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INTERNATIONAL EDUCATION

OPPORTUNITIES IN THE MARKET FOR UNIVERSITY PATHWAY PROGRAMMES

Enabling growth, managing risk

Over the past decade, the market for university pathway programmes has experienced rapid growth.

BACKGROUND

These programmes support international students looking to enrol in degree programmes at universities in markets such as Australia, the UK and increasingly the US. Research by StudyPortals and Cambridge English suggests that this market was worth $1.4 billion in 2016, with no signs of slowing down. This growth has been well documented, as has the associated growth of the leading pathway programme providers; Cambridge Education Group, INTO University Partnerships, Kaplan International Colleges, Navitas and Study Group, as well as the more recent emergence of new players, such as Oxford International Education Group in the UK and Shorelight Education in the US. Many of these operators have benefitted from investment from private equity.

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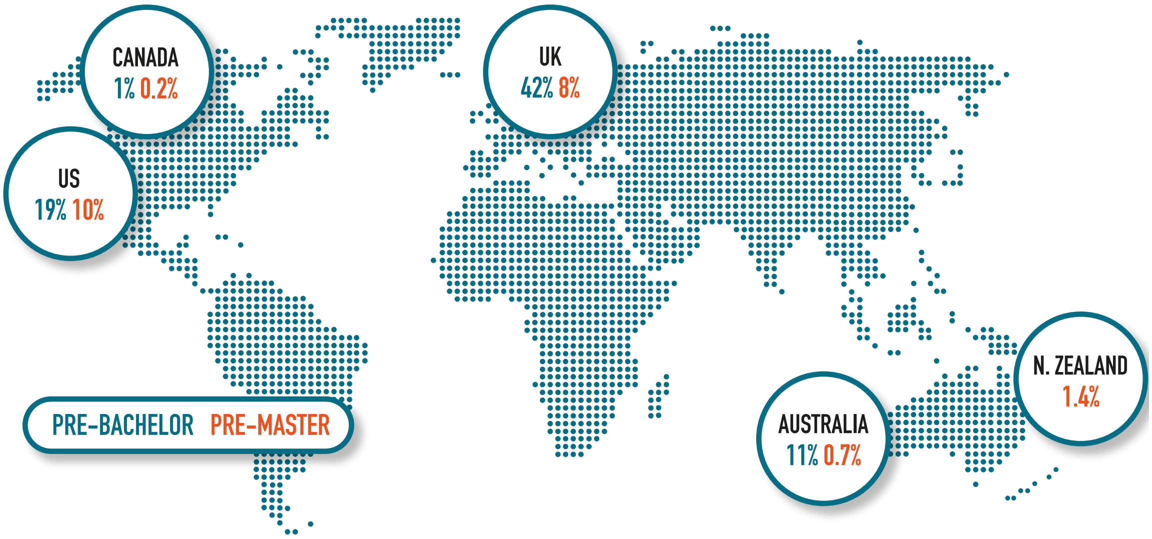
Working with a third party provider gives universities access to a much wider network and diversity of nationality amongst their international students than they would be able to achieve themselves. In addition, universities have, on the whole, little interest in the education provision that pathways represent – pre-university courses to fill gaps in students' secondary education and English language teaching. It is not core to what they offer, so they are happy to partner with external specialists.

CEO, Study Group

Distribution of global pathway programmes by country.



What are pathway programmes?

Pathway programmes enable students who do not have sufficient prior academic knowledge, or the necessary language skills, to undergo preparation and training that will allow them to meet entry requirements for undergraduate or postgraduate studies. There may also be an element of cultural adaptation. Different parts of the world and different institutions use various names to describe pathway programmes, such as Foundation Programme, International Year One or Preparation Course (pre-bachelor or pre-master). While some pathway programmes are now delivered online or through blended learning, the majority (90%+) are still taught face-to-face. Course duration can be as little as four months or as long as two years, but on average pre-bachelor programmes last 12 months, and pre-master programmes tend to be shorter, averaging nine months.

Benefits for universities

- Greater certainty over a student's ability to complete the course, before admitting them.
- A more diverse student body.
- Greater revenue from international students.

Continued underlying growth in the global market for international students.

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In essence, there continues to be a substantial mismatch in the schooling that is provided by the education systems of the c140 countries that we recruit students from, and the entry requirements to top universities in the UK and the US. It would take decades for this to be addressed, and in the meantime there continues to be high demand for programmes that prepare these students for their studies abroad.

Managing Director UK & Europe, Study Group

STRONG DEMAND

According to UNESCO and the IEE, over 4.6 million students travelled abroad in 2017 seeking to fulfil their educational aspirations, with the vast majority from Asian and Middle Eastern markets. The number of students studying abroad has grown strongly over the past 20+ years (at c5% per annum), with growth remaining robust during global downturns. Growth has been strong across source countries, with newer markets such as Nepal and Indonesia also coming on stream.

There is significant headroom for further growth in the number of international students:

- The potential addressable base of students is expected to grow as average income increases, leading to greater means to fund student mobility.
- The motivation to study abroad remains robust, as there remain few quality universities in many source markets.
- Meanwhile, a Western education continues to be seen as preferable by both parents and graduate employers, and is considered to lead to better employability and career prospects.

Students look to study abroad primarily due to the quality and prestige of Western universities. This benefits in particular English-speaking countries. The US, the UK and Australia are attractive destinations, given the significant share of these markets amongst high ranked global higher education institutions.

These key markets differ in terms of level of international student penetration, level of maturity of pathway provision and the macroeconomic environment. While individual markets have experienced fluctuations in the growth of international students due to visa or currency challenges, on aggregate there has been robust growth in international students over the last decade.

THE UK MARKET

The UK's higher education sector is renowned globally, with 93 universities and colleges featuring in the Times Higher Education World University Rankings 2018, which lists the top 1,000 universities globally. The UK therefore represents an attractive destination for international students.

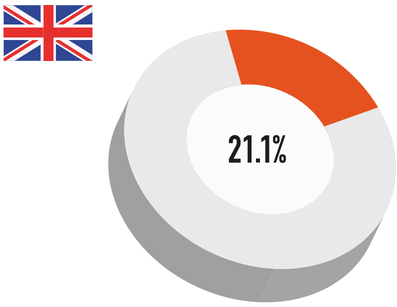
While only c11% of worldwide international students study in the UK, according to StudyPortals' analysis of 2,275 pathway programmes, the UK offers almost half of the world's pathway programmes. As a result, the penetration of universities with a pathway course is relatively high (more than 50%), with the majority of these served by a third party provider rather than in-house. The number of outsourced partnerships has grown steadily over the past 10 years, with the remaining 'white space' headroom in lower ranked universities (which offer less international appeal) and top universities (which need less support sourcing international students).

Higher education institutions in the UK are under increasing pressure from declining funding and the need to increase diversity, increasing the attractiveness of high fee paying international students.

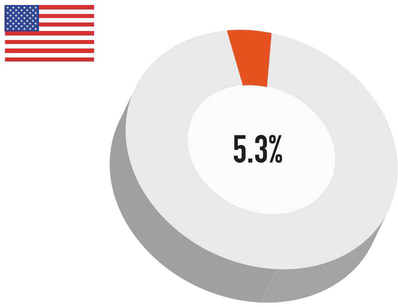
Despite the maturity of the pathways market, there is headroom to grow overall penetration of international students. Growth is most likely to come through growing the portfolio of pathway programmes offered, as well as growing student numbers on existing programmes.

One potential ongoing deterrent to growth is the UK government's immigration policy, with non-EU students currently included in the UK's net migration statistics. The UK government continues to target a long-term reduction in net migration numbers, with international students an easy target, through a continued tightening of visa policy. On the other hand, Brexit is more likely to affect EU students who are overall less likely to come through a pathway programme.

Proportion of university students who are ‘international’.



UK



US

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The US has been behind the UK on pathways because historically it had a larger domestic market and US universities are traditionally conservative. However, state and federal funding cuts have become a sobering reality and the drive to diversify student bodies means that the US now represents a real growth opportunity.

Managing Director, CEG Digital, Cambridge Education Group

THE US MARKET

In contrast to the UK, the US is a less mature market for pathway programmes, arguably 10 years behind the UK and Australia. The US receives the largest share of international students globally (24% in 2017) and has the greatest number of high quality, internationally ranked institutions – almost 160 – making it a highly desirable destination.

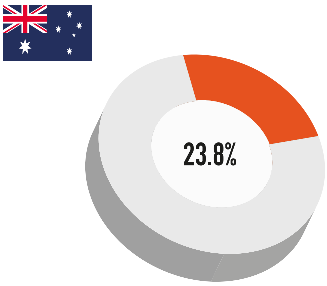
Commercial pathway programmes in the US are however underpenetrated, with only c50 programmes in existence today. This is up from c25 in 2013 – equivalent to growth of c20% per annum. Leading pathway providers report continued increase in interest from higher education institutions in the US, suggesting that this trend is likely to continue and possibly accelerate.

In recent years, the number of international students enrolled has grown by c8% per annum, to c1 million in 2016. However, due to the large domestic market, penetration of international students within universities is very low at c5%.

Despite some structural differences, the evolution of the US pathways market is expected to follow the development of the more mature UK and Australian markets:

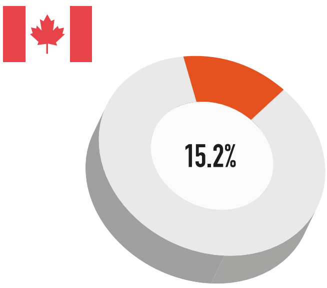
- Market penetration typically starts with lower ranked institutions and once ‘proof of concept’ is established, higher ranked higher education institutions start to join in.
- Some prevailing structural differences for the Top 50 institutions (where endowments alleviate the funding pressures felt elsewhere) make the very top end of the market less accessible.

Proportion of university students who are 'international'.



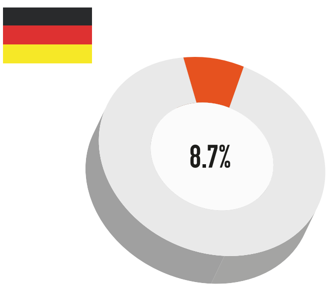
Australia

Australia is perceived as having led the way with pathway programmes, with each major education institution having a programme in place, and c24% of all students being from abroad. 35 of the global top 1,000 universities are located in Australia, which, along with the pleasant climate and proximity to Asia, drives continued demand for international students, despite the comparatively high tuition fees and living costs. Recent uncertainty over Brexit in the UK and the anti-immigration rhetoric in the US is expected to increase demand in Australia further, with established pathway providers well-placed to benefit from this.



Canada

With 26 universities in the global top 1,000, Canada attracts c7% of all international students, and maintains an open and welcoming stance, which includes offering graduates the opportunity to remain in Canada after graduation. However, Canada is an outlier in the Western higher education markets, as its existing system for entry to higher education institutions negates the requirement for a formal pathway provision. Thus only a couple of Canadian universities offer comparable pathway programmes, and there are limited opportunities for third-party providers to expand in the Canadian market.



Germany

Germany, which has 44 universities listed in the global top 1,000, attracts c6% of international students. International student enrolment has grown c30% since 2012 on the back of an increasing number of institutions offering degrees in English, and the fact that, like domestic students, international students are not currently required to pay tuition fees. About a third of international graduates remain in Germany permanently after graduation and there continue to be acute skills shortages in software and sciences which drives domestic demand for graduates. Few universities offer anything that could be described as a pathway programme, and as such the German market remains immature. However, with high academic entry standards and many courses requiring solid German language skills, Germany represents a potentially attractive expansion opportunity for the established international pathway providers.

Five providers represent more than half of the market, but new players are emerging.

Whilst about a third of universities offer their own pathway programmes as part of their general educational offering, the majority of programmes are outsourced to pathway providers. Some institutions simply license providers to carry out pathway programmes on their behalf, whilst with others, the relationship has been described as a 'joint venture', with closer partnership and fuller integration of the pathway into the university degrees. Five providers represent more than half of the global market for university pathway programmes.

KEY PATHWAY PROVIDERS

A number of smaller operators are also starting to build market share.

Shorelight Education is a relatively new entrant to the US market.

Oxford International Education Group is an emerging pathways provider in the UK, with four university partnerships.

EC English operates campus-based pathway programmes with two US higher education institutions.

ILSC recently announced a move into the pathways sector with the launch of a new Global Foundations brand, as well as a first partnership with Lesley University in the USA.

Market predictions suggest positive outlook for pathway programmes.

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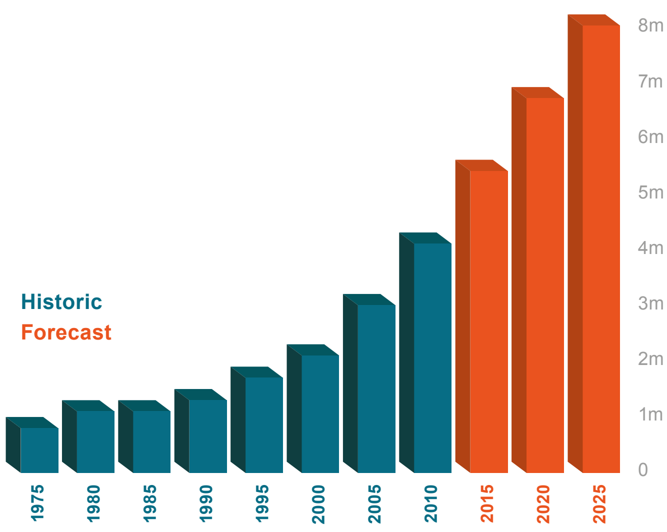
We expect good steady demand growth for the foreseeable future for as long as disposable incomes around the world continue to rise and people continue to put a premium on an Anglophile education credential. We have no reason to believe that these dynamics will change anytime soon.

Managing Director, CEG Digital, Cambridge Education Group

MARKET OUTLOOK

The OECD has predicted the trend for students enrolling in international higher education courses will continue upwards, potentially reaching eight million by 2025. It is expected that demand for pathway programmes will also continue growing in line with this increasing demand for international education. Many commentators believe that the market for pathway programmes globally will eventually reflect the more mature Australian market, suggesting further growth in the UK and more importantly, the US, given the relatively lower level of penetration of pathway programmes there today.

Long term growth in the number of students enrolled outside of their country of citizenship



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Fundamentally, the experience of undergraduate studies is so important and it’s so much more than just learning course materials online. It is not really conceivable that in the future large volumes of students aged 18 would choose to forego the in-country experience entirely, in favour of taking their undergraduate degree purely online.

CEO, Study Group

MOVE TO ONLINE

UK and US universities are increasingly developing their online offering, which is creating additional opportunities for existing pathway operators to support universities. This is usually referred to as Online Programme Management (OPM). This way, universities are able to leverage the providers’ international recruitment and agent network to fill the online courses. As today the majority of online degrees from UK universities are post-graduate, this does not affect the demand for international undergraduates.

As such, the target market for online degrees today remains firmly different to that of a traditional university pathway programme. In the longer-term however, the availability of online undergraduate degrees may impact the proportion of international students who wish to physically attend a higher education institution in a destination market. Nevertheless, many prospective students will continue to require a pathway programme to help them reach the subject and language entry requirements for the online degree.

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We don’t see the move towards online degrees as a risk to our core pathway model. The proposition is different and we are targeting different student profiles. Pathways are for 16-19 year olds looking to study for their undergraduate degree abroad who do not meet the institution’s entry requirements, while online courses available today are mainly for post-graduate degrees and target those who are qualified to study for these, often part-time or alongside a job. We partner with universities to support them with both of these models.

Managing Director, CEG Digital, Cambridge Education Group

Sources: StudyPortals, Cambridge English, OECD, UNESCO, Project Atlas (by the Institute for International Education), The Times Higher Education World University Rankings 2018, CIL interviews.

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> Emerging markets like China would need generations to build both the quality of their universities and the quantity of places. In China, institutions have so far struggled to attract the research dollars which would see them rising in the global higher education rankings over time, and there is also structural under-supply even to meet demand from domestic students. All in all, these emerging markets are unlikely to rival the UK and US as pathway destinations anytime soon.”
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> CEO, Study Group

CONCLUSIONS

It is clear that the underlying dynamics of the global pathways market remain strong, with continued growth in student demand for a high-quality university education outside of their home market, and a growing interest from the universities to attract international students in light of domestic funding challenges. For now, there appears to be limited risk of international students choosing to remain in their home countries and accessing their international education purely online, although generational changes may make this mode of study more attractive in the longer-term. The eminence and desirability of the global top universities today in the UK, US and other Western markets is expected to remain unchallenged for the foreseeable future. There should be some exciting opportunities ahead for both the existing incumbent pathway providers and some of the newer entrants. We expect that the pathways market will remain ‘one to watch’ for investors and entrepreneurs alike.

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