National Association *of* Independent Schools

N A I S

Understanding Your Market Dynamics

Leadership Conference - ACIS
Beaver Creek, CO-October 12, 2018

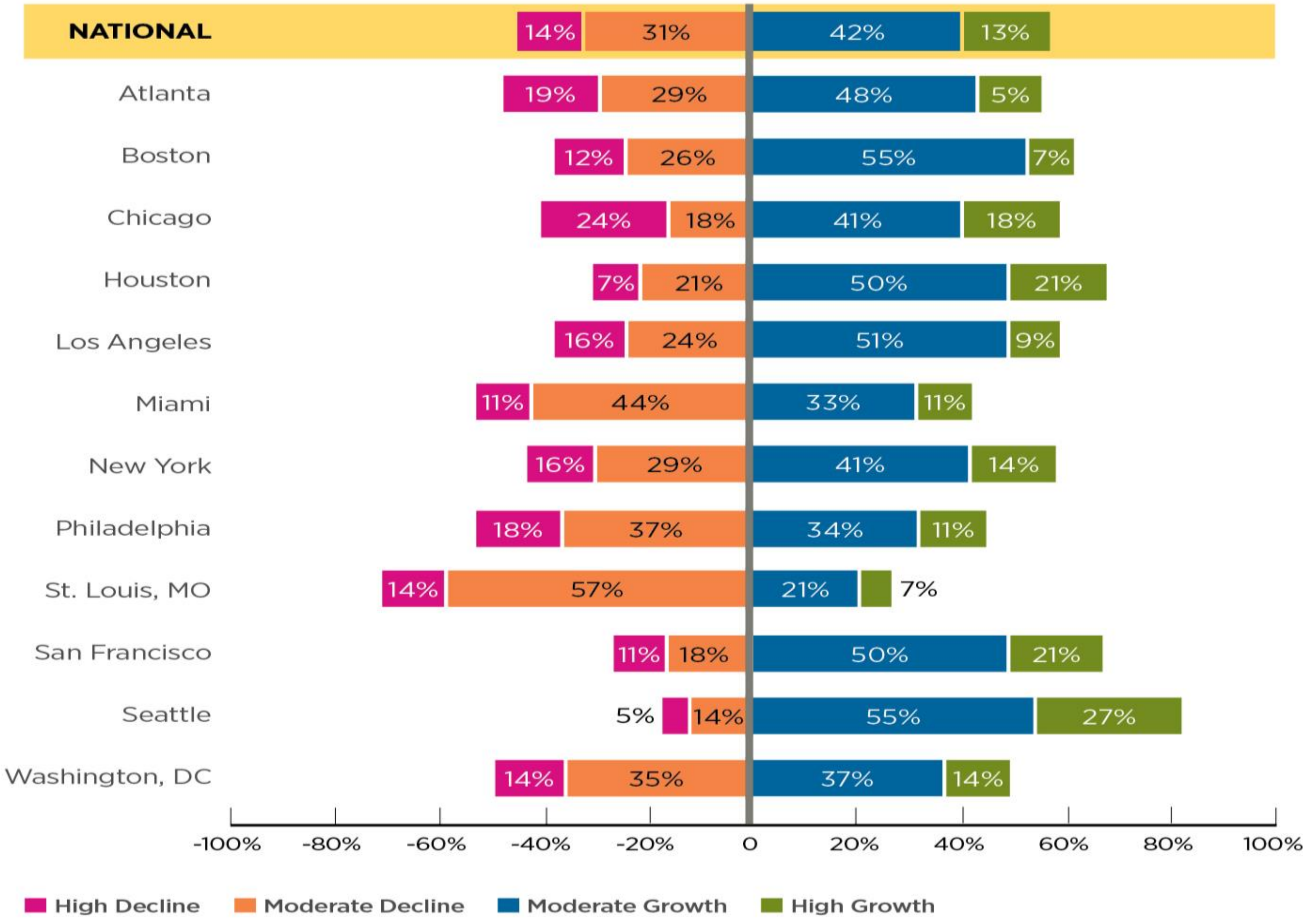
AGENDA

- **The Need for the Metro Area Studies**
  - A New Educational Landscape
    - Demographic Trends
    - Economic Trends
    - Competition Trends
- **Metro Area Studies**
- **Findings and Action Steps**
  - Assessing and addressing demographic changes
  - Assessing and understanding pricing issues
  - Evaluating your value proposition and branding

The Need for the Metro Area Studies: A New Educational Landscape

Although independent school enrollment is steady overall, there are wide variations disparities among schools in different metropolitan areas.

Independent School Enrollment Change by Major Metro Area, 2013-2014 to 2017-2018

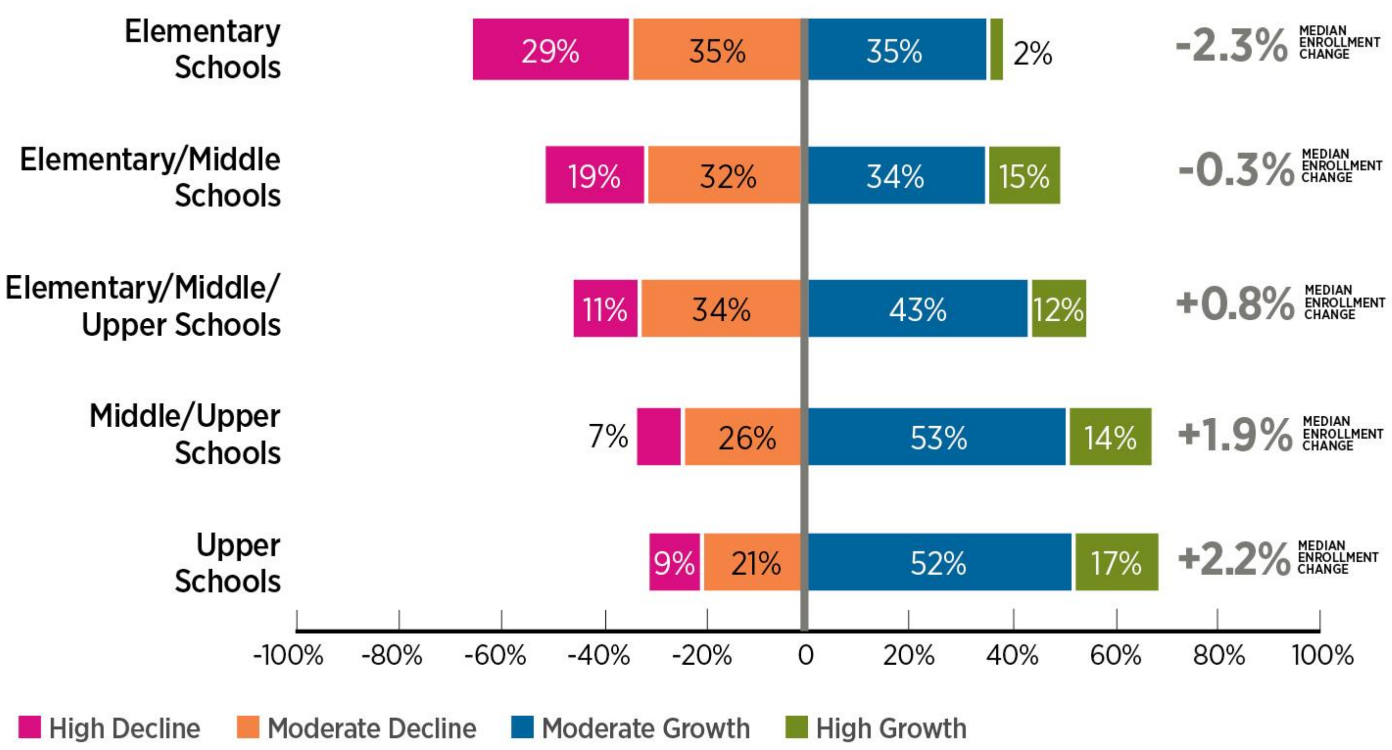


Totals may not equal 100 due to rounding.

Source: NAIS, Total Enrollment, DASL

Nearly 70 percent of upper schools saw enrollment growth between 2013-2014 and 2017-2018, while 64% of elementary school reported declining enrollmemt numbers.

Median Enrollment Change, by Grade Levels Served, 2013-2014 to 2017-2018



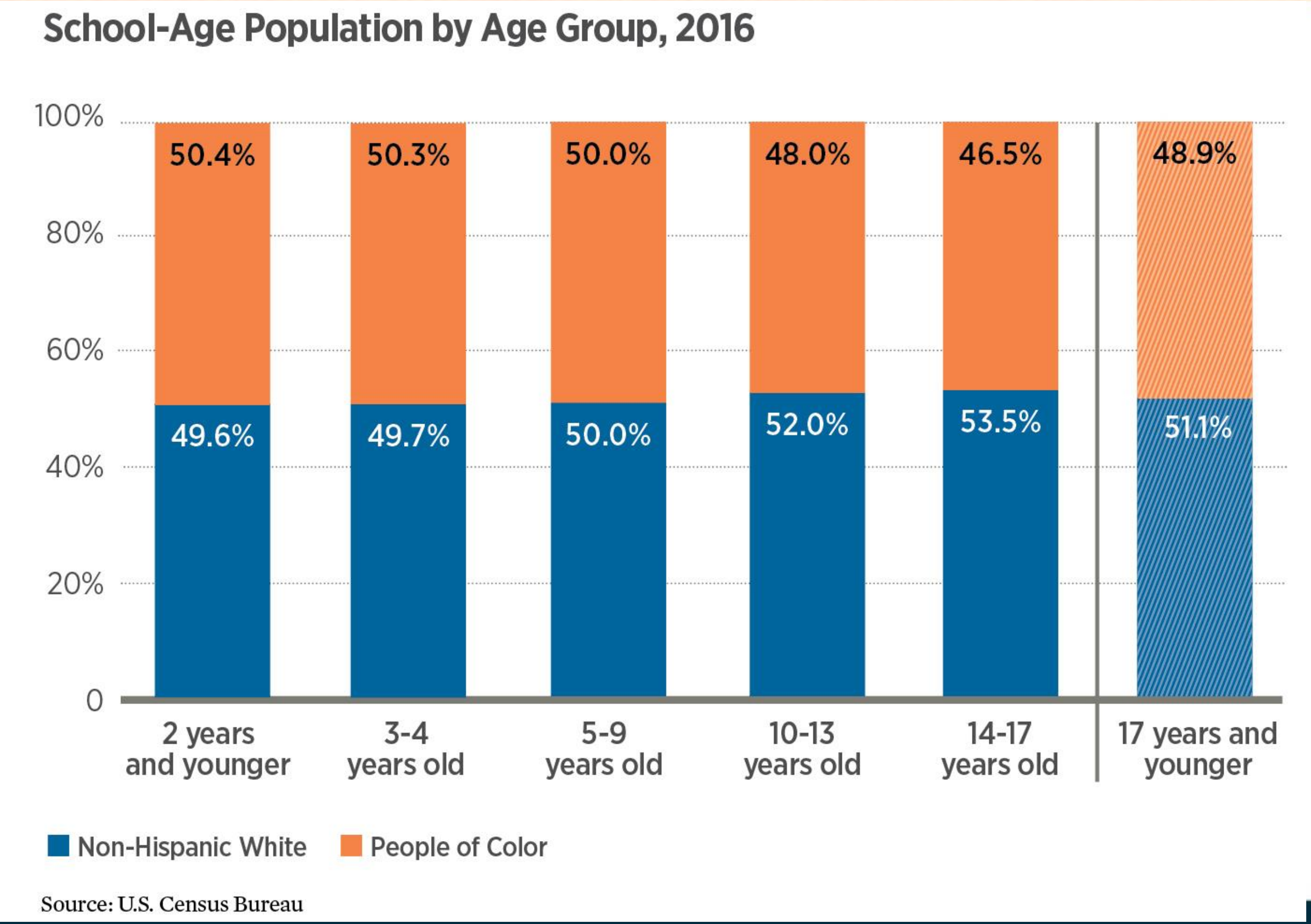
Source: NAIS, Enrollment, DASL

Demographic Trends

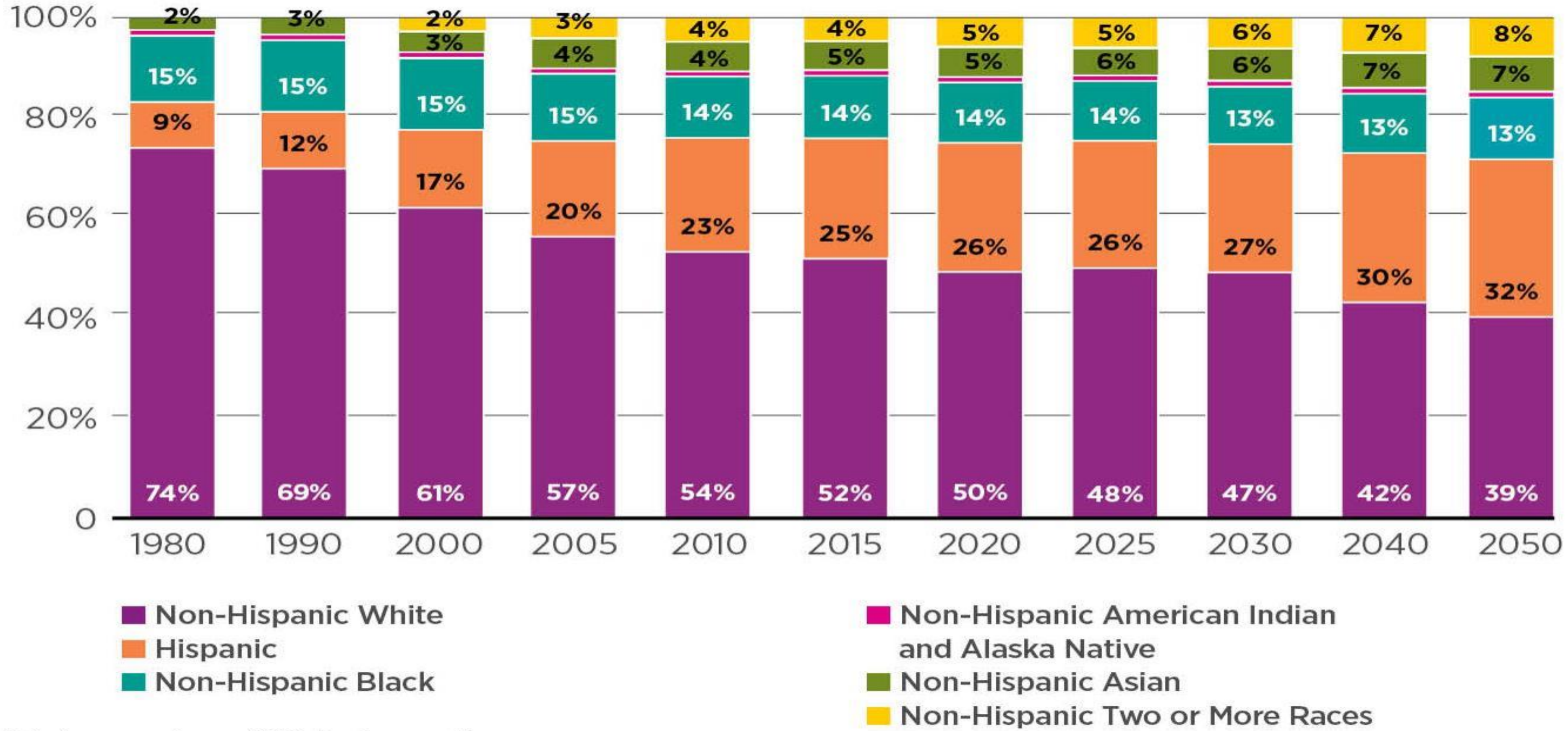
The demographic changes impacting schools are affecting both, students and parents.

- ✓ White population decreasing and aging
- ✓ Rapid growth of “new minorities”: Hispanics, Asians, and multiracial populations
- ✓ New generation of parents: Millennials

Gen Z (born after 1996) is the most diverse generation in the country.



A majority of children ages 0-17 will be of color by 2025.



Totals may not equal 100 due to rounding.

Source: U.S. Census Bureau, Population Division

Millennials are quickly becoming a major part of the market for independent schools. Making less money and more concerned with saving than previous generations, millennials are more concerned with the rising cost of tuition.

Millennials by the Numbers

"Millennials represent the **largest generation in the country** and will soon constitute a significant percentage of current and prospective parents at independent schools". "However, Millennials also **make less money** than other generations, and are concerned with **saving for their children's college** education, making rising tuitions a more important concern for them".

75.4 Million
currently live in the U.S

22 Million
are parents as of October 2015

7 Percent
make over $150,000

63% have over $10,000 in student loans

29 years median age at first home purchase

48% plan to pay all college costs for their children compared to 16% of Gen Xers

Economic Trends

The economic changes have been impacting parents' ability to pay for an independent school education.

- ✓ Housing prices have been recovering since 2012, but houses are becoming unaffordable in some markets
- ✓ Annual tuition increasing faster than the cost of living and incomes.
- ✓ Since the Great Recession, income inequality in the U.S. has increased

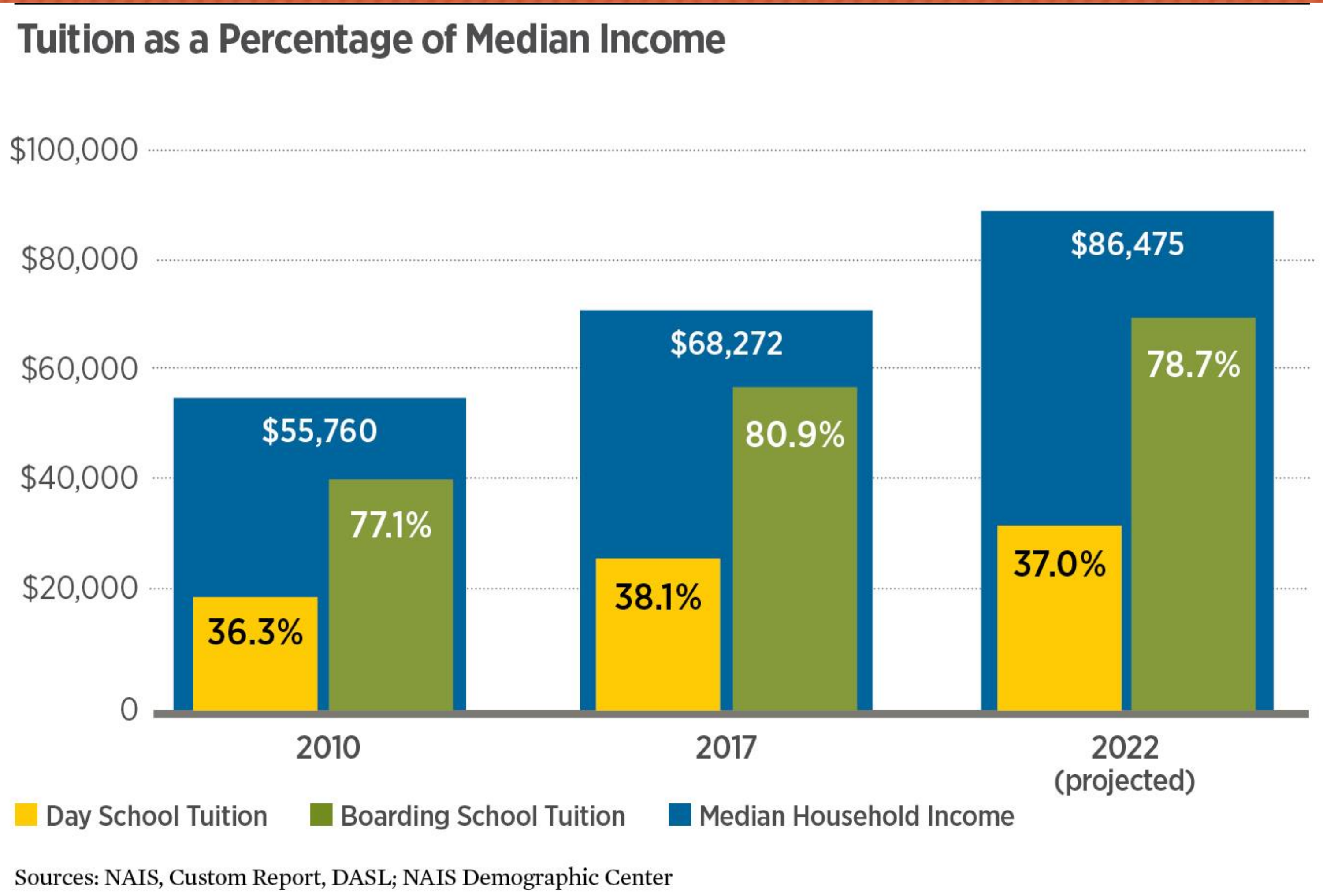
Housing is the largest expenditure item in the household budget. Higher house prices can consume funds that would otherwise be available to purchase other goods and services, including K-12 private education.

Table 5
Severely Unaffordable Major Housing Markets (Least Affordable)

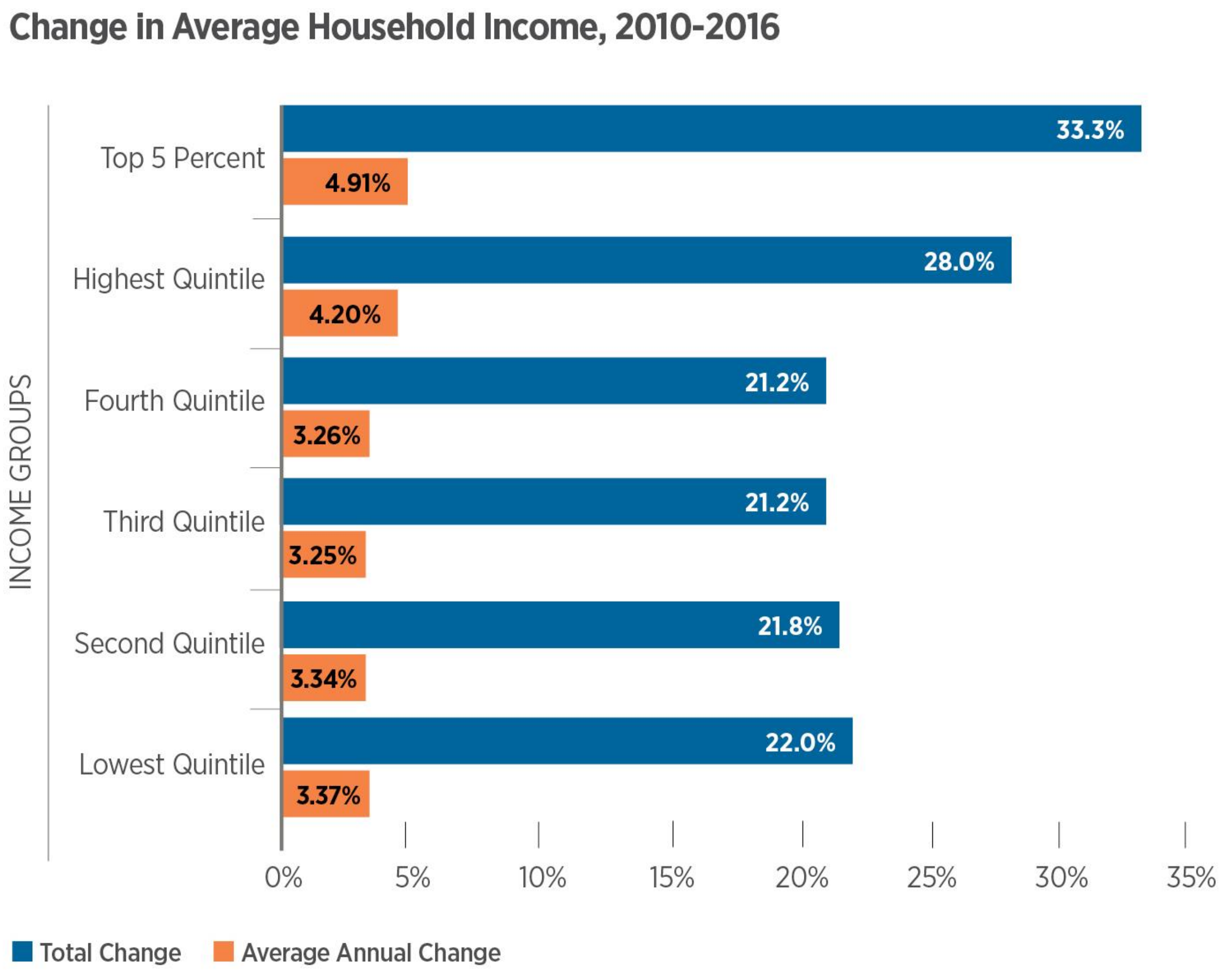
Rank	Nation	Metropolitan Market	Median Multiple	Rank	Nation	Metropolitan Market	Median Multiple
65	U.K.	Leicester & Leicestershire	5.2	79	U.K.	London Exurbs (E & SE England)	6.9
66	U.S.	Sacramento, CA	5.3	80	U.K.	Bournemouth & Dorsett	7.3
67	U.S.	Boston, MA-NH	5.5	81	Canada	Toronto, ON	7.9
67	U.S.	Portland, OR-WA	5.5	82	U.S.	San Diego, CA	8.4
69	U.S.	Denver, CO	5.7	83	U.K.	London (Greater London Authority)	8.5
69	U.S.	New York, NY-NJ-PA	5.7	84	N.Z.	Auckland	8.8
69	U.S.	Riverside-San Bernardino, CA	5.7	85	U.S.	San Francisco, CA	9.1
72	Australia	Perth, WA	5.9	86	U.S.	Honolulu, HI	9.2
72	U.S.	Seattle, WA	5.9	87	U.S.	Los Angeles, CA	9.4
74	U.K.	Plymouth & Devon	6.1	88	Australia	Melbourne, VIC	9.9
75	Australia	Brisbane, QLD	6.3	89	U.S.	San Jose, CA	10.3
76	U.S.	Miami, FL	6.5	90	Canada	Vancouver, BC	12.6
77	Australia	Adelaide, SA	6.6	91	Australia	Sydney, NSW	12.9
78	U.K.	Bristol-Bath	6.8	92	China	Hong Kong	19.4

Source: 14th Annual Demographia International Housing Affordability Survey: 2018

Tuition increases can be straining family finances, especially those of Millennial parents.



Between 2010 and 2016, median income for families in the top 5 percent of income earners grew 33.3 percent, compared to 22 percent for families in the bottom quintile of income earners.



Source: U.S. Census Bureau, "Current Population Survey, 2017 Annual Social and Economic Supplements"

Competition Trends

Today, parents and students have more educational options than ever before.

✓ Charter schools

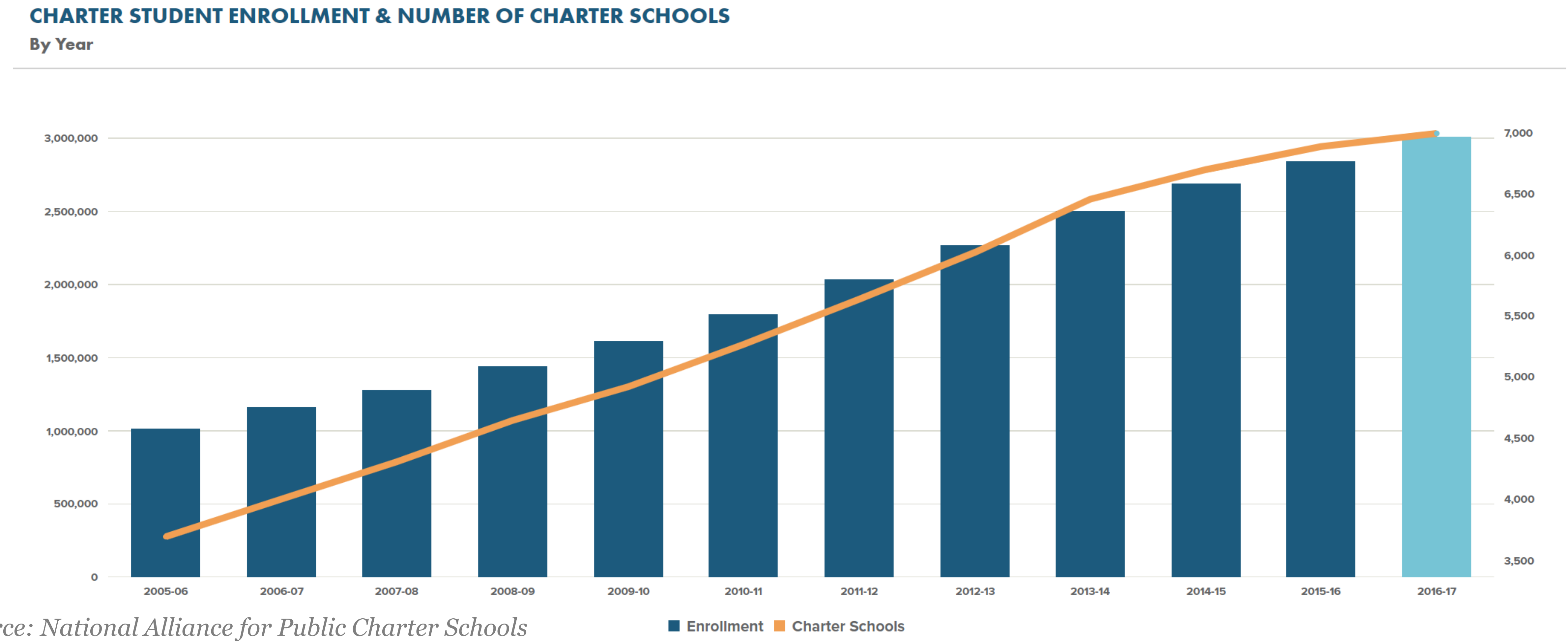
✓ Homeschooling

✓ For-profit schools

✓ Colleges and universities

✓ Other forms of competition?

Charter schools have been expanding rapidly, increasing by 75% in the last 10 years. In 2016-2017, there were close to 7,000 charter schools serving 3 million students.



Source: National Alliance for Public Charter Schools

In 2016-2017, there were 238 charter schools in Colorado, serving more than 115,000 students.

TOP 10 STATES

By Charter Student Enrollment, 2016-17

Rank	State	Charter Law	Schools	Students
1.	California	1992	1,258	602,839
2.	Texas	1995	750	307,716
3.	Florida	1996	657	283,195
4.	Arizona	1994	557	185,986
5.	Michigan	1993	308	145,282
6.	Pennsylvania	1997	183	133,753
7.	New York	1998	269	128,743
8.	Ohio	1997	365	117,075
9.	Colorado	1993	238	115,096
10.	North Carolina	1996	170	92,524

New and innovative school models are growing rapidly and offering unique educational models at lower prices than traditional independent schools.

Educational Model

Student-Led Learning: in the New England-based Wildflower schools, students pioneer their own lessons by engaging in Montessori-inspired activities as they see fit

No traditional teachers: in the Texas-based Acton Academy, "Guides" — often parents or entrepreneurs— facilitate classes.

Project based learning: in the San Francisco-based Brightworks, students learn primarily through the completion of interdisciplinary group projects

No traditional grading: students at Texas-based Acton Academy receive badges demonstrating subject mastery, earned through completing projects or engaging in community exhibitions

Use of technology: in the San Francisco based AltSchool, online "portraits" create a customized lesson plan for each student.

Business Model

Lower tuition: D.C.s Blyth-Templeton Academy charges $15,000 in tuition and fees, less than half of median independent tuition in the area

Less physical plant: Maryland's Mysa School is run out of a converted 5,000 square foot variety store, saving the school money on facilities.

Network of Schools: BASIS Independent Schools share professional development resources and pedagogy tips between themselves, and offer students the chance to engage in projects with their peers across the globe.

No fundraising: Manhattan's Portfolio school is funded entirely on tuition, and does not rely on fundraising for any of its operations.

For-Profit Investments: the San Francisco based AltSchool, has raised over $100 million in equity funding, including an investment from Mark Zuckerberg

Source: NAIS.org

For more information, check this link: https://www.nais.org/articles/pages/new-school-models/

Metro Area Studies

The metro area studies include market information to help school leverage data to inform their decisions.

1. **Trend Reports: To provide schools with key market information**

❑ Economic, demographic, and competition trends
❑ School trends in admissions, enrollment, tuition, financial aid, giving, and financial operations

2. **Metro Area Reports: To help schools understand their branding and affordability.**

❑ Parents' perception of school value analysis
❑ Parents' school price sensitivity analysis
❑ Parent-type segmentation analysis to illuminate what drives school choice

3. **Individual School Report:** Participant schools also receive an individualized School Metro Area report with comparison results vs the whole group

The studies also included current and prospective parents, as well as high-income parents who don't send their children to independent schools.

San Jose

- **1,075 current and prospective parents of 8 independent schools (Participating schools provided contact lists).**
- **145 high-income parents of children ages 2 to 18 living in the Santa Clara County-San Jose-San Mateo County metro area (NAIS bought an online panel sampling).**

Baltimore

- **3,560 current and prospective parents of 20 independent schools (schools provided the lists)**
- **260 high-income parents of children ages 2 to 18 living in the Baltimore/Annapolis metro area (NAIS bought an online panel sampling).**

Los Angeles

- **1,850 current and prospective parents of 18 independent schools (participating schools provided contact lists).**
- **104 high-income parents of children ages 2 to 18 living in the Los Angeles metro area (NAIS bought an online panel sampling).**

Findings and Action Steps

Diagnose the root cause of your enrollment changes

- ✓ Are there enough students in your area? (Demographic issue)
- ✓ Are tuitions too high? Fewer families can afford your school? (Price/affordability issue)
- ✓ Are our school not delivering what parents want/need for their children? (Product/school value issue)
- ✓ Are parents not aware of private schools? (Marketing issue)
- ✓ A combination of these reasons?

How to address enrollment changes due to changes in your student demographics?

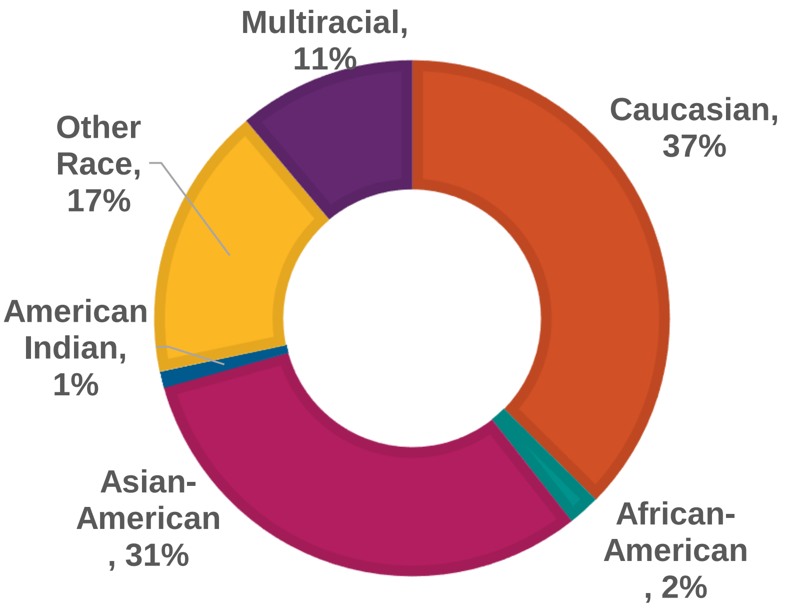
Use Census numbers to identify your demographic changes

- To find out what the current make up of the student population in your area is
- To understand how projected changes could impact your enrollment goals
- To identify new areas of prospective and current families

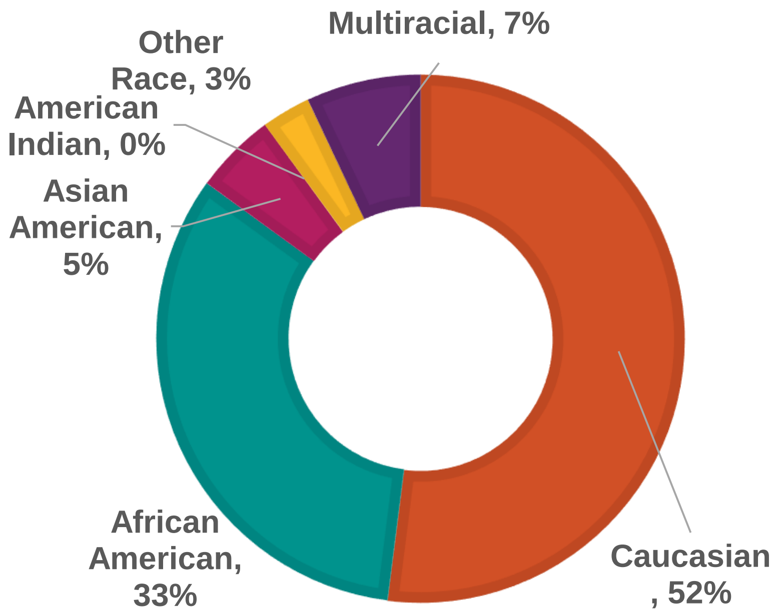
Resources: NAIS Demographic Center
NAIS DASL
US Census

School population may differ significantly, depending on your specific market. In 2016, only 37% of the student population in San Jose were White, compare to 52% in Baltimore, and 47% in Los Angeles.

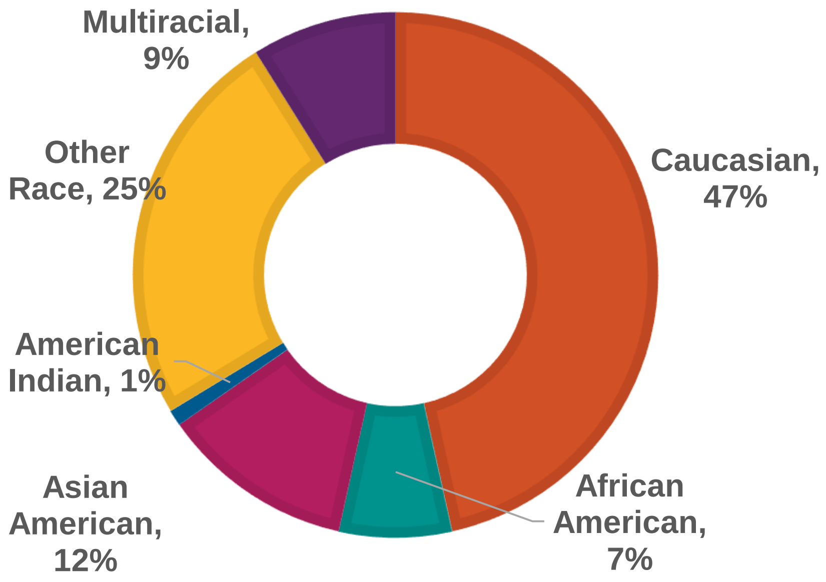
SAN JOSE METRO AREA



BALTIMORE METRO AREA



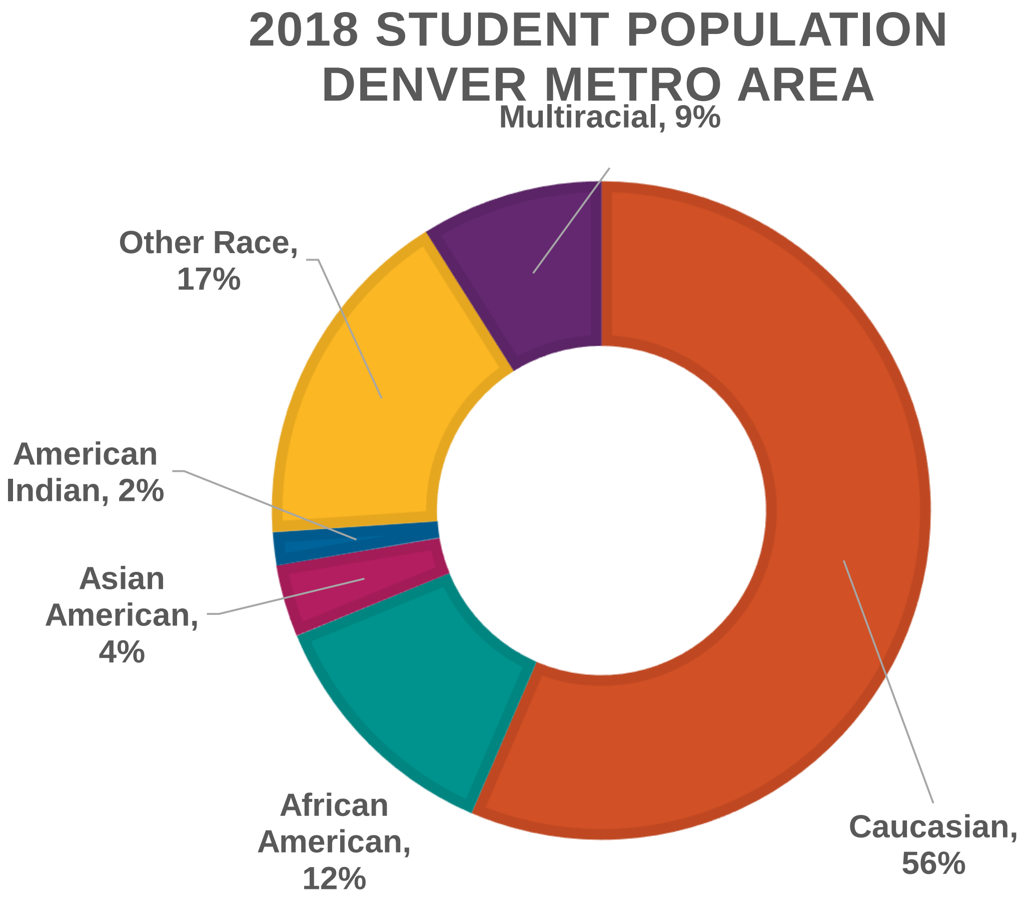
LOS ANGELES METRO AREA

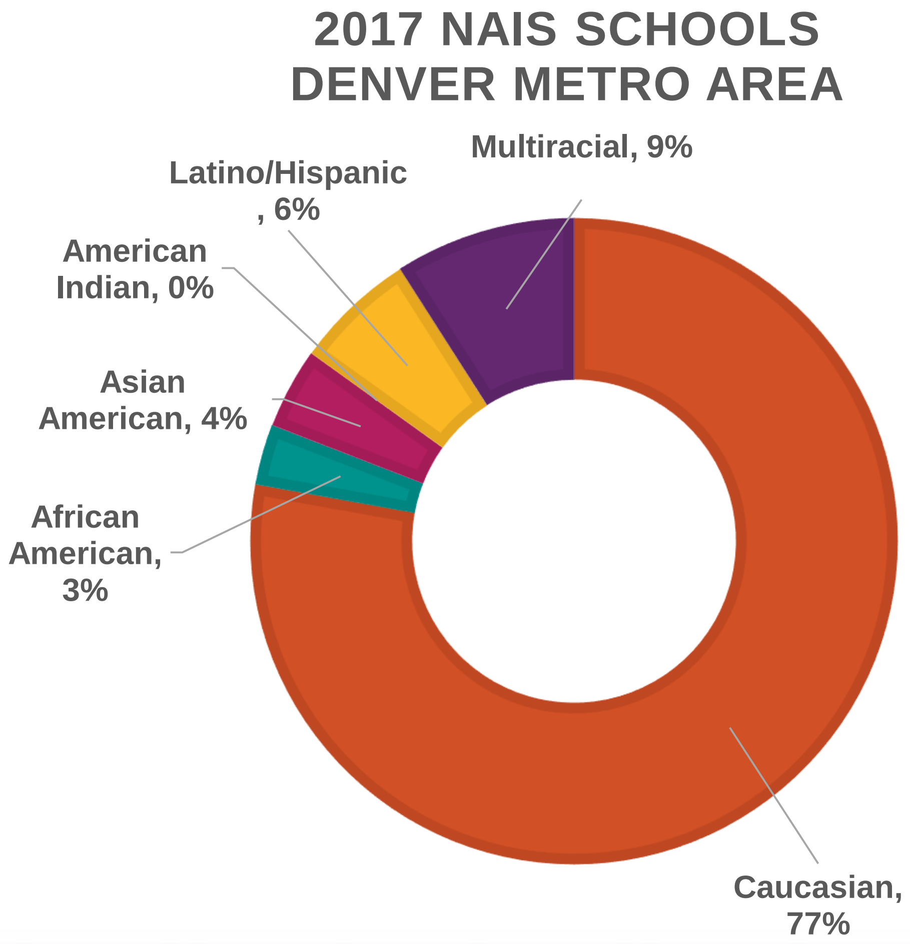


Source: NAIS Demographic Center

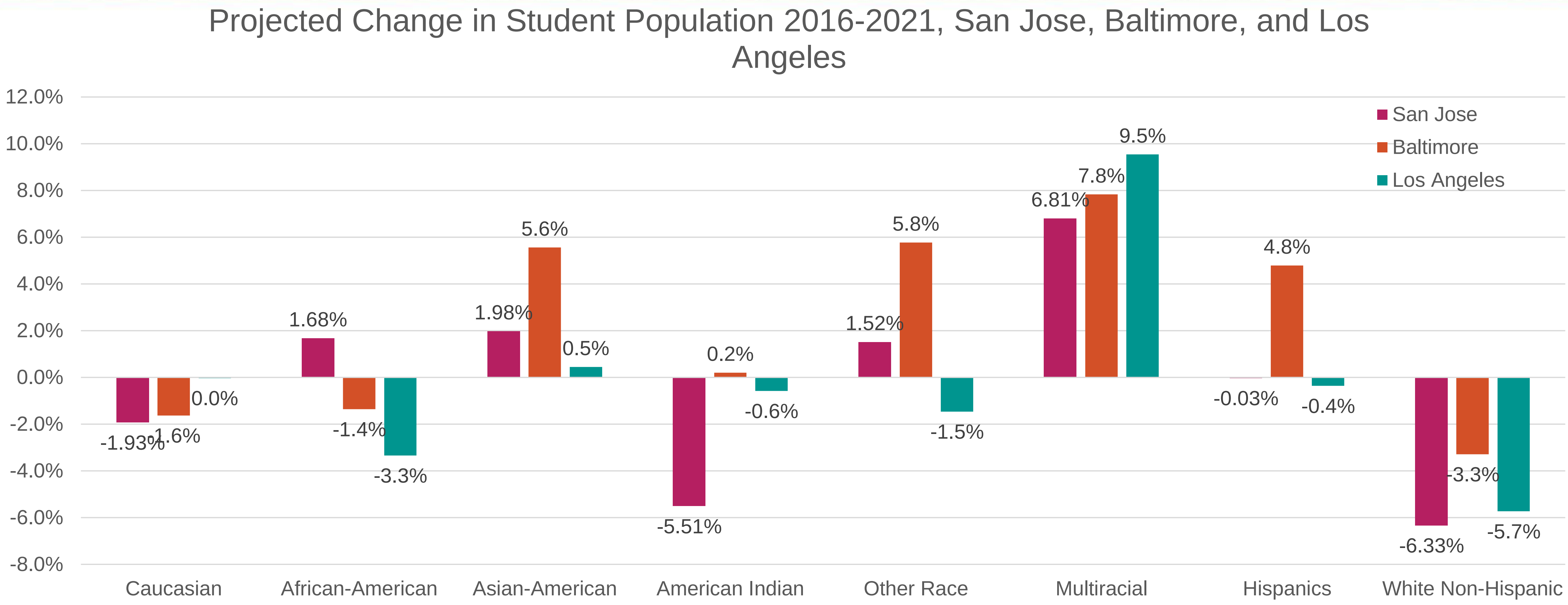
In 2016, the Hispanic school population in LA represented 58% of the total, vs 37% in San Jose, and 7% in Baltimore. White Non-Hispanics represented 18% in LA vs 22% in San Jose, and 49% in Baltimore.

In 2018, there were 56% of Caucasian students. However, only 29% were White Non-Hispanics. Hispanic students represented 50% of all students in the Denver area.



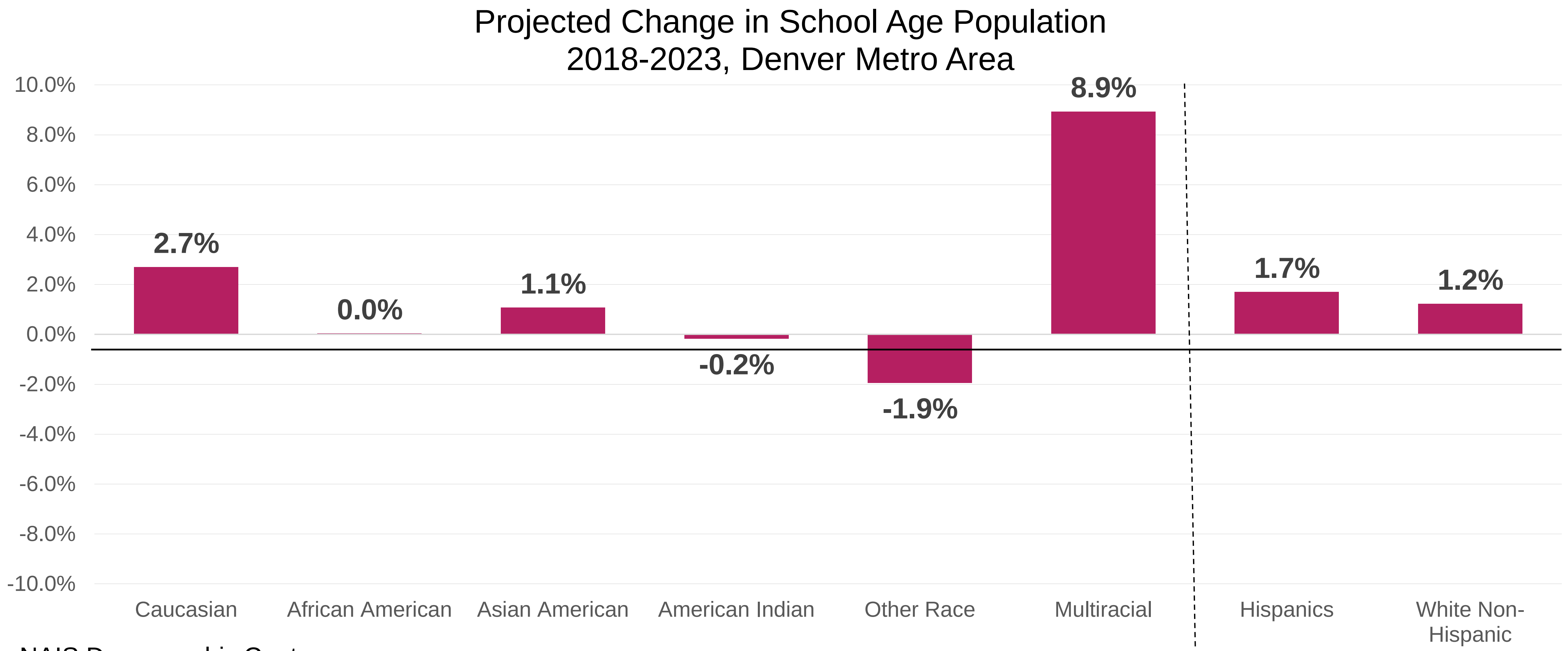


Between 2016 and 2021, the number of multiracial students will continue to increase in San Jose, Baltimore, and LA; while the White Non-Hispanic student population will continue to decrease.



Source: NAIS Demographic Center

The Multiracial student population is projected to increase by almost 9 percent in the next five years in the Denver metro area.



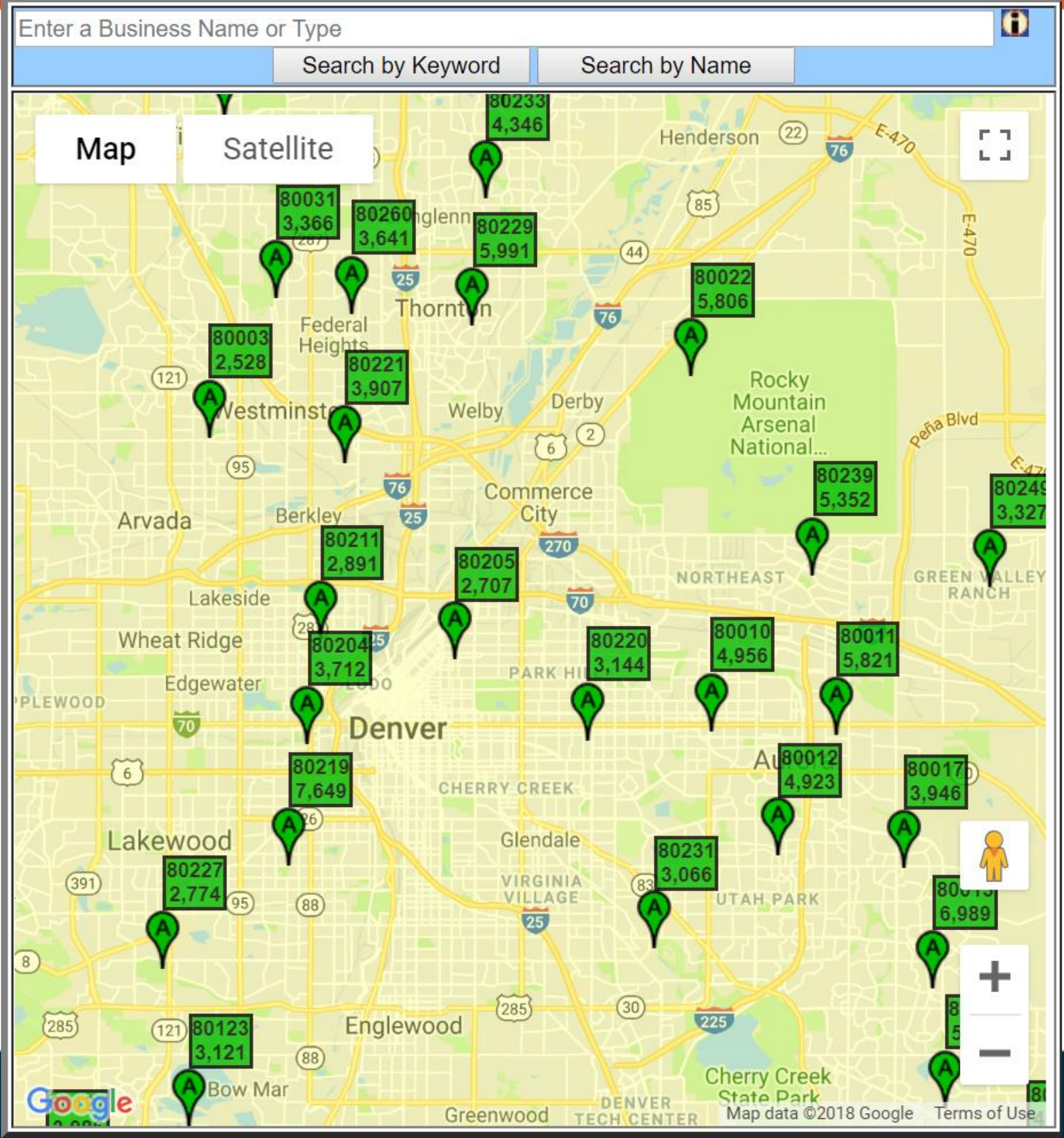
Source: NAIS Demographic Center

Use the NAIS Demographic Center (Quick Map report) to identify key demographic data by Zip Codes. For example: the top three zip codes with the highest number of children age 0 to 4 years are 8019, 80013, and 80229.

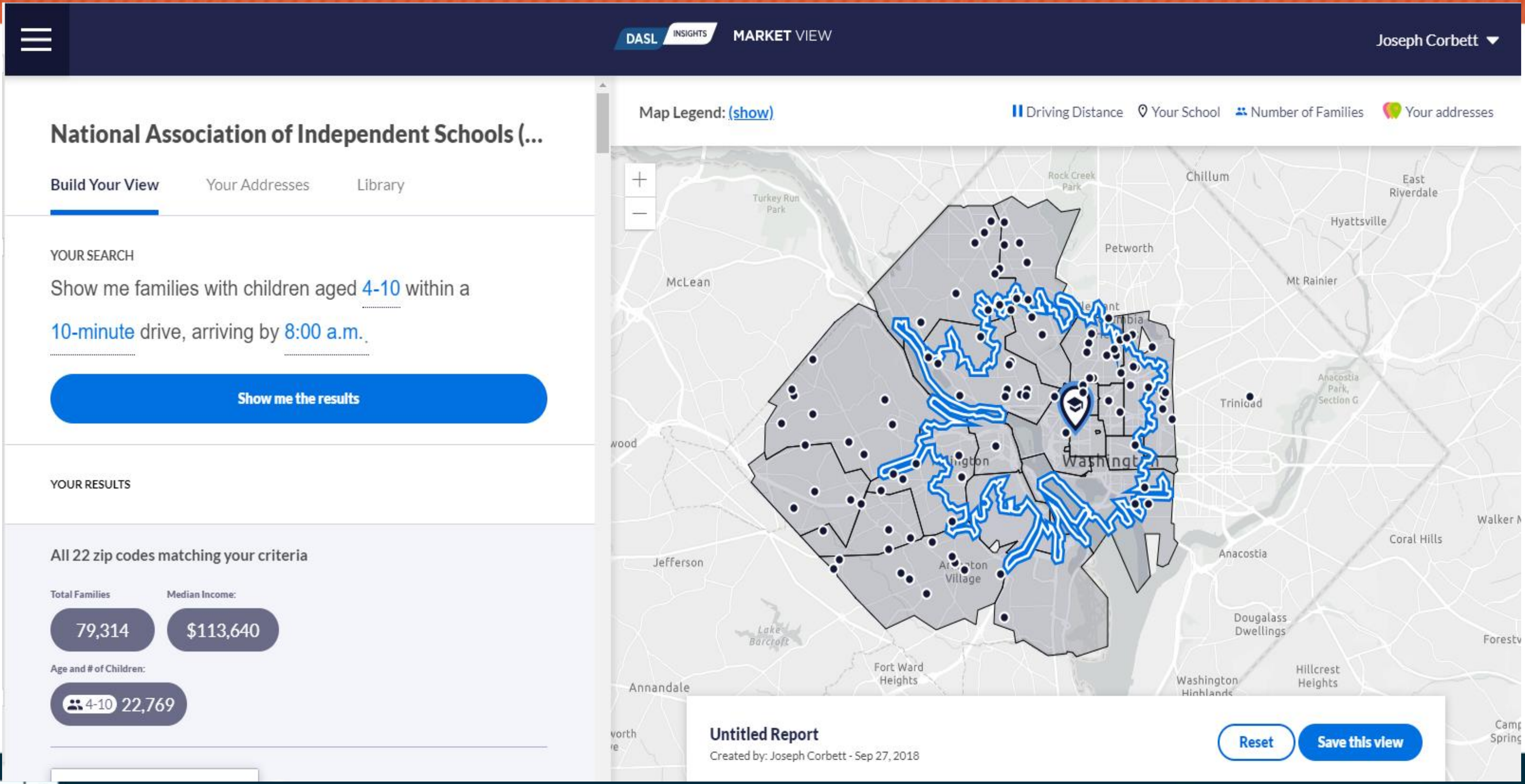
Population 0 to 4 Years by Zip Code,
Denver Metro Area

City Name	ZIP Code	Pop. Age 0 to 4 Years
Denver city, CO	80219	6,340
Aurora city, CO	80013	5,783
Thornton city, CO	80229	5,007
Aurora city, CO	80011	4,871
Commerce City city, CO	80022	4,854
Parker town, CO	80134	4,854
Aurora city, CO	80015	4,666
Denver city, CO	80239	4,380
Aurora city, CO	80012	4,151
Aurora city, CO	80010	4,133
Northglenn city, CO	80233	3,598
Broomfield city, CO	80020	3,546
Aurora city, CO	80017	3,337
Aurora city, CO	80016	3,322
Highlands Ranch CDP, CO	80126	3,280
Sherrelwood CDP, CO	80221	3,257
Brighton city, CO	80601	3,153
Denver city, CO	80204	3,135
Federal Heights city, CO	80260	3,045
Westminster city, CO	80031	2,842

Source: NAIS Demographic Center



Use NAIS's Market View to learn more about the income and school age population of your local area, to more strategically target your recruiting efforts: insights.nais.org



How can you assess the impact of raising tuitions on parents ability to finance an independent school education?

Use Census numbers to identify your key economic changes

- To understand how housing prices have changed and assess how projected changes could impact your enrollment goals
- To find out how family incomes have changed over time and find prospective families who can afford your school.

Resources: NAIS Demographic Center
NAIS DASL
US Census
Zillow

Housing prices have been recovering since 2012. Depending on the market, mortgages may represent a significant percentage of a family income, especially for Millennial households.

San Jose Market Overview

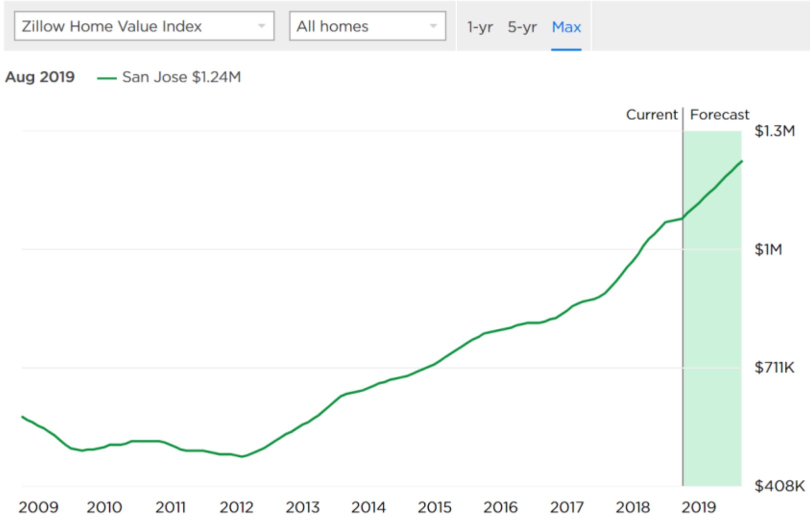
Data through Aug 31, 2018

$1,089,500 ZHVI

13.9% 1-yr forecast (Aug 31, 2019)

$980,000 Median listing price

$1,011,600 Median sale price



Baltimore Market Overview

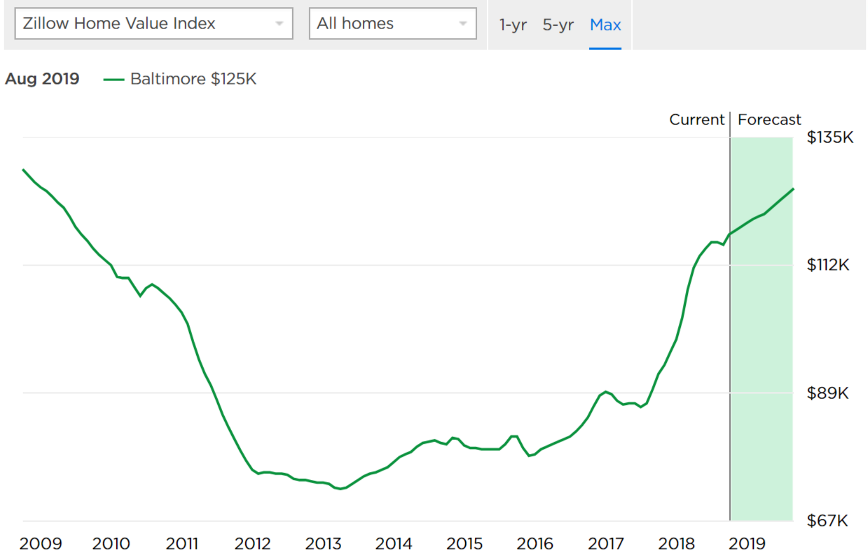
Data through Aug 31, 2018

$116,200 ZHVI

8.4% 1-yr forecast (Aug 31, 2019)

$164,900 Median listing price

$97,500 Median sale price (Jul 31, 2018)



Los Angeles Market Overview

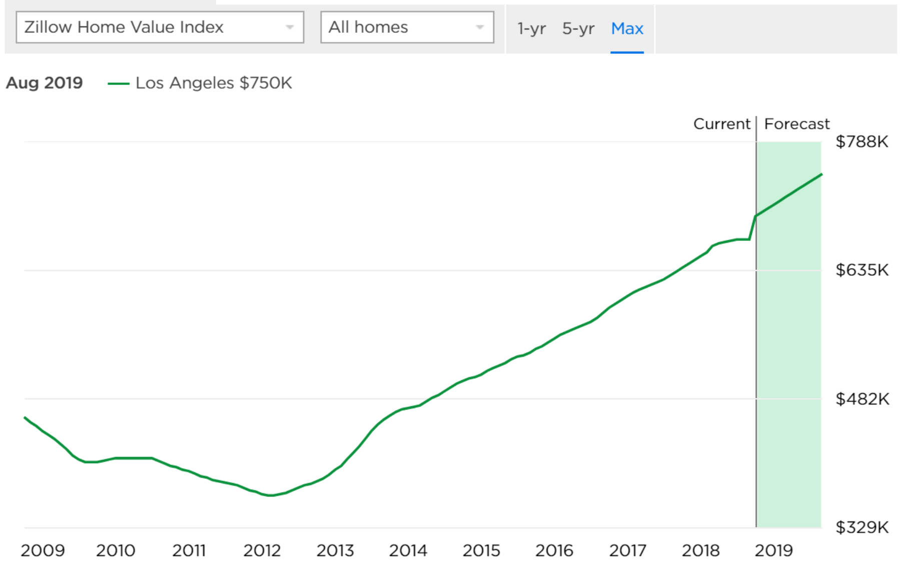
Data through Aug 31, 2018

$672,800 ZHVI

11.6% 1-yr forecast (Aug 31, 2019)

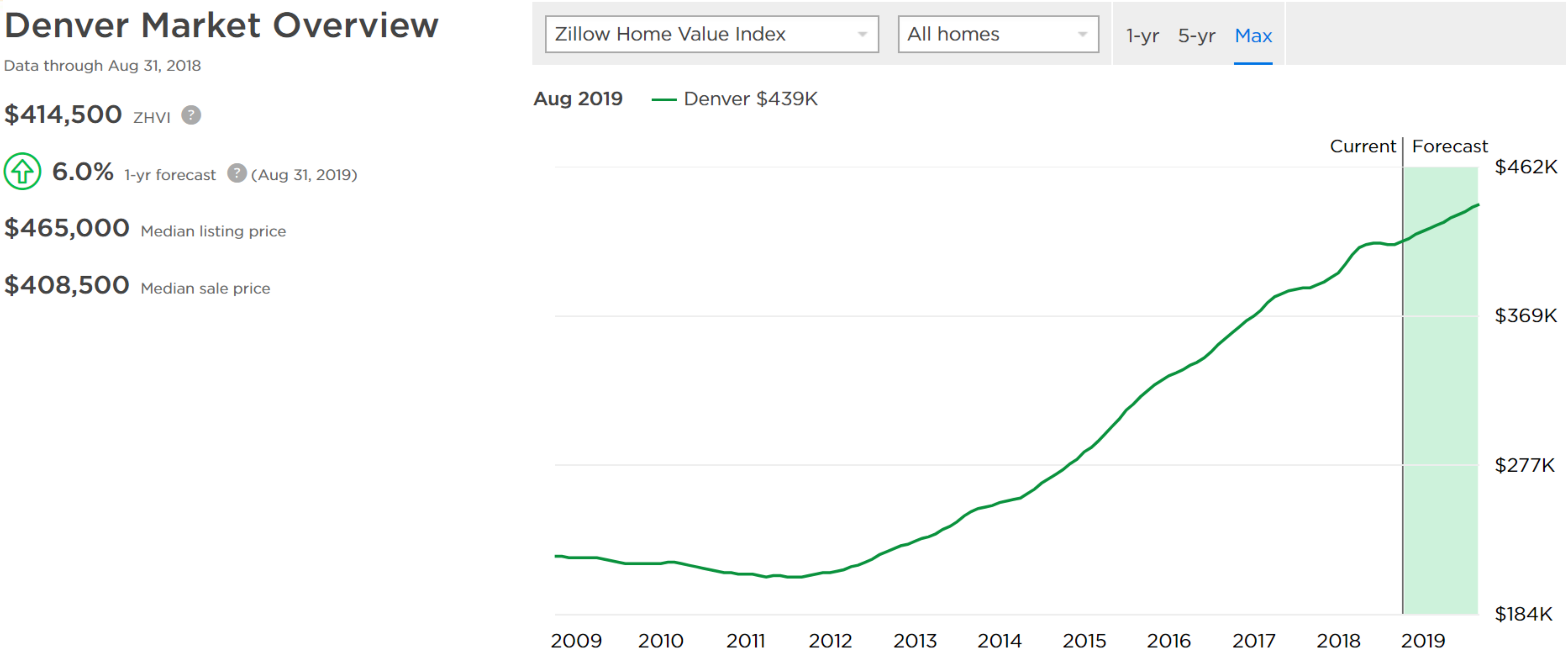
$799,000 Median listing price

$699,600 Median sale price



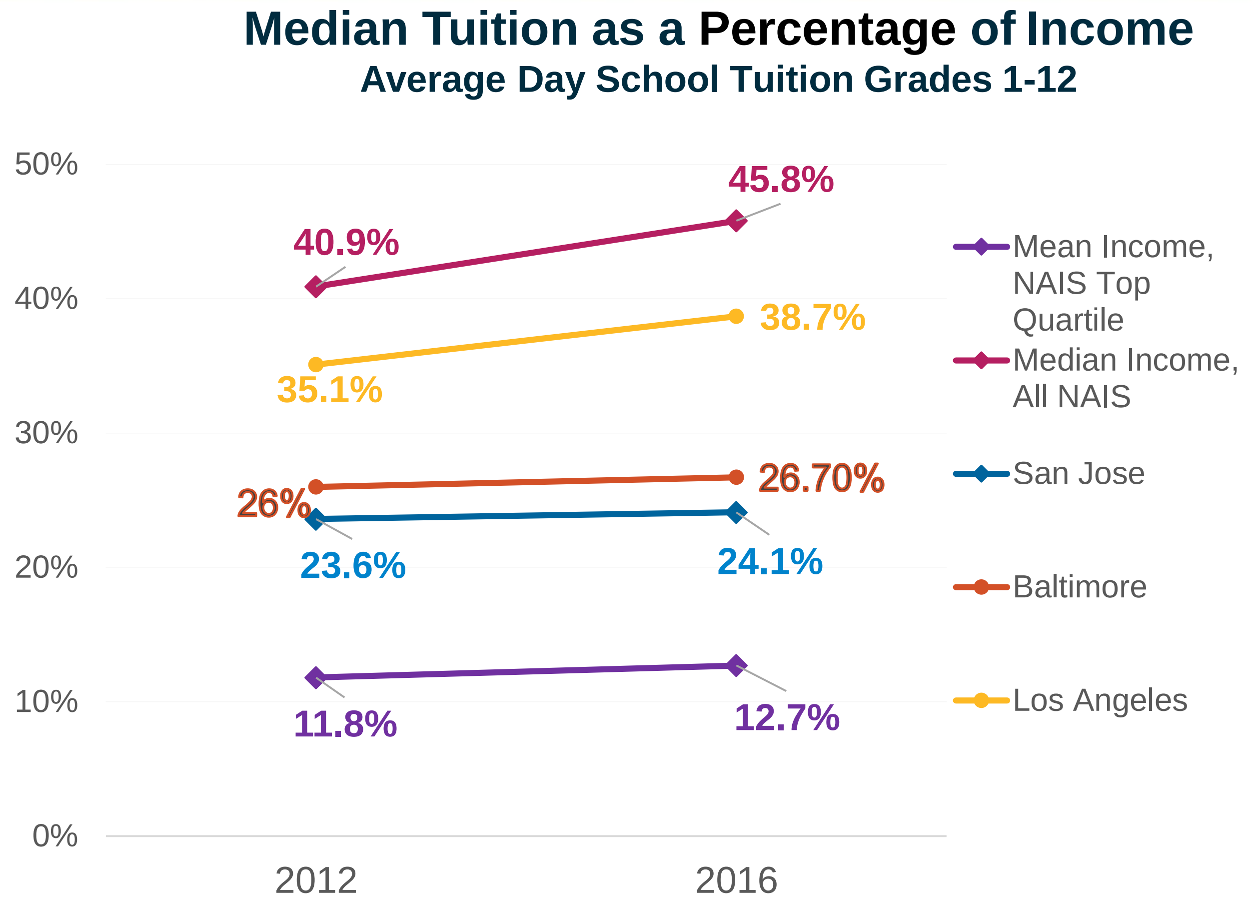
Source: Zillow

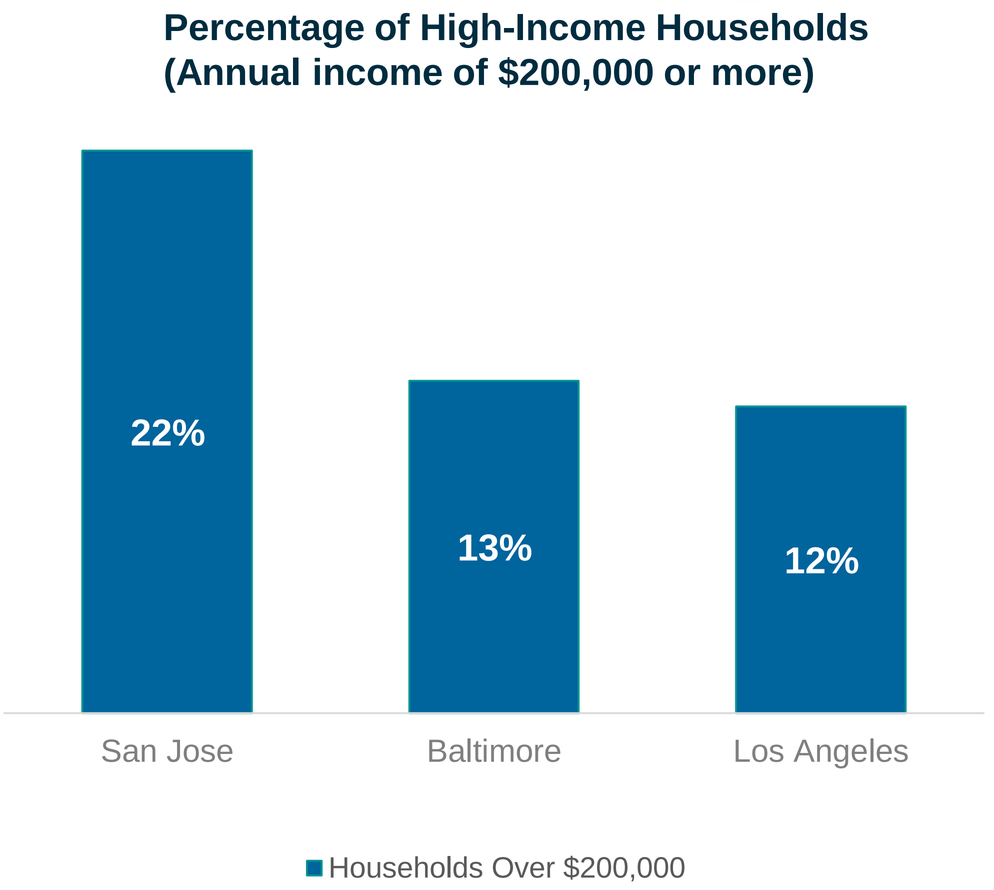
The median home value in Denver is $414,500. Denver home values have gone up 6.9% over the past year and Zillow predicts they will rise 6.0% within the next year.



Source: Zillow

Tuition as a percentage of median income has increased in all markets. This ratio was is higher in the Los Angeles Metro Area than in Baltimore and San Jose.



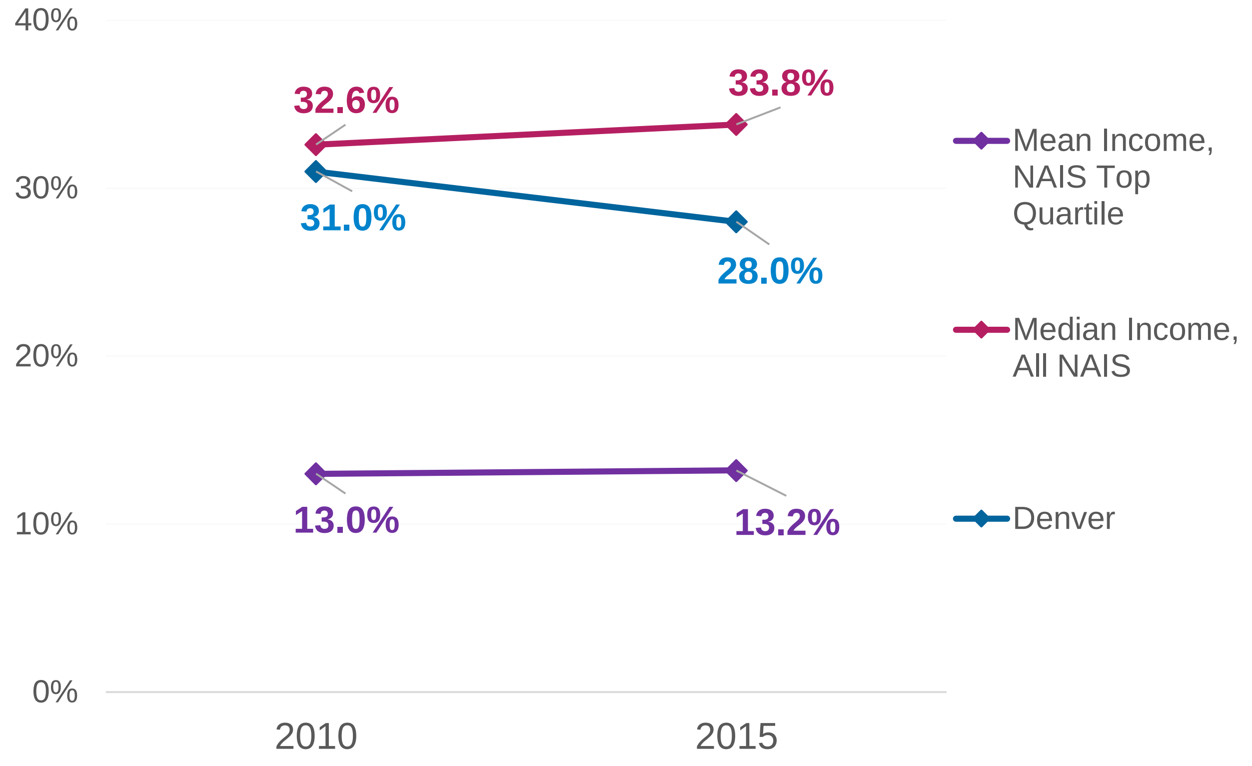


Source: U.S. Census, NAIS DASL, NAIS Demographic Center

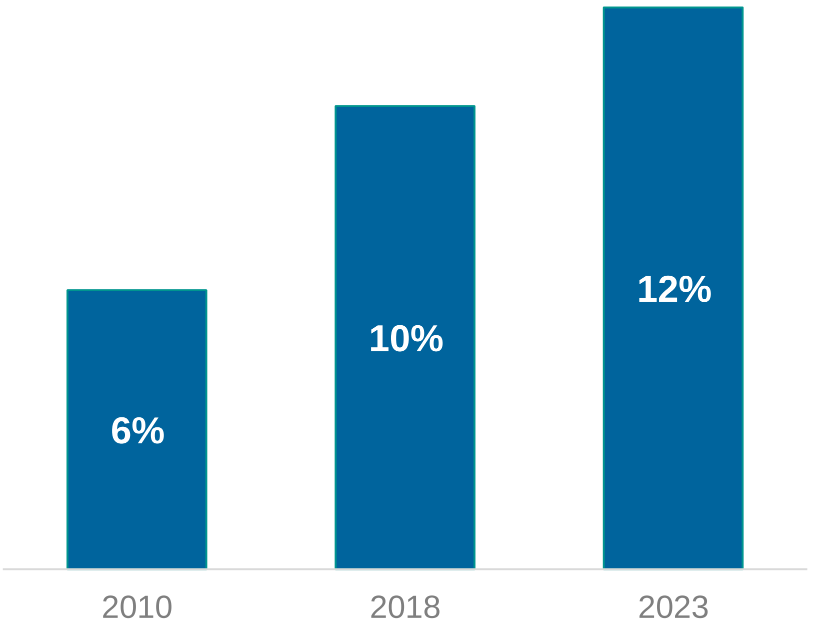
All values in this slide have been adjusted for inflation.

Tuition as a percentage of median income seems to have decreased in Denver and was lower than the ratio for NAIS schools.

Median Tuition as a Percentage of Income
Average Day School Tuition Grades 1-12



Percentage of High-Income Households - Denver (Annual income of $200,000 or more)



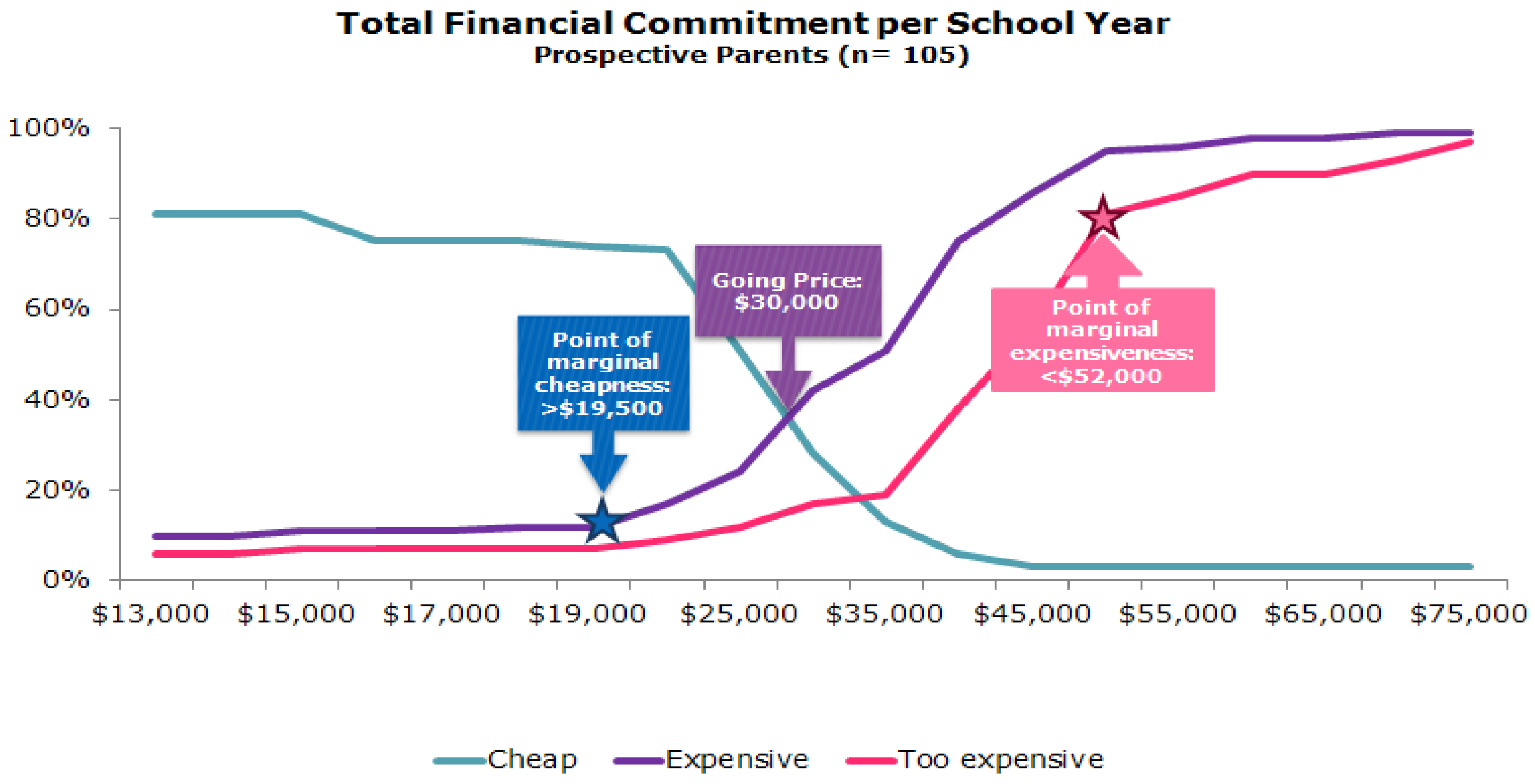
Source: U.S. Census, NAIS DASL, NAIS Demographic Center

How can you assess if the enrollment changes are due to a price issue?

Conduct a Tuition Elasticity Study

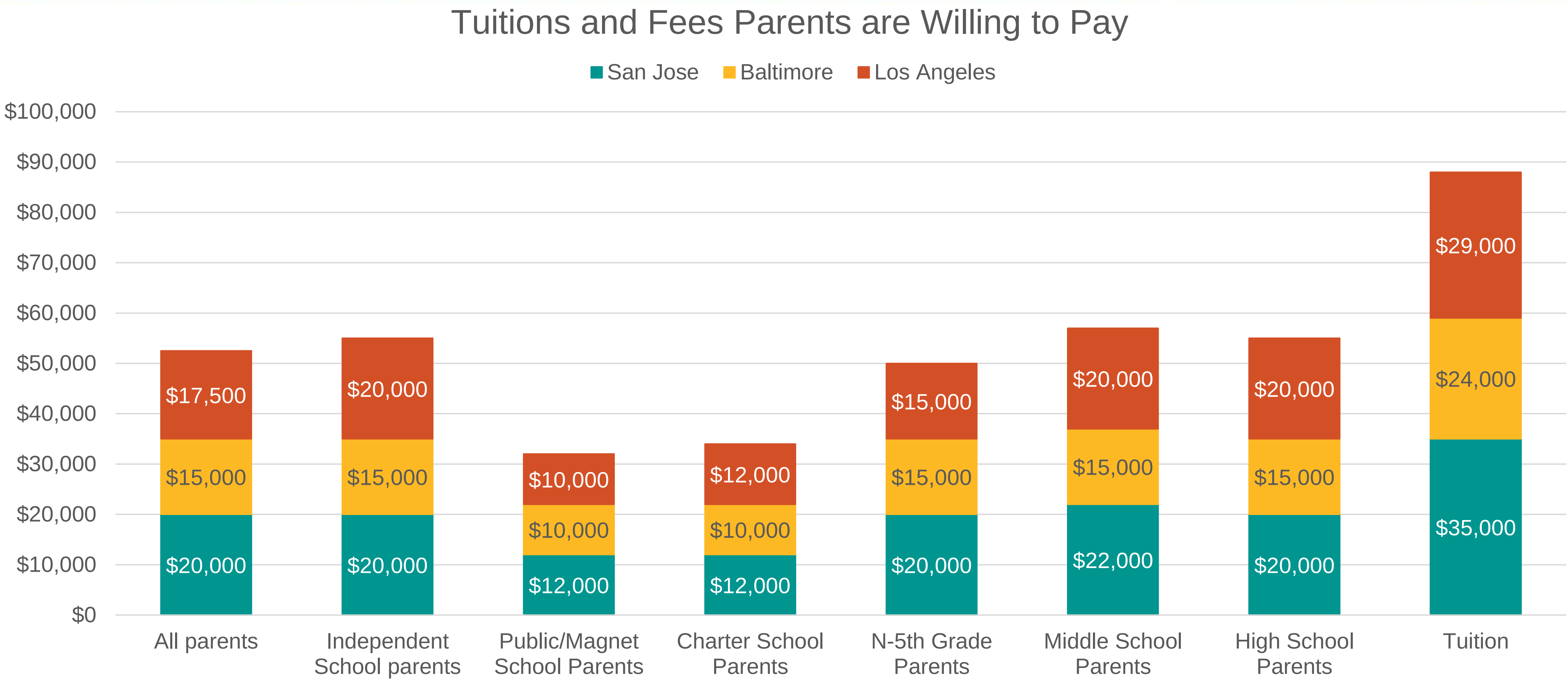
- To better understand parent perceptions of individual schools' tuitions
- To understand how changes in tuition impact your market share and net tuition revenue
- To find the price threshold at which families balk
- To help you determine your financial aid needs

Consider conducting a tuition elasticity study to better understand how tuition increases in their school could affect market share and net tuition revenue.

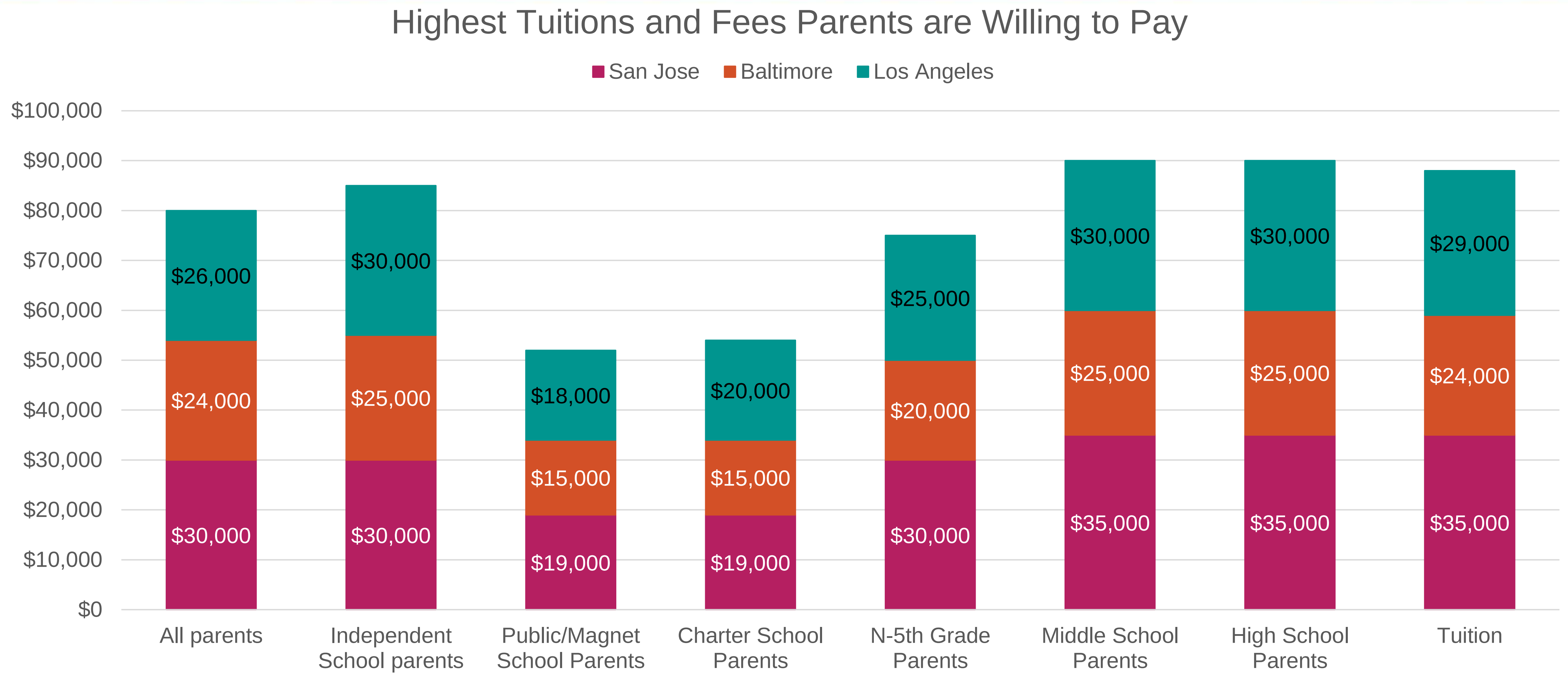


1. The **Going Price** is what parents would expect to pay
2. The **Point of Marginal Expensiveness** is the highest advisable price for a "premium" positioning
3. The **Point of Marginal Cheapness** is the lowest advisable price for a "bargain" positioning

Parents in San Jose believe tuition and fees at an independent school are a good value at a higher level than parents in Baltimore and Los Angeles.



The highest tuition level that parents in San Jose, Baltimore, and Los Angeles are willing to pay are similar to the current tuition levels in these areas.



How to determine if the changes in enrollment are due to a school value proposition issue?

Conduct a Branding Study

- To find out what is most important when parents are choosing a school
- To gather data on how your school is perceived and what differentiates your school from your competitors
- To determine the reasons why parents select another school for their children.

Conduct a Parent Satisfaction Survey and an Alumni Survey.

•To find out what programs and services are most important to parents and how satisfied are they with your school's performance

•To understand the experience of alumni at your school

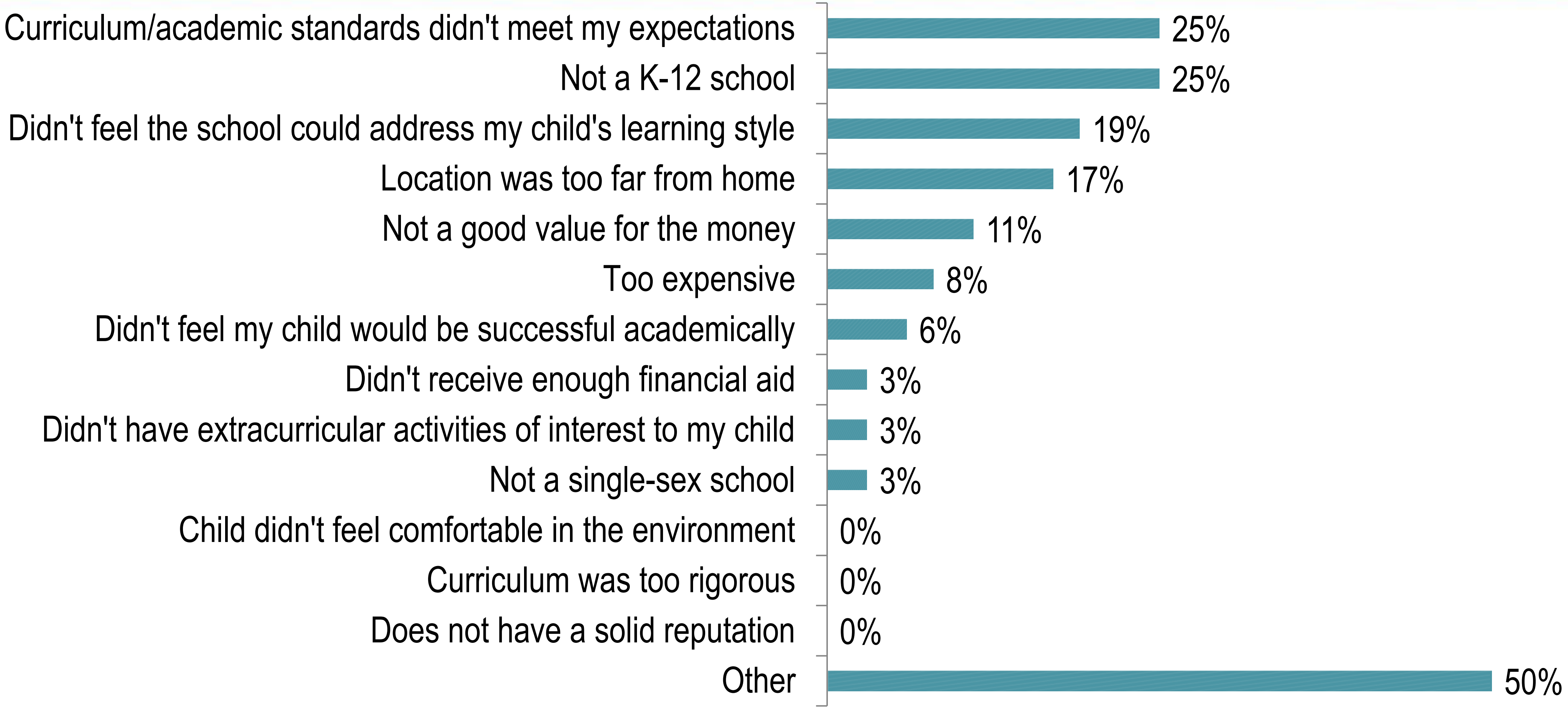
•To identify programs and services that need to be revamped, eliminated, or created.

Learn how your school is perceived versus your top competitors.

	Pilot School	Competitor A	Competitor B	Competitor C	Competitor D	Competitor E
	(110)	(22*)	(35*)	(24*)	(18*)	(20*)
Cares about its students	94%	64%	63%	58%	61%	55%
Has a warm and friendly atmosphere	90%	55%	60%	29%	50%	35%
Provides a well-rounded education	85%	68%	49%	71%	67%	60%
Is well established	84%	77%	77%	100%	67%	85%
Has dedicated and high quality teachers	81%	59%	54%	75%	56%	65%
Has strong ethics	81%	68%	51%	29%	50%	40%
Focuses on building students with strong morals, ethics and values	79%	77%	51%	38%	56%	45%
Has a solid reputation	79%	77%	60%	88%	67%	80%
Is innovative	78%	50%	54%	58%	44%	55%
Provides an environment of achievement	76%	64%	49%	79%	61%	65%

Source: NAIS Individual School Pilot Study

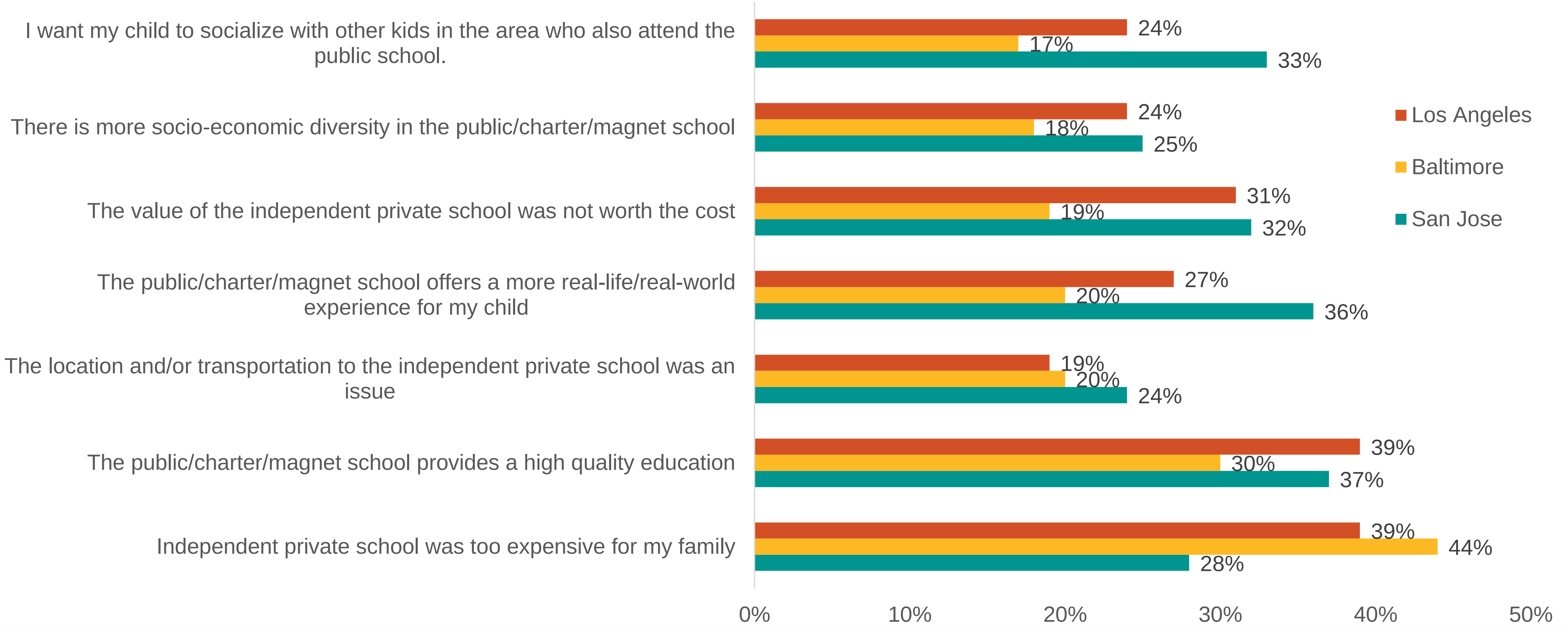
Ask your parents the reasons for not sending their children to your school.



Source: NAIS Individual School Pilot Study

Many parents whose children attend a public, magnet, or charter school feel that those schools provide a high quality education and that independent private schools were too expensive

Reasons Public School Parents Decided Not to Send Child to an Independent School



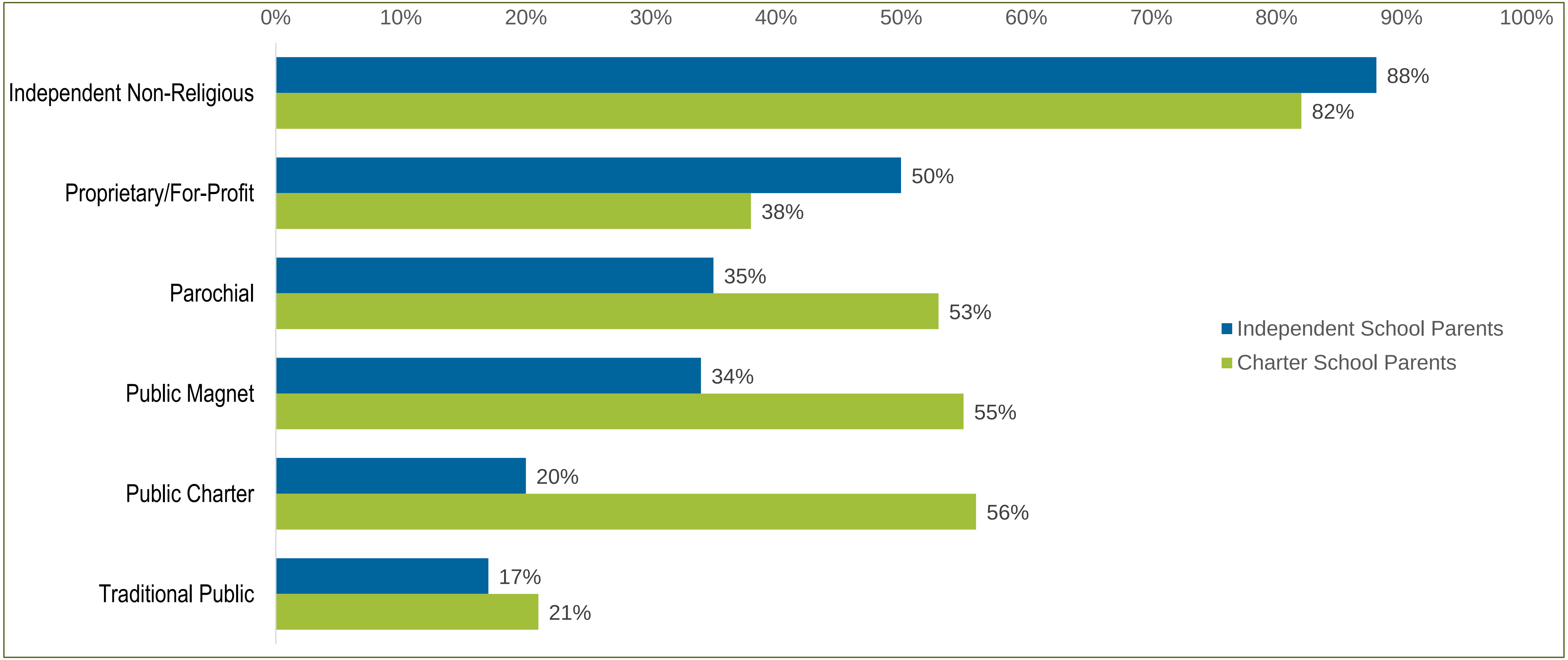
How to determine if the changes in enrollment are due to an awareness/marketing issue?

- Assess parent familiarity with different types of schools in your area, including your school and its competitors.

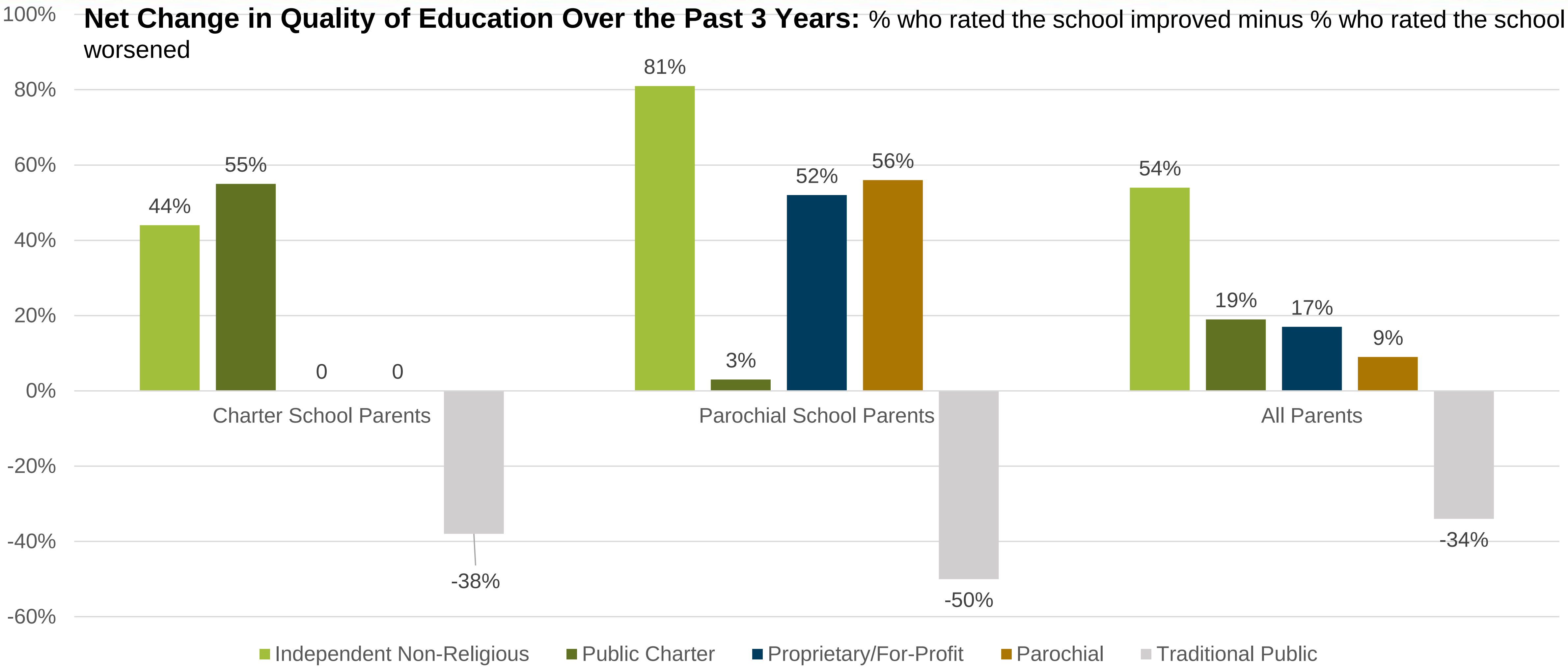
- Determine key issues when parents select a school for their children.

- Determine the main sources of information used by parents when learning about school options.

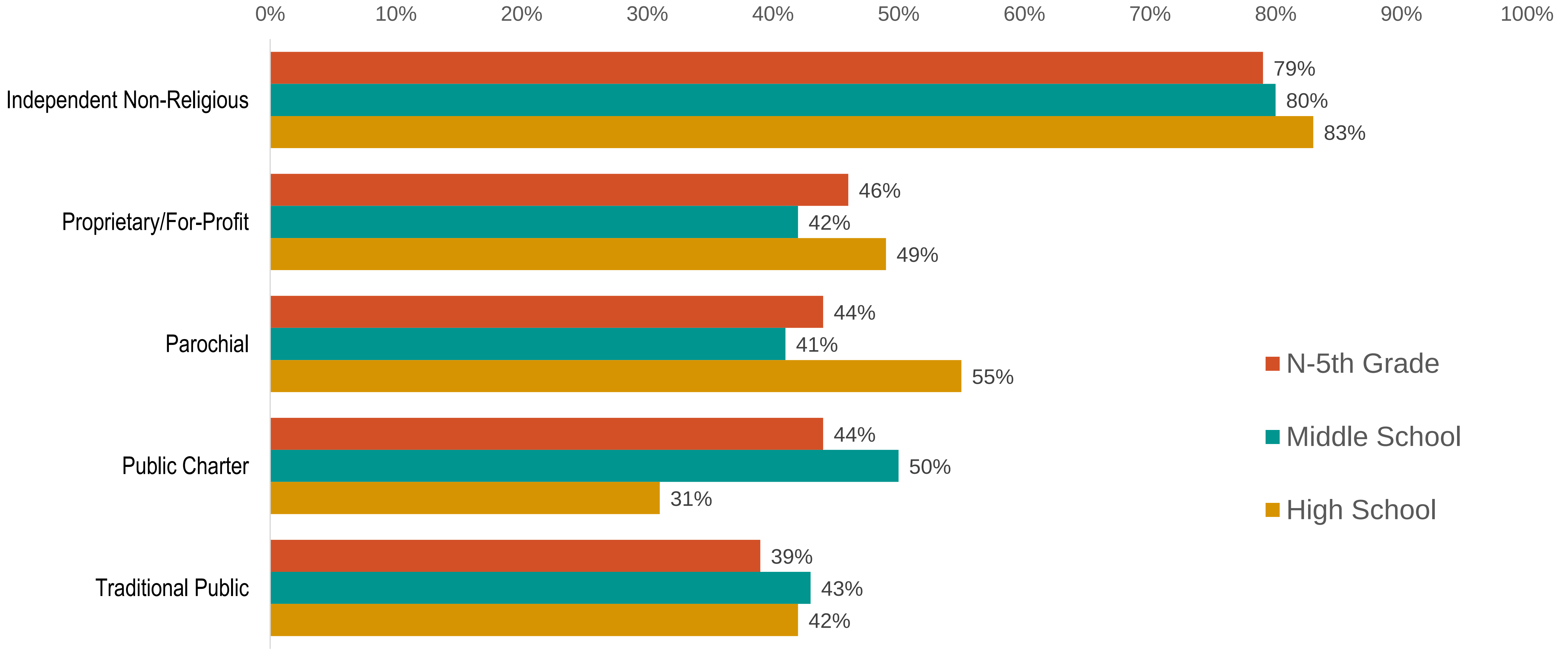
A vast majority of charter school parents in Baltimore consider independent schools to be the best in their area, however half of them also consider charter schools as the best.



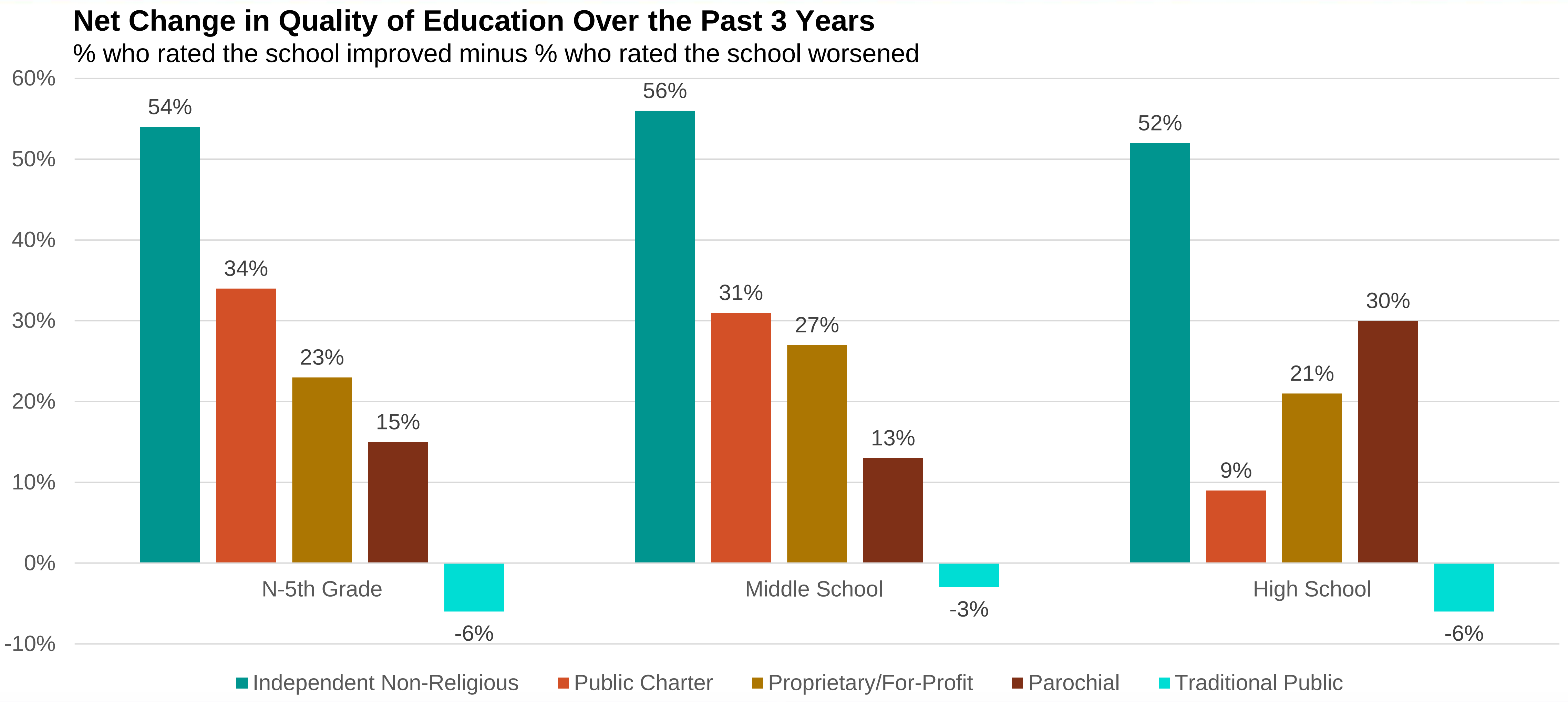
Baltimore parents believe that all types of schools have improved over the past three years except for traditional public schools.



San Jose parents who conducted a school search for nursery through middle school are more likely to praise public charter and magnet schools than parents who conducted a school search for high school.



In San Jose, parents of nursery to middle school students were more likely to believe that charter schools have improved in the past three years.



Assess why families choose your school. What are the “jobs” parents are hiring your school to do for them?

Job 1

Help me help my child overcome obstacles

Job 2

Help me fulfill my child’s potential in a values-aligned community

Job 3

Help me develop a well-rounded person who will impact the world

Job 4

Help me realize my plan for my talented child

Identify the "Jobs" parents are hiring your school to do for them.

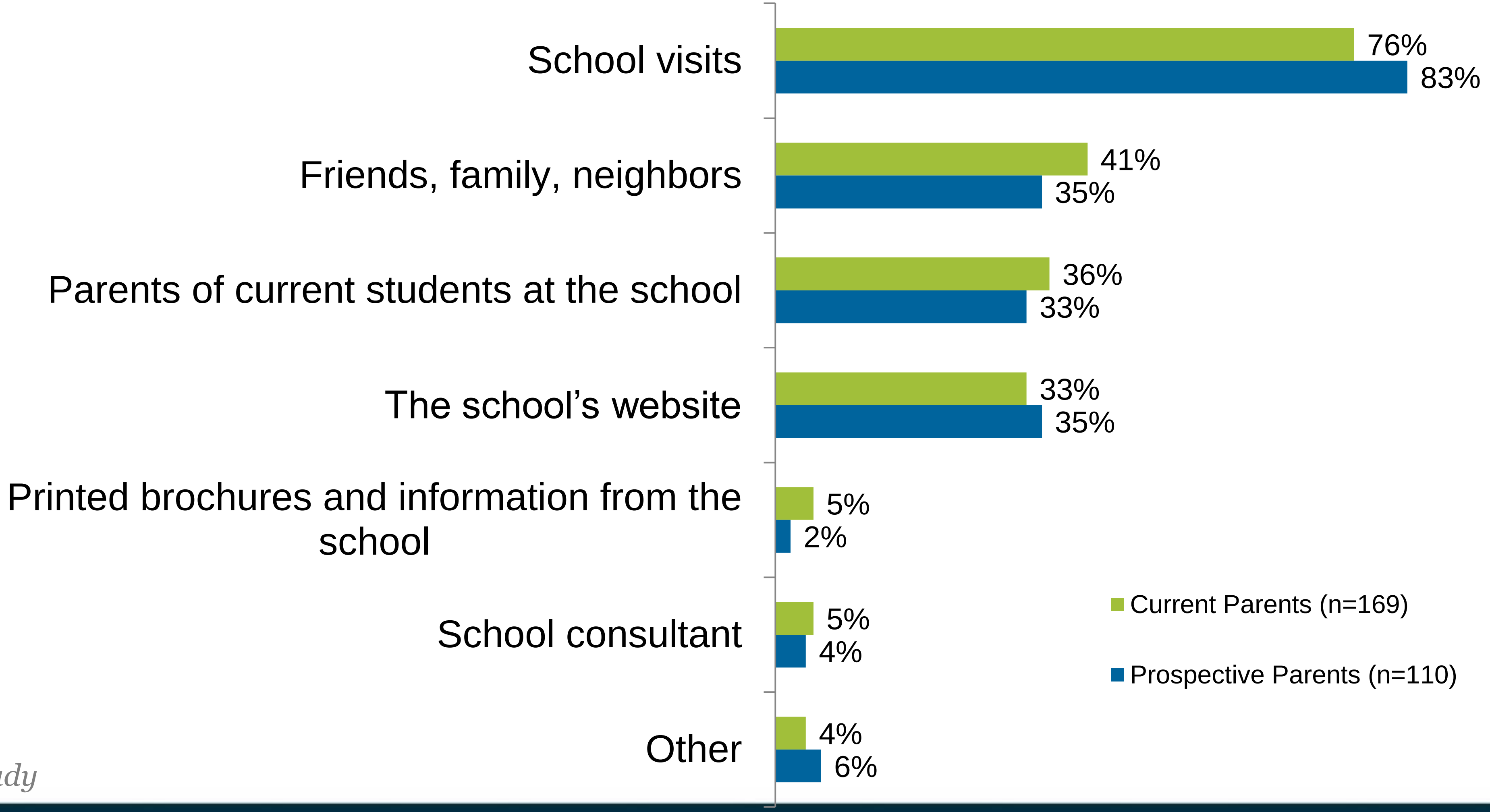
Job 1: When the school is failing my child, either academically or by not providing a safe learning environment, help me find a school that will address those obstacles so I can ensure that my child will not fall further behind and will eventually thrive in school.

Job 2: When I have a child, who is intelligent and emotionally mature, help me find a school that will ensure my child's continued growth so he or she will fulfill his or her potential, mature, and be prepared for college.

Job 3: When a school is focused almost solely on test scores and academic curriculum, help me find a school that will focus on my child's social and emotional development, so I can be sure that my child will be a well-rounded and productive member of society.

Job 4: When my child has talents that must be cultivated and I have a select set of acceptable colleges, help me find a school with an excellent academic program and outstanding reputation so I can ensure that my child gets into one of the select set of schools and fulfills his or her potential.

Identify the sources of information used by your parents.



Source: NAIS Study

For Asian parents, the ability of school's students to get into top quality schools, test scores, and admission selectivity were more important sources of information than for White parents. For Millennial parents, websites and social media communities were more important than for Gen Xer and Boomer parents.

	San Jose			Baltimore			Los Angeles		
	Asian	Hispanic	Millennial	Asian	Hispanic	Millennial	Asian	Hispanic	Millennial
School visits	84%	89%	86%	88%	89%	85%	89%	92%	91%
School philosophy or mission	86%	91%	83%	87%	83%	83%	88%	91%	93%
Ability of the school's students to get into high-quality schools for their next level of education	89%	82%	82%	96%	82%	82%	89%	87%	81%
Reputation of the teachers	84%	78%	80%	85%	83%	87%	88%	89%	85%
School recommendations from friends, family, neighbors	81%	69%	79%	76%	72%	69%	77%	71%	74%
Word-of-mouth information from acquaintances or co-workers	72%	48%	75%	75%	65%	61%	68%	66%	67%
Test scores of students	76%	66%	65%	77%	60%	58%	72%	56%	56%
School recommendations from an educator	56%	55%	67%	62%	55%	60%	69%	66%	68%
Selectivity in admissions	60%	39%	44%	67%	48%	45%	62%	54%	43%
School recommendations from non-school-based experts	45%	35%	45%	43%	44%	45%	45%	45%	43%
Individual school websites or social media channels	36%	42%	41%	38%	47%	40%	39%	42%	38%
Websites or social media communities	38%	25%	41%	37%	35%	38%	40%	33%	36%

Numbers highlighted in red are higher than the ones reported by White parents. Numbers highlighted in blue are higher than the ones reported by other generation of parents.

Final Thoughts

1. **Our Market**: The **market** is changing. Our constituency is changing. Do you know how it's affecting your school? Can you afford not to adapt?

2. **Our Value**: At the end of the day, schools will need to be **compelling** and not just distinctive. How do you articulate the difference your school makes to your students?

3. **Our Model**: We have an **expensive business model**. Can you afford not to rethink your model and strategy?

Thank You!

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