



# The National Dialog on Retention June 2-3, 2008

## Lifetime Value of a Student

“The Measure of success is not whether you have a tough problem to deal with, but whether it’s the same problem you had last year”

---John Foster Dulles

# Can We Size the Problem?

- ▶ **Schools don't tend to publicize their attrition data**
- ▶ **Due to the nature of the problem, information derived from research is often somewhat dated**
- ▶ **Attrition rate estimates have been extrapolated that range from 27-67%**
- ▶ **Data on student attrition may be somewhat unreliable**

- ▶ **A 2004 report from the National Center for Public Policy & Higher Education stated that only 18% of 9<sup>th</sup> graders would earn an associate or bachelor's degree in the subsequent 10 years**
- ▶ **A 2006 report from the National Center for Education Statistics eighth grade tracking study indicates that by age 26, 34% had associate or bachelor's degrees**

# However, the inescapable conclusion is: we have a problem

- ▶ **Among students who enroll in 4 year institutions 55% earned a degree at that institution within 6 years**

--Institute of Education Sciences US Department of Education study with students entering in 1996

	Public 4 year schools	Private NFP 4 yr schools
Degree from 1 <sup>st</sup> school	50%	65%
Transfer rate	24%	21%
Complete Degree	57%	73%

# And, the same study showed

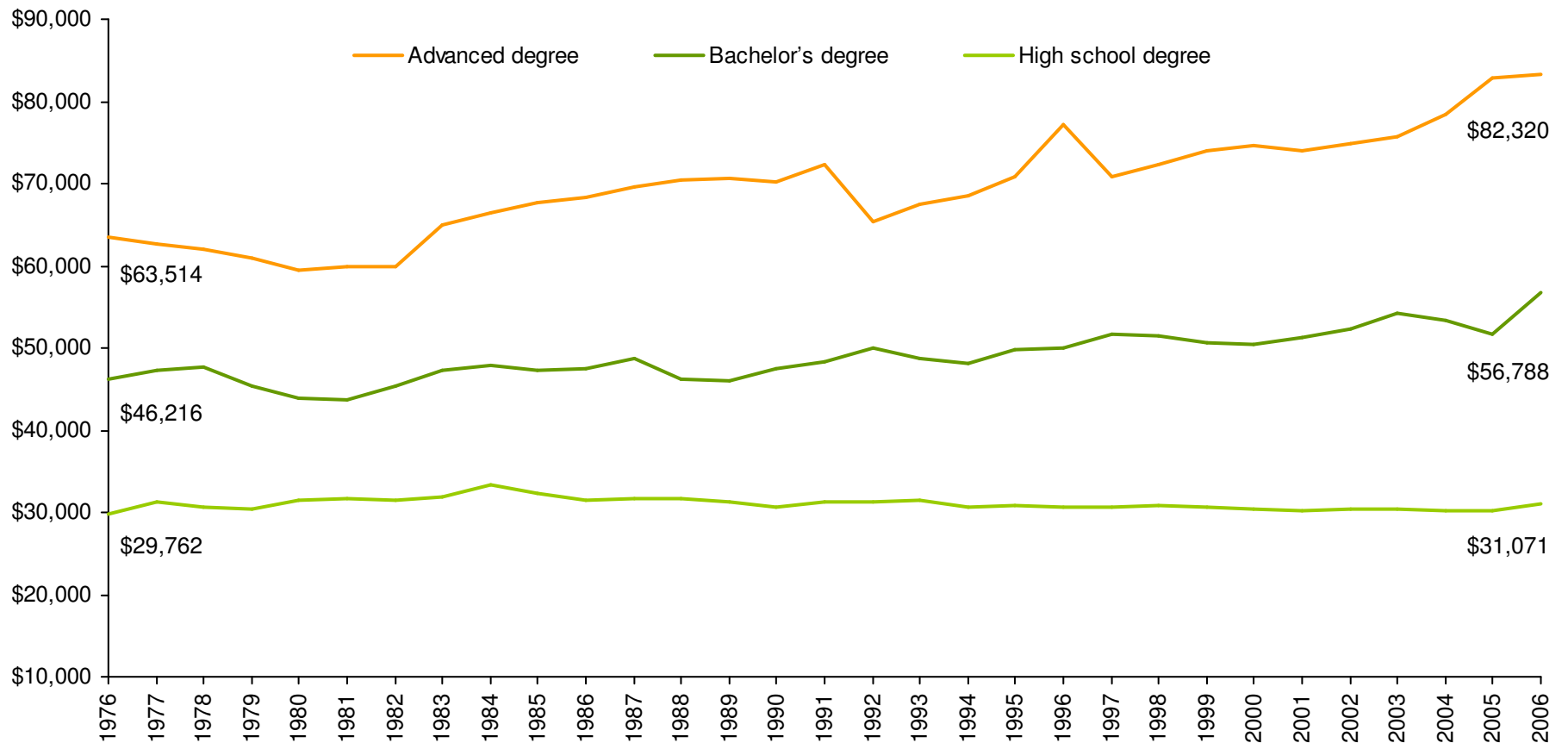
- ▶ **Approx 25% of those seeking a bachelor's degree transferred from their first institution**
- ▶ **Taken together 63% of those students completed their bachelor's degree within 6 years**
  - **But, of course 37% did not**

# What about adults and part-timers?

- ▶ **The federal government has identified an educated workforce as one of its primary domestic initiatives and has backed it with financial assistance and support – \$104 billion expected in FY2008**
- ▶ **Technology has affected, and will continue to affect, how education is delivered enabling time pressured adults to return to school**
- ▶ **Increase in working adults enrolling in post secondary schools is projected to reach 10% of all 25-44 yr olds by 2015**
- ▶ **According to Census Bureau 2005 survey data only 28% of adults over 25 have a Bachelor's Degree**
- ▶ **The average person entering the workforce today can expect to change jobs 10 or more times during their working lives**

# Wage Premium

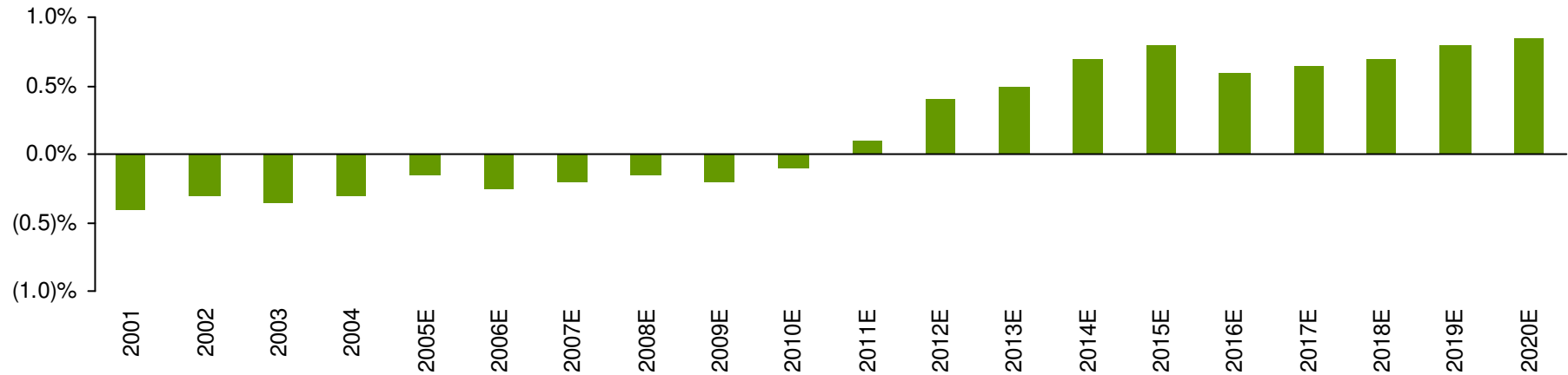
Earnings in Real Dollars by Level of Education



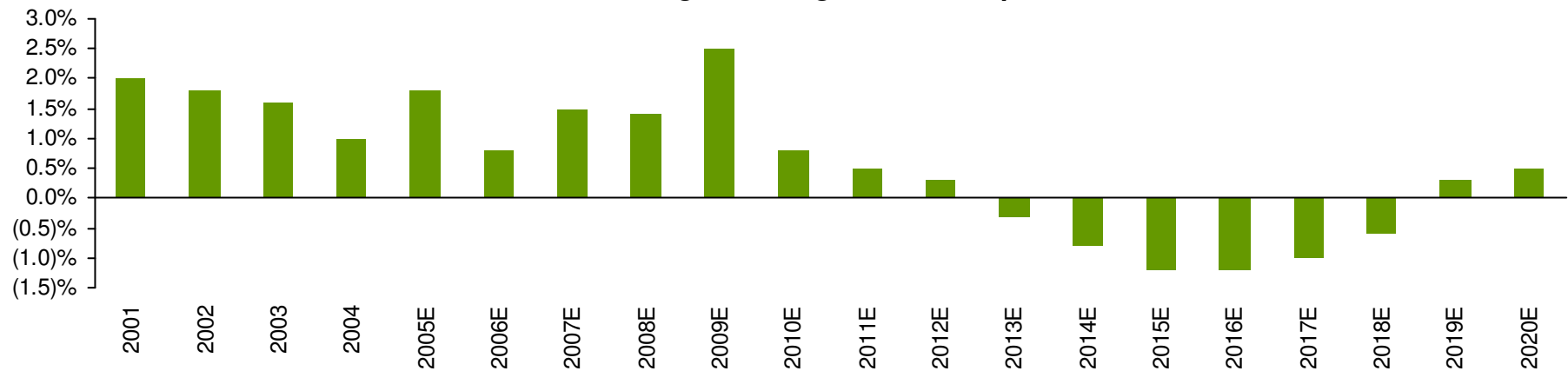
Source: U.S. Census Bureau

# Post-Secondary Demographics

**% Growth Change in US Age 25 to 45 Population**



**% Growth Change in US Age 18 to 24 Population**



Source: U.S. Census Bureau

## Observations/Conclusions: Working Adults (in the near term)

- ▶ Pre-existing demand levels among adults for an on-line or blended education option have begun to subside from early highs
- ▶ The percentage of the adult population interested in these education options continues to grow as a percent of the total but at a more measured pace
- ▶ Therefore, the percent of total inquiries representing the “most interested” potential students will decrease
- ▶ It is no longer possible to “make up” for attrition with acquisition
- ▶ A small improvement in retention can result in a significant improvement in financial results

# Observations/Conclusions: FT Undergrads

- ▶ Beginning in 2010 the pool of traditional, college-bound high school students will decrease and continue to decrease for the ensuing 10 years
- ▶ Competition for available students will increase
- ▶ Costs of physical plant maintenance and delivery of instruction will continue to rise
- ▶ It is no longer possible to “make up” for attrition with acquisition
- ▶ A small improvement in retention can result in a significant improvement in financial results

# To put it simply...

It is critical for students, for schools and for society as a whole that students finish the programs they start

# Some truths behind attrition

- ▶ **Students are not lost at the end of a term they are lost at the beginning**
- ▶ **The early experiences of the new student are the most critical**
  - For example: Just over 10% of prospective post-secondary students have had experience with a 100% on-line education program

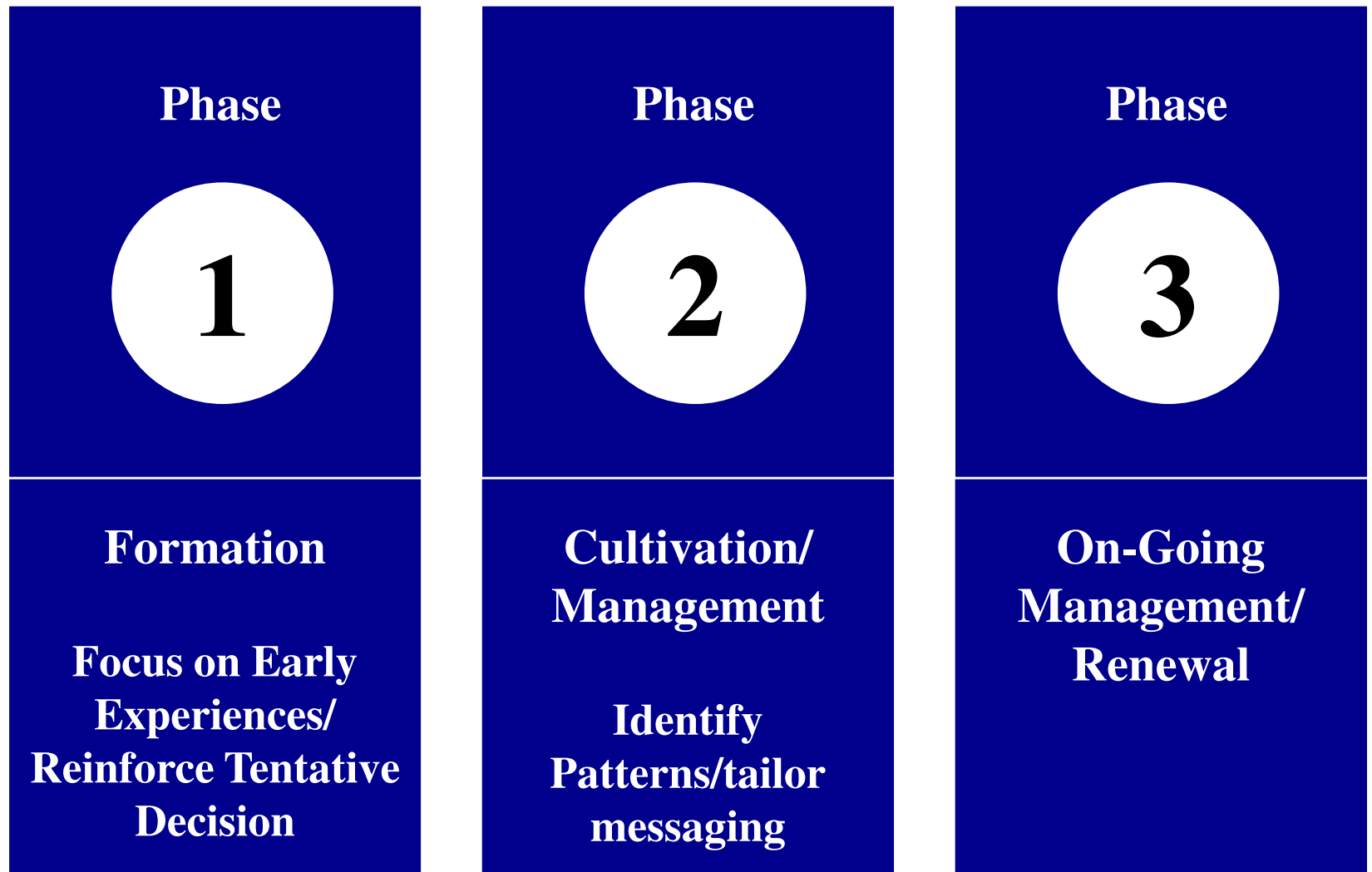
*--Expanding Demand for Online Higher Education*

Eduventures 2006 report

# And, further...

- ▶ **All students of all types in all types of learning environments begin with expectations re the experience they are about to have**
  - Do we know what they are?
  - Do the early experiences we provide match their expectations?
  - Retention is about addressing the gaps?
- ▶ **Intervention to retain students at the end of a term will be more costly and less productive than efforts begun early and maintained throughout**
- ▶ **The second registration is as important as the first**

# The Phases in the Student Relationship



# Keeping the greatest number of students for the longest period of time

- ▶ **Relationships are built by contact**
- ▶ **Relationship building contact is a mix of communications, interactions, and events**
- ▶ **Contact type and frequency needs to be matched to risk profiles and need**
- ▶ **The most powerful (and typically most expensive) contact should be reserved for the fewer students who demonstrate a higher level of risk**

# Contact cost and impact

- ▶ Email
- ▶ Interactive
- ▶ Traditional mail
- ▶ Printed materials
- ▶ Telephone
- ▶ Face to face (events/ one on one)

# Contact Content

- ▶ **All contact, regardless of medium, should be:**
  - Engaging---heart and mind
  - Connecting--people to people
  - Interactive—dialog
- ▶ **What don't they know?**
- ▶ **What must they know?**
- ▶ **What are they worried about?**
- ▶ **In what areas do they need help?**
  - Time Management
  - Handling life impact
  - Social/Cultural

# Segment the population by...

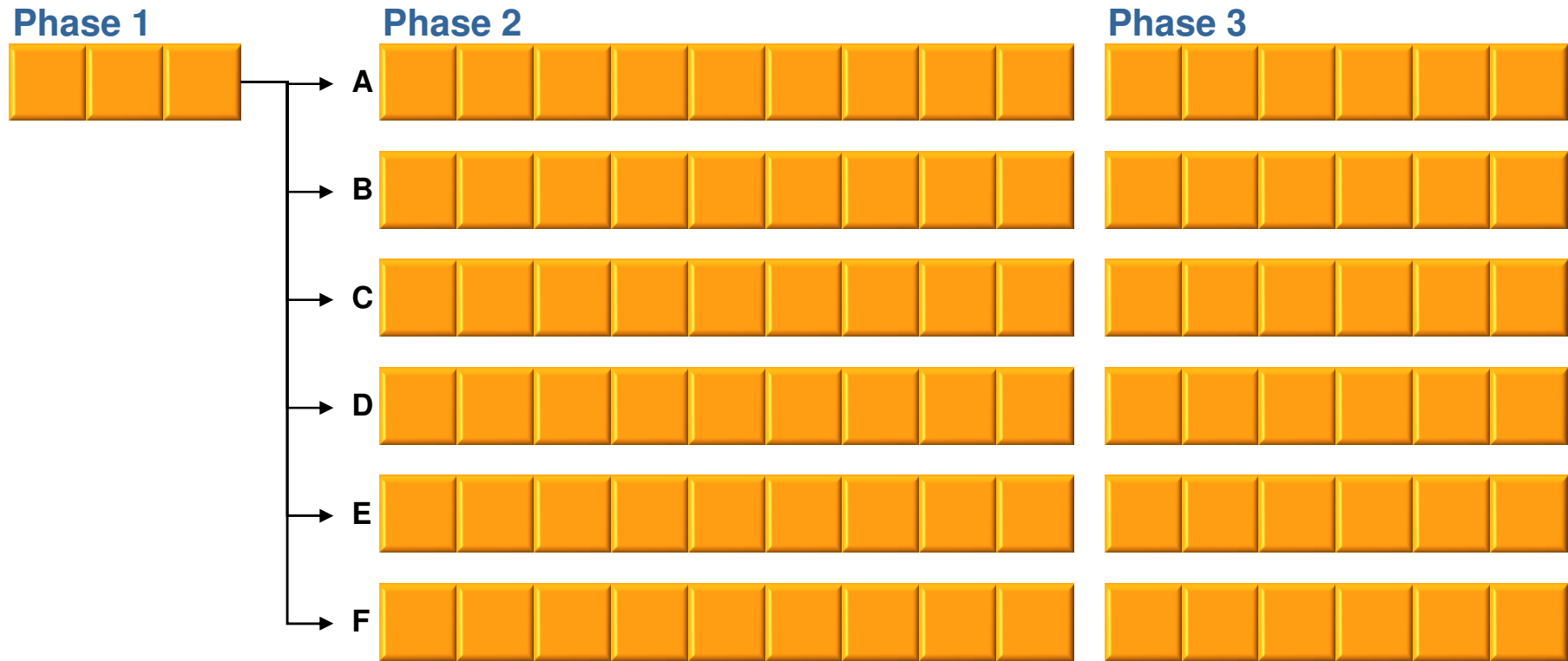
## ▶ **Success Profile**

- 8+ characteristics (GPA, Economic background, legacy parent, etc)
- 5-7
- etc

## ▶ **Risk Profile**

- 8+ characteristics (Economic circumstances, ESL, GPA, Pell recipient, etc)
- 5-7
- etc

# Communications and other retention activities



## Event Triggers



Complaint



Attendance



Non-Pay



Personal



Drop  
out/transfer

# So, What is Lifetime Value?

- ▶ **The lifetime value of a student is the average discounted net present value of the total profit in the average student relationship**
- ▶ **The relationship with the student is financially represented by the average number of transactions (paid course registrations) per term over the average number of consecutive terms a student continues to register**
- ▶ **It does NOT include the marketing costs incurred to acquire the student relationship**

# The premises

- ▶ **Schools spend today's dollars to acquire the profit in a relationship that they will receive in future dollars**
- ▶ **The variables that impact the value of that relationship:**
  - length of time the schools have the relationship
  - the number of courses per student that the school is paid for during that time span
  - Fees and other revenues received per student

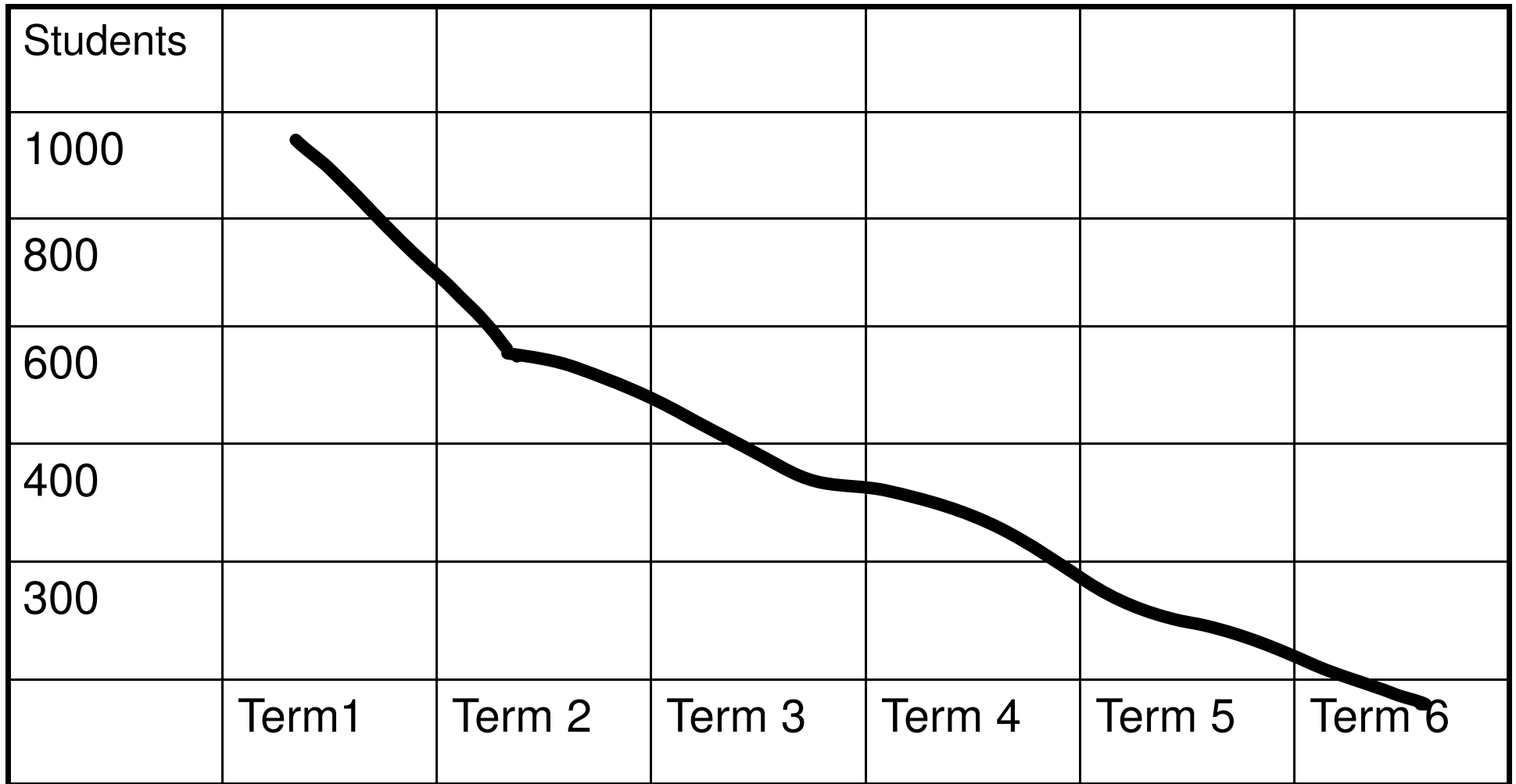
# Why Lifetime Value

- ▶ **How do schools know how much they can spend to acquire a student if they don't know what that student is worth?**
- ▶ **How do they know what they can spend to retain a student if they don't know what that student is worth?**
- ▶ **What if it costs more (in today's dollars) to acquire a student than a student is worth (discounted to today's dollars)?**
- ▶ **Wouldn't it be of value to know the characteristics of those students with the highest lifetime value? The source of those students?**

# What A School Needs to Know to Determine Lifetime Value

- ▶ **Average number of transactions/student/term**
- ▶ **Average revenue per transaction**
- ▶ **The Margin (%) for Retention and Profit/Contribution to Overhead**
- ▶ **Current average Retention expense per student**
- ▶ **Applicable discount rate**
- ▶ **Nature of the relationship (Periodic)**
- ▶ **Rate of attrition (typically a two period rate)**

# Periodic Attrition



# The Basics

▶ Revenue	100%
▶ Costs to Deliver Instruction	50%
▶ Overhead	30%
▶ Margin for Retention and Contribution or Profit	20%

# So, how do we get there?

## Let's go to the map

# And what are the take-aways

- ▶ **The single most important variable in the Lifetime Value of Student is retention**
- ▶ **Retention related activities are most effective early in the relationship with a student**
- ▶ **Retention related communications and activities are least costly if they address all students early and customize later (save the most powerful, most expensive interventions for the now fewer students who will require them)**

# And...

- ▶ **A small improvement in first period retention results in a dramatic improvement in Lifetime Value**
- ▶ **Once we know our LVS we can better determine out allowable cost of acquisition**
- ▶ **The effects of communication and other retention related programs on lifetime value can be tested and tracked**
- ▶ **Program completion is better for the schools, better for the students and better for society**

# Keeping Students Longer

- ▶ **Focus on the first 30-45 days in the life of a student**
  - Frequent contact/assistance
  - Early registration opportunities
  - Begin to track behavior against variables associated with attrition profiles
- ▶ **Implement on-going SRM program**
  - Match contact frequency/type with degree of risk
- ▶ **Utilize on-line SRM tools first**
  - Provide new students with a place to go for information of interest only to new students
  - Utilize interactive tools to deliver self-help in an engaging manner
  - Provide returning students with place to go for information, self-help, etc that fits them

“Daring ideas are like chessman moved forward; they may be beaten, but they may start a winning game”

-Wally Neilson, *Golden Donors*