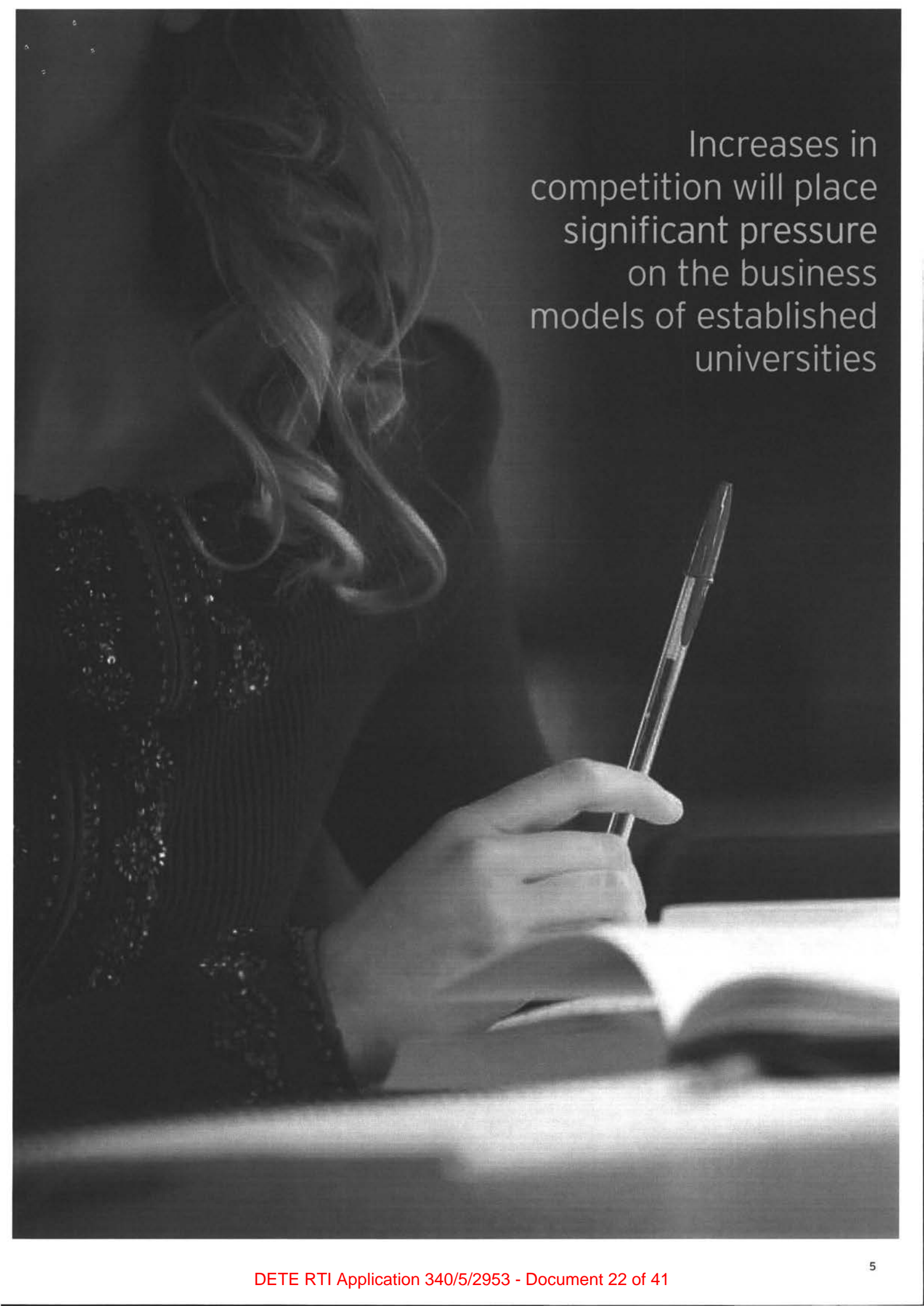
We hope you find it useful.



Peter Rohan
Global Leader Education



Justin Bokor
Executive Director, Advisory



Increases in
competition will place
significant pressure
on the business
models of established
universities

Brave new world: market forces and the growth of competition in the Australian higher education sector

Increases in competition will put significant pressure on the business models of established universities

As higher education in Australia moves toward a demand driven funding model and other potential market reforms (e.g., price deregulation) are introduced, the business models of established universities will be challenged. This competition will be fuelled by battles for market share between established players, entry of new players into the market, and further pressure in international education markets from the growth of the 'second estate' in emerging markets.

Battles for market share

The shift to a demand-driven model will lead to battles for market share between established players, exposing incumbents' financial positions as has happened in other deregulated industries, such as telecommunications and utilities, over the last 10-15 years.

New entrants

The experience of deregulation in other industries suggests new entrants in the market will target high value and niche customer segments¹. Incumbent institutions will need to clearly understand which 'consumers' they are targeting, what those consumers need and how they prefer to be serviced.

'Second estate'

The changing dynamics of higher education in emerging international markets will create a viable 'second estate', that is, providers of near-OECD standard education at a fraction of OECD prices, diverting volumes from OECD providers and further challenging Australian exports of higher education.

Higher education reform and the promotion of market forces is likely to continue regardless of which major political party holds power over the next 3-5 years and beyond. The higher education reform agenda has been promoted by the Federal Labor Government in recent years. The Coalition, for its part, brings an acknowledged agenda to promote deregulation and market forces across the economy generally and including the higher education sector.² This suggests further market reform is likely regardless of which party prevails in the next election and suggests the level of competition will intensify.

These drivers of competition will put increasing pressure on the business models of established players. Several universities have run low single digit operating surpluses in the last two years (or in some cases, marginal losses) and rely on key segments (in particular, international students) and key programs (e.g., business, accounting and management programs) to sustain their business models. A sustained decrease for an established institution in a key segment or program would seriously impact their financial viability and business model.

These key drivers of competition, and potential responses, are discussed in detail in the following pages.

¹ New entrants include, for example, international providers, private companies in related industries such as SEEK, and TAFEs extending their offerings to provide degree courses.

² See for example, 'Coalition Economic Principles: Rebuilding Sustainable Prosperity', May 2009, Liberal Party of Australia website, www.liberal.org.au, accessed 17 June 2011.

The shift to a demand-driven model will lead to battles for market share between established players

"The shift to over-enrol has started in a serious way... We will have to respond to what other universities do"

Pro Vice-Chancellor

What will happen if the fight for market share continues for the next five years?

How will your institution respond?

As part of this study, Ernst & Young interviewed 20 executives across seven Victorian universities. We asked each executive a number of quantitative and qualitative questions, including *"How do you see the implementation of a demand-driven model in 2012 affecting your institution?"*. Responses centred around three key strategic views, with the common factor being the institution's market position and brand strength:

- ▶ Tier 1 institutions are relatively unconcerned with the introduction of demand-driven model. These institutions are comfortable with their volumes, market share and market position and will only marginally increase their volumes in a demand-driven market.
- ▶ Tier 2 institutions with strong brands have begun (and will continue) to use their market and brand position to drive substantial increases in enrolments.
- ▶ Tier 2 institutions with modest or weak brands are already seeing declines in enrolments and entry scores. These institutions are vulnerable and worried about this continuing trend.

Most executives in the sector are well aware of these initial responses, but few that we spoke to have explored what might happen if these market dynamics continue for 3-5 years. Several universities are already well in advance of their Commonwealth Supported Place loads (e.g., 120+% of their cap³).

Institutions should now consider:

- ▶ What would happen if your competitors continued this aggressive pursuit of market share?
- ▶ What would happen to your institution if you lost sustained and substantial share, particularly from high margin programs such as business and management?

The potential fallout from the aggressive pursuit of market share can be seen in other sectors that have deregulated over the last 10-15 years, for example, telecommunications and utilities. University executives would do well to reflect on the experiences in these industries and the lessons that can be learned.⁴ Some players in these sectors, Telstra, for example, have had to completely transform their business models.⁵ Few universities are contemplating such a transformation at this stage. Some, especially at-risk institutions, might need to consider such an approach.

³ See, for example, D. Harrison, 'Universities enrol extra 50,000 undergraduates', *The Age*, 22 April 2011.

⁴ Clearly there are significant differences between higher education and the telecommunications and utilities sectors. The latter in particular is a predominantly price-driven commodity service. Price is a much less dominant factor in higher education, with quality and career outcomes more salient to students. Nevertheless, the experiences of incumbents in both sectors, in particular the competitive responses to deregulation, warrant reflection as a potential source of insight to a higher education sector facing sustained levels of increased competition.

⁵ See, for example, D. Kitley, 'Thodex goes undercover to discover the real Telstra', *The Australian*, 12 November 2010.

Experience of deregulation in other industries suggests new entrants in the market will target high value/niche segments

"If we do not have the right government support, new entrants will cherry pick our most profitable courses. We're going to be left providing loss-making courses that serve the public good"

Vice Chancellor's Chief of Staff

Other sectors that have been deregulated over the last 10-15 years have seen rapid increases in competition and the entry of multiple new players. In the Australian telecommunications sector for example, 70 competitors entered the market within 18 months of full deregulation in July 1997.⁶ In 2011, there are over 600 players in the sector.⁷

In the utilities sector, deregulation of gas and electricity markets has led to a similar proliferation of new entrants. Some have come from abroad and have built substantial positions in the market, for example, CLP, Hong Kong Electric, and Singapore Power.⁸ Others have targeted niche positions in the market, providing trading strategies and services for high value industrial and commercial customers for example.

The impact on incumbents in both sectors has been substantial – declining margins, rapid increases in customer 'churn' and a general need to redefine their market position.

Business models in these sectors have changed dramatically. Established players that were traditionally 'product-based', engineering-dominated institutions have become sales and service focused, customer-driven organisations.

Even those that have maintained a similar set of products and services, have had to substantially restructure their operations to drive out cost.

The parallels to the higher education sector are evident. New entrants such as Laureate Education Inc have come from abroad with the very substantial backing of private equity and lofty ambitions. Laureate has a clear business model – focus on high-margin programs (e.g., business, IT, accounting) and leave lower margin programs to incumbents.

In the past, industry policy settings have limited the growth of new entrants, especially outside of the training sector. Further measures to remove supply quotas and enable increased student choice could open up more of the higher education sector and further expose established players to ambitious and well-resourced multi-nationals, private providers and new entrants.

Under a new Tertiary Education Quality and Standards Agency (TEQSA) regime, new entrants may not necessarily become universities in the traditional sense. Nonetheless, there are likely to be significant opportunities for other types of higher education providers to target attractive segments of the market.

Implications for the higher education industry

Universities have traditionally been product-based organisations, with the product 'providers' (faculty staff and academics) having substantial power to determine 'product offerings' (programs, courses) and delivery methods. The introduction of a demand-driven funding model and other forms of deregulation will shift power to the consumer. Universities will need to build institutions that clearly understand which consumers they are targeting, what those consumers need, and how they prefer to be serviced. Most universities have made some progress in this regard, however the experience of the telecommunications and utilities sectors suggests this process will need to go much further to drive success.

⁶ L. Timson, 'Competition creates cheap communication', *Business Sydney*, 26 March 1999 via Factiva(c) 2011 Dow Jones and Company.

⁷ U7100 - Telecommunications Services in Australia', IBISWorld, 2011.

⁸ See, for example, 'Australia's Airtel recommends US\$6B bid by Babcock, Singapore Power', *Channel News Asia*, www.channelnewsasia.com, 30 March 2007, accessed 17 June 2011.

Growth of the second estate in emerging markets will divert volumes from the already vulnerable international student market

“China has an audacious agenda to create a handful of true world-class universities ... and the will and resources to make it feasible”

**President,
Yale University⁹**

The issues affecting Australia's performance in international education markets – visa rules, exchange rates, growth in competition from other OECD providers – have been well documented. Less discussed, but perhaps of greater impact in the longer-term is the growth of the second estate in emerging markets.

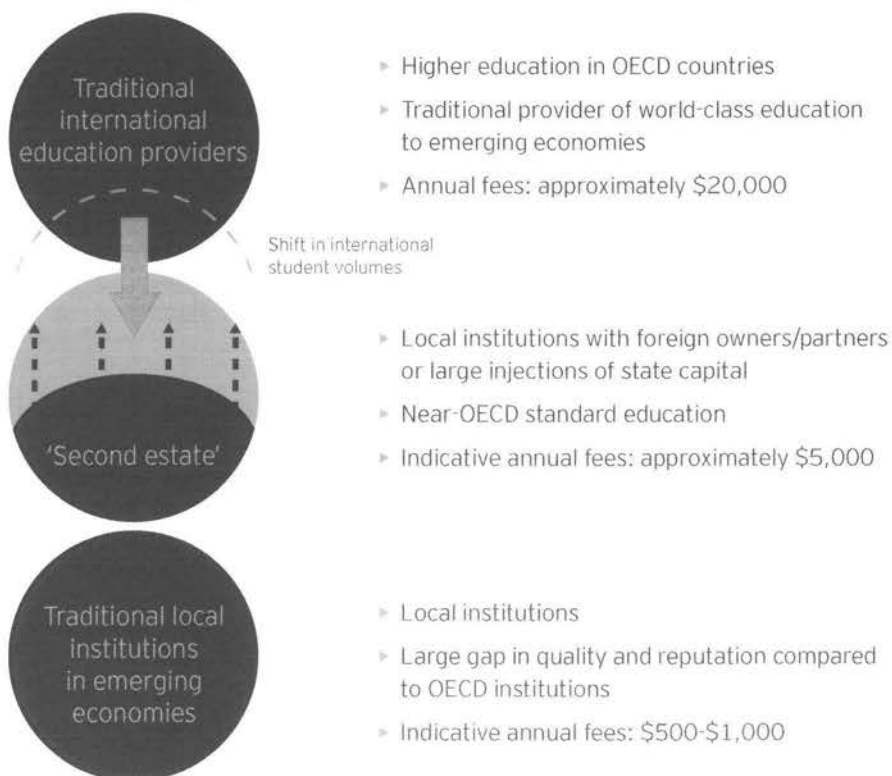
Traditionally there has been a large gap in education standards, and price levels, between OECD education institutions and domestic institutions in emerging markets. A number of actors are seeking to fill, or exploit, this gap, creating a second estate of near-OECD standard education in emerging markets at a fraction of the price. Trans-national education (i.e., OECD institutions setting up programs in emerging markets) has played a role here.

However, the real growth in the second estate will come from the transformation or creation of whole new domestic institutions. For example, institutions that are taken over by the likes of Laureate, who then reshape quality in partnership with curriculum or degree providers; or new institutions created in the image of OECD standard institutions by increasingly ambitious and well resourced governments in countries such as Saudi Arabia, China, India and the like.

These developments will create a new level of competition for Australian institutions seeking to return to the heady days of sustained double digit growth of international education. Australian institutions will need a sharper value proposition for students and their parents in international markets and clear alignment of the student experience. Regardless of how effectively they do this, Australian institutions may need to resolve themselves to lower levels of growth from international education, and align their finances and business models accordingly.

Alternatively, Australian universities could pursue other strategic options, including, as several Australian universities are doing already, becoming a player within this second estate.

Figure 1 – Emergence of the second estate



⁹ Quoted in *The Times* "Higher Education Supplement", 4 February 2010

Students rule: drivers of student choice

Students generally have a consistent set of key drivers of choice

Survey findings were mostly as expected – students rated 'quality of education', 'career opportunities' and 'specific course offered' as their top three drivers of choice when selecting a tertiary institution

As part of our study, Ernst & Young conducted a survey in the Victorian higher education market of 1,000 current and prospective higher education students.

Students were asked to rank the importance of ten drivers of choice – identified through student focus groups conducted as part of the study – in selecting a tertiary institution. Students were also asked to rank competing institutions based on how well they perform against each driver of choice.

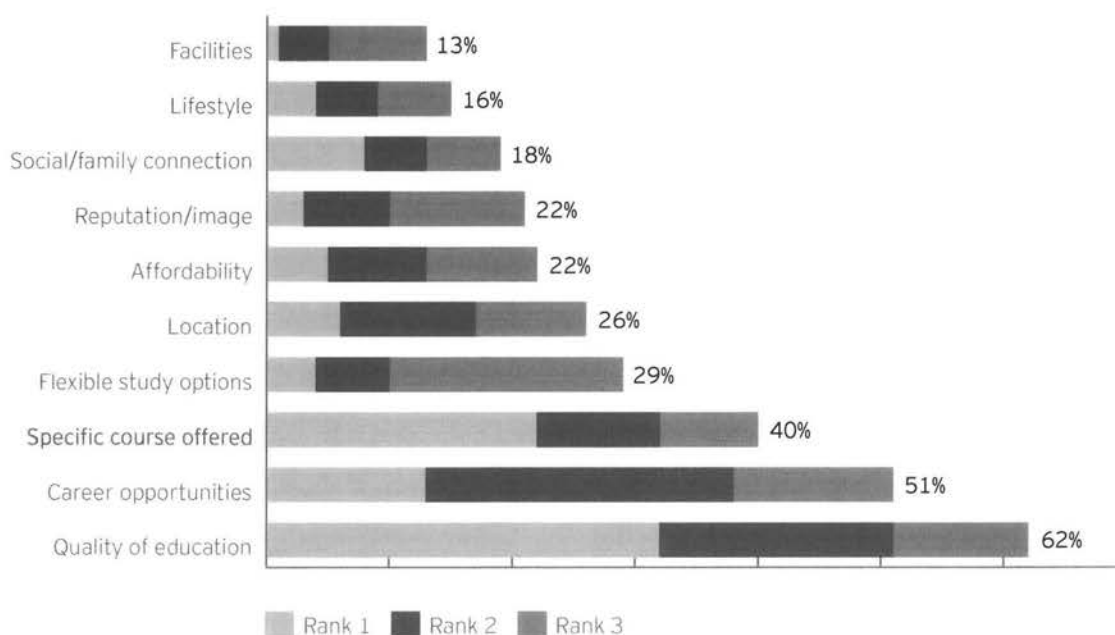
By including a competitor assessment in our survey, we were able to map the relative strength of competing institutions (in this case, eight Victorian higher education institutions) against

each of the drivers of choice, and to test the perception variances against demographic data collected in the survey (e.g., age, gender).

The findings were mostly as expected – students rated 'quality of education', 'career opportunities' and 'specific course offered' as their top three drivers of choice, with only minor differences in gender and age.¹⁰ The figure below illustrates students' feedback on drivers of choice.

When mapping students' perceptions of competing institutions, however, the results showed large gaps in perception of performance between different institutions. An analysis of these results follows on the next page.

Figure 2 – Proportion of times each driver of student choice was ranked number 1, number 2 or number 3



The above chart shows the drivers that would influence or did influence students' decisions in making a choice to join a university/college. Students were asked to rank each of the drivers from 1 to 10 in order of importance (1 – being 'most important' and 10 being the 'least important'). The chart shows proportion of times each driver was ranked number 1, number 2 or number 3.

¹⁰ The key age-based difference was, unsurprisingly, a significantly higher preference for flexible study options amongst students aged >25. The key gender-based difference was a higher level of importance placed on 'career opportunities' by males compared to females and a higher level of importance for females on 'convenient location'. This may be a reflection of a greater female awareness of safety and the importance of location.

Large gaps between institutions will create significant exposure for lower-rated universities in an increasingly competitive market place

Our study revealed large gaps in perception of performance between tier 2 and tier 1 universities, as well as large gaps within the set of tier 2 universities, exposing tier 2 institutions in an increasingly competitive market place

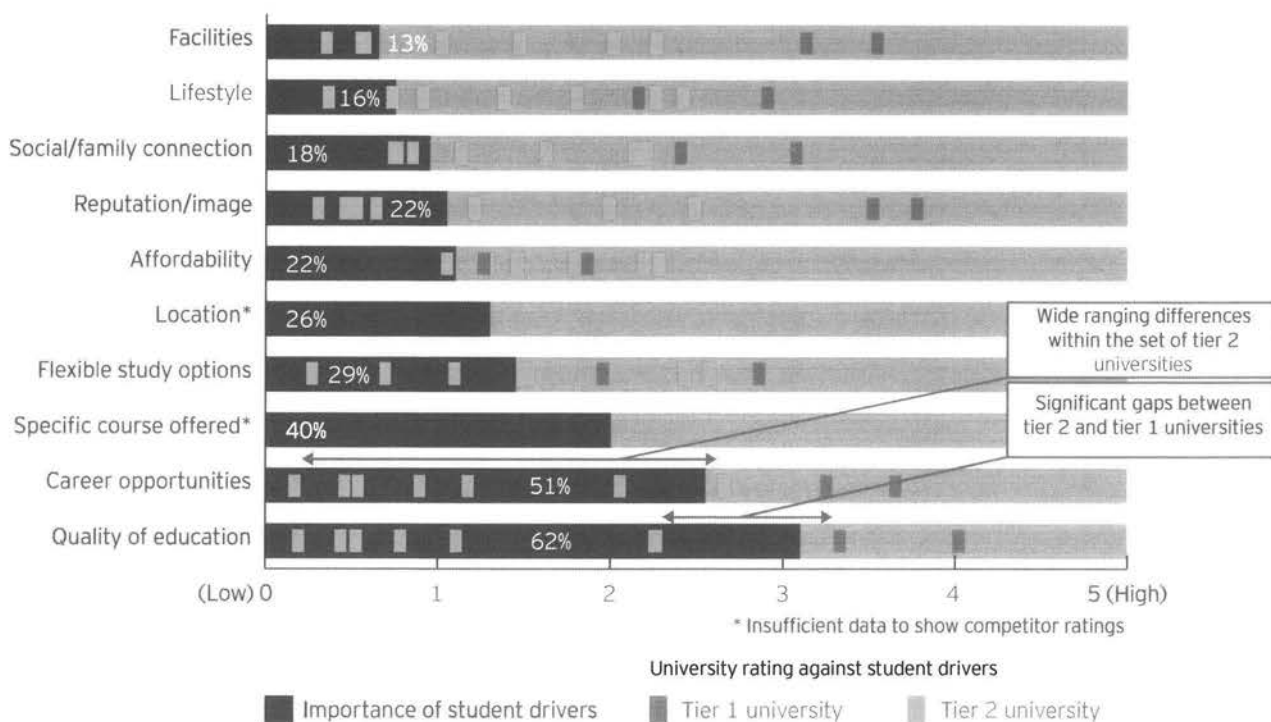
Students were provided with a list of eight Victorian institutions, two of whom are typically classified as tier 1 while the remainder are typically classified as tier 2 universities. They were asked to nominate the top three Victorian institutions on their performance against each of the drivers of student choice.

Our findings indicate large gaps in performance ratings between tier 2 and tier 1 universities across all drivers of student choice, as well as large gaps within the set of tier 2 universities. This is likely to create significant exposure for lower-ranked tier 2 players to increasing competition amongst providers. Bridging perception gaps such as these across a market as a whole is typically prohibitively expensive and can take many years.

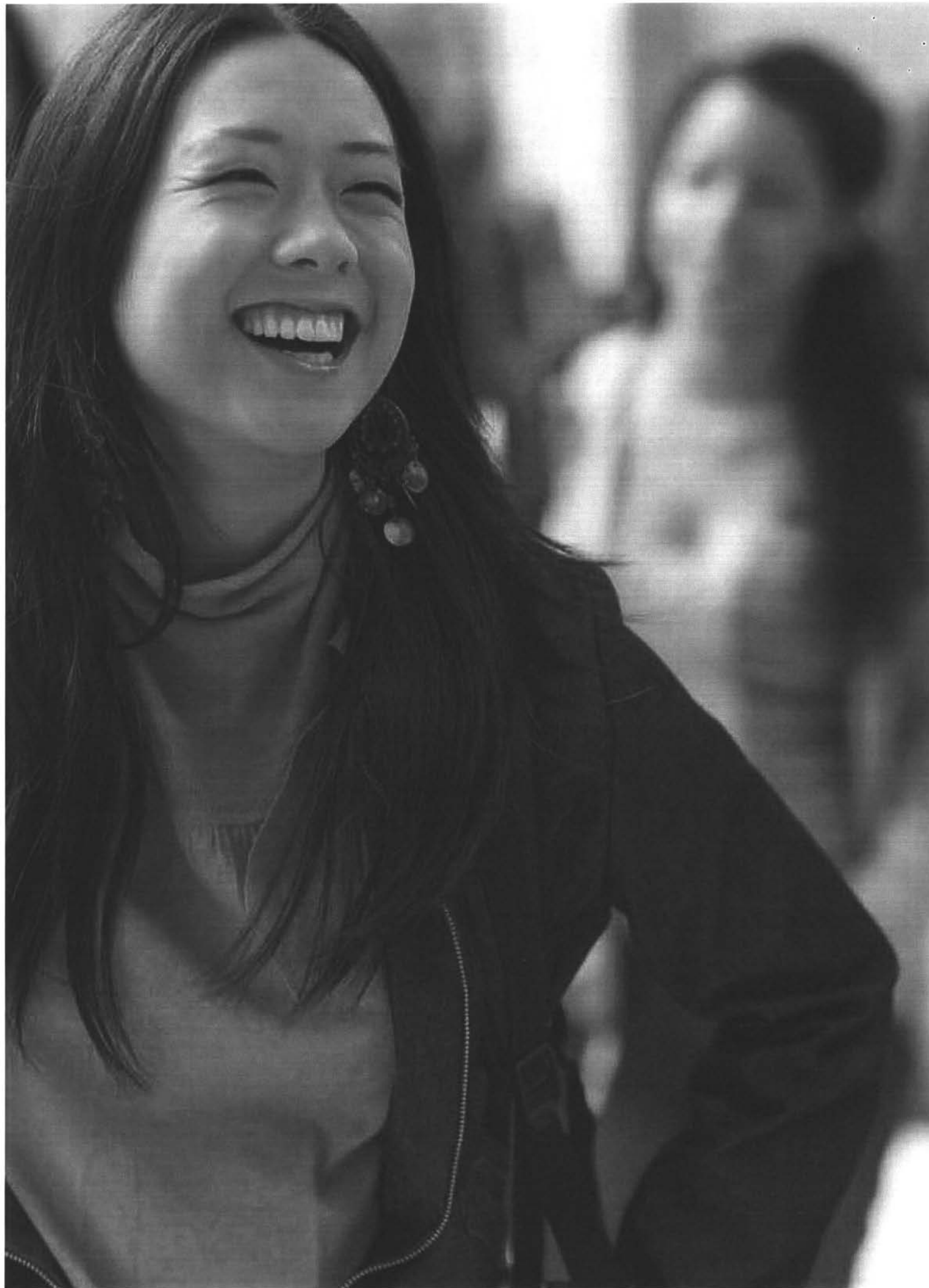
We recommend that universities adopt targeted strategies, for example:

- ▶ Increase quality of education for key programs aligned to a differentiated market position and potentially rationalise non-core programs and courses
- ▶ Create strong industry links in target domains and tie this into the student experience and career pathways
- ▶ Leverage strengths in particular program offerings. For example, leverage flexible study options (two tier 2 institutions in our survey performed strongly in this category) and industry focused up-skilling or re-skilling to create a point of difference in mature age segments.

Figure 3 – Competitive ratings of universities on key drivers of student choice



Note : Each block represents a Victorian university and the proportion of times the university was rated as a top 3 Victorian institution, converted to a five point scale.



Surviving and thriving: achieving a clearly differentiated market position

Universities at risk need a clearly differentiated market position and approach to survive and succeed

"We competed on location in the past – that won't be enough for us in the future..."

**Vice Chancellor's
Chief of Staff**

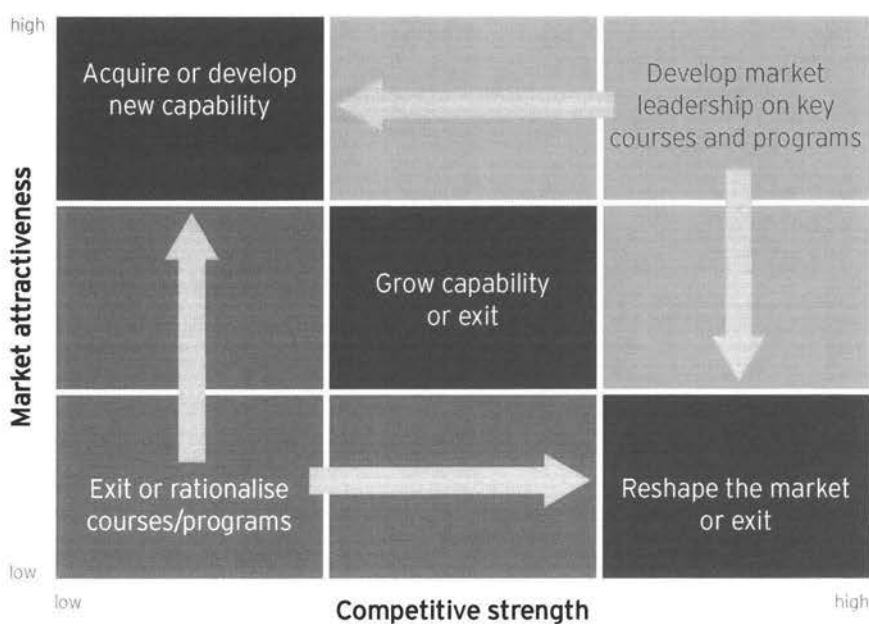
The scale of the gap in perception of performance between some tier 2 universities and their competitors is so large, it makes the feasibility of competing 'across the board' virtually impossible. At-risk institutions should therefore focus on creating and 'owning' a clearly differentiated space in the market.

In the past, there was little difference between many Australian universities, with levels of competition restrained and location frequently the key point of difference. The sector is on the way to moving away from this legacy, but more needs to be done to carve out distinct positions in the market, and to align the full set of university operations against this.

Other sectors, for example retail, have demonstrated how this can be done. Independent Grocers of Australia (IGA) has found a way to compete against the dominant 'tier 1' retailers (Woolworths and Coles) by selecting a clearly differentiated position in the market (small format stores focused on convenience buyers). IGA has aligned its business model against this position (e.g., store locations, layout, product range, pricing and opening hours).

The market positioning framework (see below) is one tool universities can use to review their position in the market and adjust their strategy accordingly.

Figure 4 – Framework for assessing market positioning at the program/course level



Lessons from other consumer industries: multi-brand strategies and psychographic segmentation

As the market becomes more consumer-driven, incumbents should consider strategies and techniques used in other consumer industries, for example multi-brand strategies...

"Our actual teaching and student experience exceed our brand in most dimensions – we need to find a way to shift the market's perception..."

**Deputy Vice-Chancellor,
dual sector university**

Australian universities have been placing increased emphasis on creating student-focused institutions. All universities conduct extensive student experience research and seek to enhance the student experience accordingly. However, in many instances the resulting enhancements resemble modest refinements rather than a fundamental transformation of the business model and student experience.

In a more competitive, consumer-driven market, universities may need to go further. Strategies and techniques used in other industries, for example, multi-brand strategies and psychographic segmentation, may be worth considering.

Multi brand strategies

Universities could consider creating sub-brands in order to target new student segments without diluting the position of the core brand. For example, tier 1 institutions could create an alternative brand and delivery model to reap the benefit of 'mass market' volumes and at the same time protect their reputation as world-class research institutions.

Alternatively, tier 2 institutions whose brands have a negative market perception, might create a new 'premium' brand to open up or grow new segments.

Companies in other industries, for example, Qantas and Toyota, have successfully deployed multi-brand strategies to compete with low-cost competitors or go 'up-market' (see case studies below).

Case study: Lexus opens up the premium car market for Toyota*

Launched in 1989, the Lexus brand represented Toyota's effort to create a world-class luxury-car brand. This allowed the luxury brand to flourish independently of the association with the core Toyota brand, which is aimed at the mass-market.

Similarly, tier 2 universities might consider developing a new/premium brand to shrug off negative market perception, especially where there is an opportunity to capitalise on underlying high quality programs.

Case study: Jetstar as a 'fighter brand'

When Virgin Blue entered the Australian airline market in 2000, it posed a serious challenge to Qantas through its low-cost model and cheap airfares. By 2004, Qantas had launched Jetstar as its low-cost fighter brand to respond to this threat and quarantine its premium priced core offerings and brand.

Similarly, tier 1 universities that have surplus demand for their programs might consider a fighter brand to maintain or grow volumes whilst protecting the core brand.

* Case studies discussed in this paper are for illustrative purposes only, and reflect Ernst & Young's general analysis of events. They have not been sanctioned by the relevant parties.

...and psychographic segmentation

"Our strategy is built around the programs and courses we offer... We haven't defined a target set of students"

**Pro Vice-Chancellor,
Student Services**

Psychographic segmentation

Psychographic segmentation is an approach to winning in consumer markets that says an enterprise must (a) understand and select a target set of consumers based on a range of demographic factors (for example, age, gender, and socio-economic status) and psychological drivers (attitudes, behaviours, and preferences); and (b) build the product offerings, customer experience, brand and marketing strategy around the needs and preferences of the chosen segment(s).

Australian universities have deployed the principles of psychographic segmentation to varying degrees. Some have defined target students using the principles of psychographic segmentation, but few have aligned the full range of programs, student experience, brand and marketing to the needs and preferences of chosen segments.

Several of the universities whose executives we interviewed have strategies that remain 'product-led' – that is, focused on a core set of programs and course offerings – to the extent that they were unable to point to a set of target student 'segments'.

In some cases, the program and course offerings are of sufficient quality – and enjoy sufficiently strong levels of underlying demand – that the need for psychographic segmentation seems a moot point. However, in an increasingly competitive, consumer-driven market the risk will remain of an incumbent competitor, or new entrant, winning market share by getting 'closer' to the customer (student) and developing new programs or experiences that more closely match to students' needs and preferences.

Has your institution defined a clear set of target student segments? Have you built your programs and courses, student experience, brand and marketing to align to the needs and preferences of these segments?

Case study: Psychographic segmentation in health and beauty retail*

A leading Australian retailer of women's health and beauty products uses psychographic segmentation to inform every aspect of their retail value chain. The retailer has defined multiple psychographic segments, including: 'complete woman', 'modern woman', 'budget woman', 'sensitive woman', 'conventional woman' and 'adventurous girl'.¹¹ Each segment is defined in terms of demographic profile (e.g., age, family status, income level, employment status), drivers of satisfaction, shopping and media habits, and channel preferences (e.g., online vs store). The retailer has tailored the product range, in-store experience, and marketing strategy to suit the needs and preferences of the chosen segments and has carved out a sustained position in this highly competitive marketplace.

* Case studies discussed in this paper are for illustrative purposes only, and reflect Ernst & Young's general analysis of events. They have not been sanctioned by the relevant parties.

¹¹ Segment names altered to protect confidentiality.

Institutional restructuring: collaboration, mergers, and divestment strategies

Universities, especially those at risk, may need to consider more fundamental restructuring

The merger of the Fitzroy Lions and the Brisbane Bears provides an example of the benefits that can be derived from institutional restructuring in a not-for-profit industry

Institution-level restructuring – merger, acquisition, and divestment activity – is a common strategy in the private sector, but frequently overlooked as an option in the public sector. Our view is that Australian universities, particularly tier 2 universities exposed in an increasingly competitive market place, should actively consider the potential benefits of restructuring.

The process begins with identifying gaps or cost issues in capabilities, programs or course offerings, target segments and locations, for example, to inform the need to collaborate or merge, or alternatively, divest existing capabilities or assets where the institution has limited competitive advantage.

Decisions on collaboration, mergers and acquisitions and divestments are strategic and need to be driven from the top of the university. These decisions need to be based on a clear understanding of an institution's strengths and weaknesses, its market position, the state of the market and the suitability of potential collaborators or partners.

Many examples exist of Australian higher education institutions collaborating in research activities and investments. There are fewer examples of collaboration or merger activities across teaching programs or across whole institutions¹².

Has your institution considered merger or divestment activities?

Case study: Merger of the Fitzroy Lions and the Brisbane Bears*

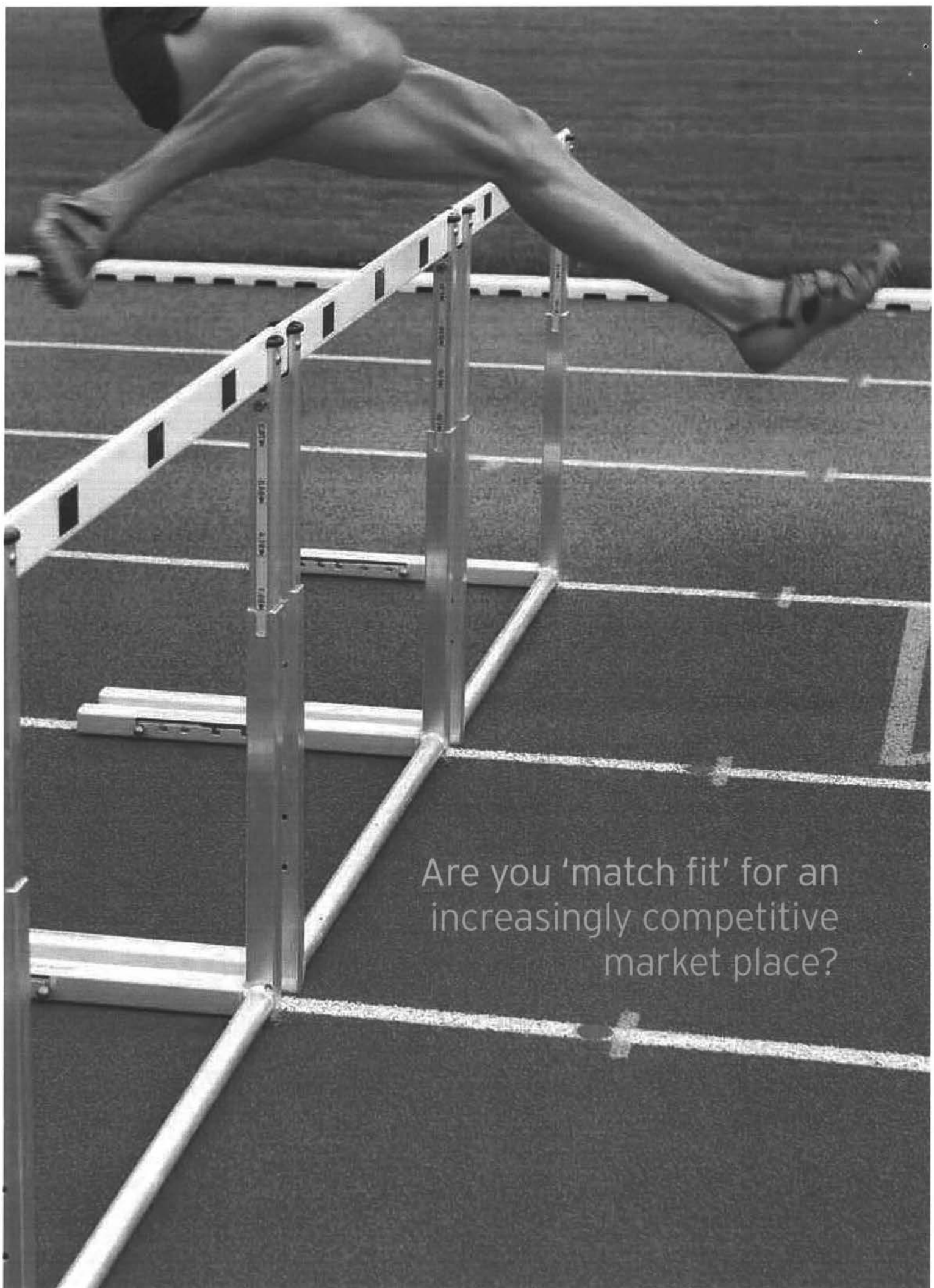
In 1996, the Australian Football League (AFL) clubs the Fitzroy Lions and the Brisbane Bears decided to merge. At the time, both were struggling on the field and financially, especially with Brisbane lacking support in the critical Melbourne market. The merger created a super team – the Brisbane Lions. The Lions won three straight AFL premierships from 2001-2003, becoming the most successful team of the decade. With success, the combined team consolidated support in the Melbourne market through Fitzroy's heritage and carved out a strong position in the Brisbane market.

The merger of the Lions and the Bears provides an example of the benefits that can be derived from institutional restructuring in a not-for-profit industry. In the university sector, at-risk tier 2 institutions could consider forging partnerships – or even a full scale merger such as the Brisbane Lions example – with other vulnerable tier 2 universities to create a new 'super-institution'. Such activities could create value by:

- ▶ Combining areas of strength to create sustained, market leading programs and courses
- ▶ Creating economies of scale for traditionally unprofitable courses
- ▶ Creating savings in 'back office' activities and the asset base which could be used to provide the funds for driving improvements in course offerings and the student experience

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¹² An international example of an institution-scale merger can be seen in the 2004 merger of the University of Manchester Institute of Science and Technology (UMIST) and the Victoria University of Manchester to form the University of Manchester, now one of the UK's largest single site universities and the Sunday Times University of the Year for 2005.



Are you 'match fit' for an
increasingly competitive
market place?

Preparing for the future: a framework to assist institutional readiness

Higher education market diagnostic framework

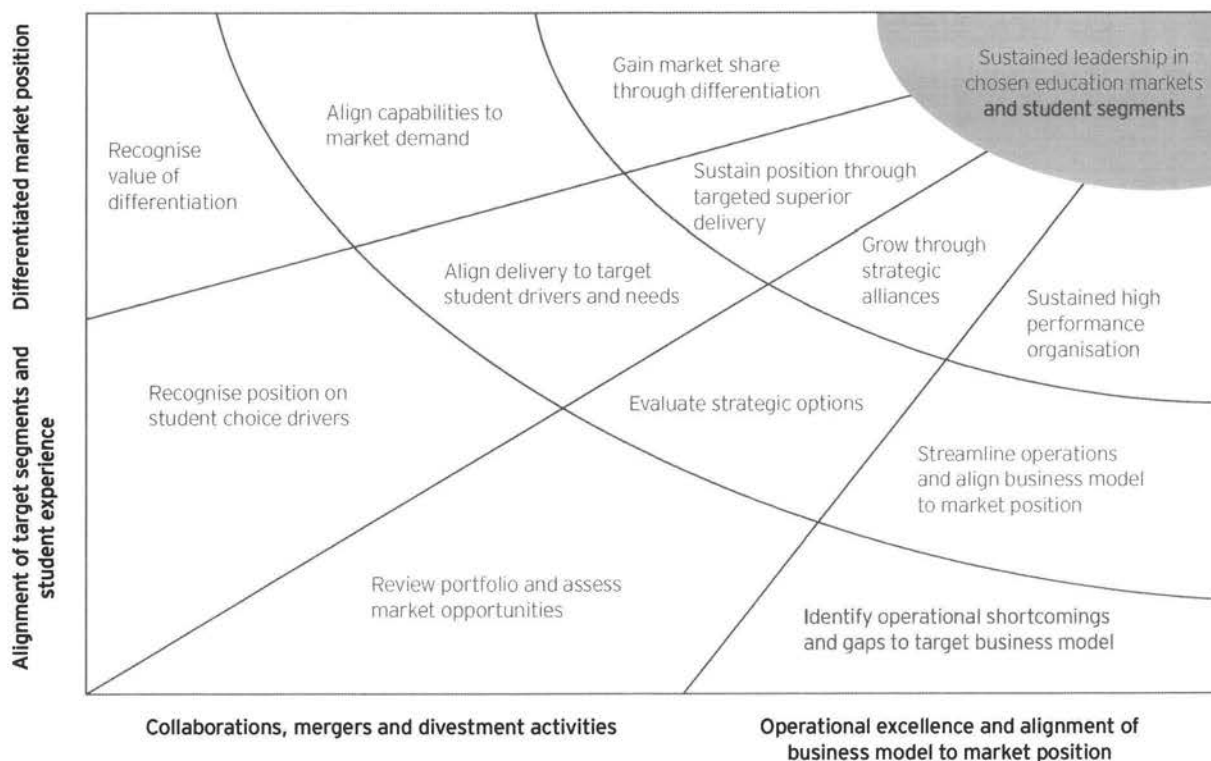
Universities could benefit from using a structured diagnostic process to understand if they are ready for a more competitive, consumer-driven market

To sustain a strong market position in an increasingly competitive higher education market place, we have emphasised the importance of:

- ▶ A clearly differentiated market position
- ▶ Alignment of target segments and student experience
- ▶ Considering mergers, divestments and other forms of restructuring

Regardless of strategic direction, institutions will need to drive operational excellence and alignment of the business model to the market position. This should encompass the whole institution – from teaching, research and academic support through to administration, institutional management, governance and culture.

Ernst & Young has developed a simple diagnostic framework to help universities understand their position on this journey and take appropriate action.



All universities we spoke to are on this journey to varying degrees. Our question to the sector is:

“Where is your institution on this journey, and are you ready for a more competitive, consumer-driven market?”



Methodology

Ernst & Young took a broad approach to generate insights into the changing Australian higher education sector.

This included surveying students, interviewing university executives, and leveraging our network of industry leaders – in higher education, other consumer-facing industries, and in other industries exposed to deregulation.

Student surveys

We conducted focus groups of recent graduates to understand student drivers of choice. The survey questionnaire was **then designed and a research firm engaged to obtain responses from 1,000 current and prospective students.** The questionnaire covered drivers of student choice, students' perception of competing higher education providers, and demographic information.¹³

Senior executive interviews

We interviewed 20 senior executives across seven universities to understand their views on the changing dynamics in the Australian higher education sector, implications for their institution, and current and potential strategic responses. Executives interviewed **included chief operating officers, chiefs of staff, vice chancellors, deputy vice chancellors (DVCs) of student experience/student services, DVCs international, chief financial officers, and heads of marketing.**

Leveraging our network of industry leaders

Ernst & Young insights from international locations were used to complement the views of the Australian higher education team, as well as insights from our team's extensive work in other relevant industries, including consumer marketing industries and deregulated industries such as utilities and telecommunications.

13 For more information on the survey approach, questionnaire and definitions used, please contact one of the Ernst & Young team members listed on page 22

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Throughout the past ten years while based in Queensland, Lucille has extensive experience in the education sector working with the State Government, TAFEs and Universities. Complementary to this experience, Lucille was a guest lecturer for the University of Queensland's MBA program. **Around specific initiatives such as Innovation**, Lucille worked to strengthen links between the University, private and public sectors.



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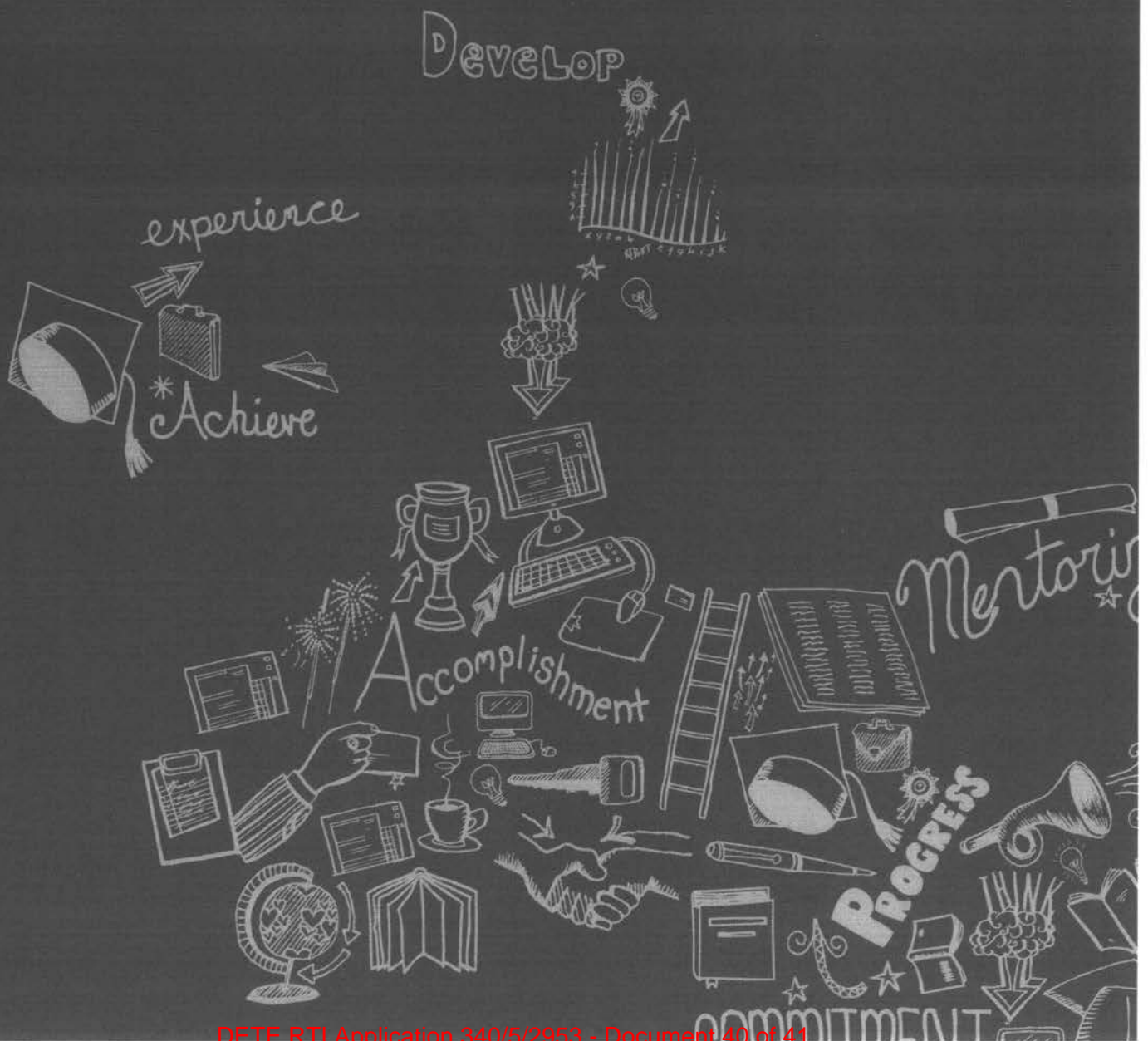
Justin has 15 years' experience as an advisor to public and private sector organisations, with a focus on strategy and operational performance improvement. Justin has advised multiple universities in Victoria and nationally, as well as Federal and State departments of education. His university work has focused on assisting clients with their strategic direction and business plans, new channels to market for international education, financial modelling, and securing Commonwealth grants. Justin's university clients have included several dual sector universities in Victoria and leading New South Wales, South Australian and Queensland universities.



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