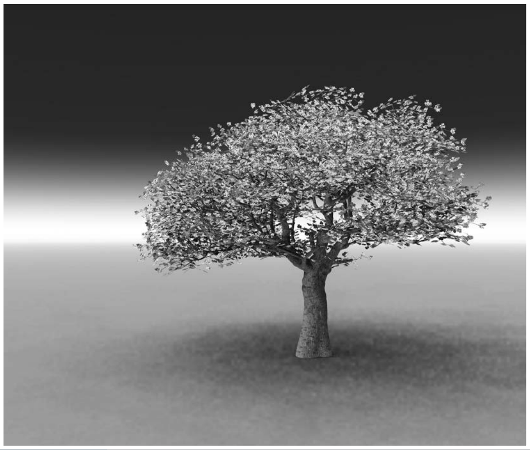
Cherry Tree
& ASSOCIATES, LLC



2020

RESEARCH REPORT

Shaping the Future of Post-Secondary Education

A Time of Transformation in Post-Secondary Education and the American Workforce.

INSIDE THIS REPORT

- Situational Analysis – Two Phenomena Colliding
  - *Post-Secondary Change at Hyper-Speed*
  - *The Collapse and Rebuilding of the Labor Market*
- Implications For:
  - *Post-Secondary Education Leaders*
  - *Employers*
  - *Policymakers*
  - *Investors*

INTRODUCTION

On September 11, 2001, I was a young press aide for Chuck Hagel, a United States Senator from Nebraska. My most distinct memory of that day is standing underneath a beautiful cloudless sky across the street from the United States Capitol amidst chaos and confusion. During that time, a reporter from the Omaha World-Herald found my boss to get his comments on the historic tragedy unfolding in front of us. Hagel captured the moment when he said, "We cannot know what all the consequences of this morning will be… but we know America is forever changed."

Eighteen and a half years later, that quote has been running through my head. We are once again at the front end of a global tragedy and the world is forever changed.

The implications of the global response to the coronavirus (COVID-19) will touch our lives and society in ways both predictable and surprising. Two areas where the changes will be most profound are post-secondary education and the American workforce. These two sectors exist together in an ecosystem that drives American productivity and binds our social fabric. The faster we can grasp the dramatic scope of the change taking place and arrive at a collective sense of clarity about the shape of things to come, the stronger the foundation of our post-corona society will be.

"These two sectors exist together in an ecosystem that drives American productivity and binds our social fabric"

The objective of this paper is to:

1. Analyze the current "forever changed" moment for both the post-secondary sector and American workforce; and
2. Provide insights and ideas for **post-secondary education leaders, employers, policymakers and investors** based on my analysis.

I've been immersed in the education/workforce space for the last decade, first as an executive at a publicly traded education company, and now as an investment banker focused largely on education and workforce training. My hope is that I can be a constructive voice in navigating what is to come. As a Nobel Laureate once said, you don't need to be a weatherman to know which way the wind blows.

FIVE KEY TAKAWAYS

01

The response to the coronavirus (COVID-19) will leave post-secondary education and the American workforce forever changed.

02

Trends already at play in post-secondary education will be accelerated. This will lead to increased skepticism about the value of degrees and questions about certain degree types.

03

The massive disruption of the American workforce (already greater unemployment than 2007-2009) will reshape the nature of work.

04

The current crisis will create the conditions to further widen the gulf of societal inequality. Mitigating the long-term human cost of this crisis will require leadership from higher education, employers, policymakers, and investors.

05

There is no going back to normal. New thinking is required to match the enormity of the moment.

PART ONE: SITUATIONAL ANALYSIS—TWO PHENOMENA COLLIDING

Two phenomena are colliding with such force that the landscape of post-secondary education and the American workforce cannot help but be transformed. First, the dynamics that were forcing a slow change upon higher education are now going to impact it with bracing speed. Second, the massive disruption that has hit the American workforce in the last months will transform it forever. Understanding these two realities is key to drawing workable conclusions about the way forward.

PHENOMENON #1: POST-SECONDARY CHANGE AT HYPER-SPEED

The response to the coronavirus is having the effect of compressing a decade of change in post-secondary education into a period of months.

Digitization, price sensitivity, crushing debt, constrained budgets, and enrollment uncertainty were slowly forcing an evolution of higher education. That evolution is now happening at warp speed. The effect is jarring, especially for a sector not known for moving quickly. What was the Pirates of the Caribbean ride at Disney World has turned into base-jumping off the Empire State Building.

Let's examine the factors that are accelerating the change in post-secondary education.

Digitization: For the last two decades, digitization and better use of data have made value chains across the global economy more effective and efficient. This has resulted in people receiving greater value, more quickly, for less cost. Higher education has been less dramatically impacted by this than other sectors[1]. The model of "traditional education" built around time-based concepts of credit hours and seat time was created for a decidedly non-digital age[2]. This model has been slow to disrupt for a variety of reasons, including accreditation requirements, regulations, easy access to third-party funding, and cultures averse to change. These barriers to change are less formidable in an age of forced transformation and social distancing.

Digitization rendered grinding tree pulp into paper and printing it with the day's news an inefficient way to deliver the news to people. Now digitization is rendering an inflexible system of higher education built around in-person arbitrary time-based metrics[3] inefficient. At a time when 81% of Americans have access to oceans of information, products, instruction and customer support on their smartphones[4], the idea that one must arrive at a classroom at a prescribed time to have learning imparted to them in order to receive a "credit" toward their degree becomes an anachronism[5] in the eyes of the student. Especially when the experience comes at the cost of tens of thousands of dollars.

Now that all students are being forced to pursue their education digitally, this reality will become increasingly stark, especially as students are paying full price for digital learning experiences that are unlikely to meet their expectations. Whenever this moment of social distancing passes, some students surely will embrace the chance to return to the "traditional" model of higher education; but it is reasonable to assume that this experience will bring the entire value proposition into question for some students and, in some cases, their parents.

Price Sensitivity: For decades, there has been almost no relationship between cost and value in higher education. In the year 2000, the average cost of tuition, fees, room and board at all institutions was $10,820 in current dollars. In 2017, that number rose to $23,091[6]. Over the same period, U.S. inflation has hovered around 2%[7] and wages

1 Retail and finance stand out as two clear sectors where digitization has increased value and speed while lowering costs.

2 https://static.newamerica.org/attachments/2334-cracking-the-credit-hour/Cracking_the_Credit_Hour_Sept5_0.ab0048b12824428cba568ca359017ba9.pdf

3 Credit hours, seat time, class times, semesters and years

4 https://www.pewresearch.org/global/2019/02/05/smartphone-ownership-is-growing-rapidly-around-the-world-but-not-always-equally/

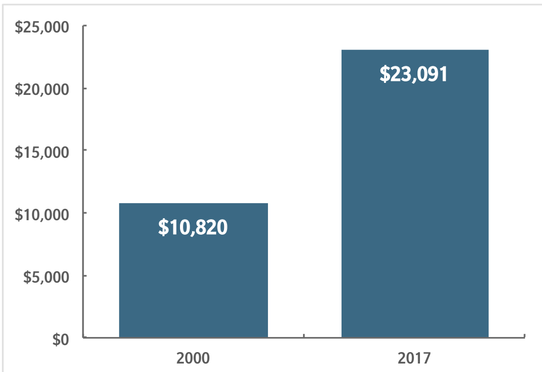
5 To be sure, there are some things that are not easily taught digitally (e.g. nursing, mechanical engineering, theatre design). That still does not mean that the education must be measured in time-bound metrics like the credit hour or seat time.

6 https://nces.ed.gov/fastfacts/display.asp?id=76

7 https://www.statbureau.org/en/inflation-comparison

have stagnated[8]. While economic terms are not the only way to measure the value of a degree, they are a good starting place when thinking about the price sensitivity of consumers.

Average Cost of Tuition, Fees, Room and Board



Source: nces.ed.gov

The economic crisis that is unfolding as a result of the pandemic is falling most heavily on middle- and low-income families. Their economic foundation is being undermined. This will result in a reassessment of how they view their spending, savings and debt. Inevitably, this will accelerate price sensitivities around a college degree. At the same time, the federal government's willingness to underwrite increased pricing in higher education is now suddenly competing with trillions of dollars more in fiscal stimulus and debt service.

> *"While economic terms are not the only way to measure the value of a degree, they are a good starting place when thinking about the price sensitivity of consumers."*

Student Debt: The state of student debt in America is an economic and social disaster. Today, nearly 45 million Americans owe over $1.5 trillion in student debt[9]. To put these preposterous numbers into some perspective, that's the equivalent of the combined populations of California and Colorado owing more than the gross domestic product of Spain, Mexico or Australia. A quarter of borrowers who take out student loans end up defaulting within five years[10]. Student debt was a crisis before the current economic disruption. The debt crisis is especially damaging for those who borrowed money to go to college and failed to attain a degree.

This debt trajectory cannot be sustained. Federal policymakers will eventually act. It is difficult to envision any action around student debt that does not include creating the conditions where colleges and universities have more skin in the game. This will likely take the form of greater institutional accountability around cohort default rates and loan repayment rates in order to be eligible for federal financial aid. This could have an outsized impact on graduate programs where debt levels are greatly outpacing undergraduate debt levels[11].

> *"The state of student debt in America is an economic and social disaster. Today, nearly 45 million Americans owe over $1.5 trillion in student debt. To put these preposterous numbers into some perspective, that's the equivalent of the combined populations of California and Colorado owing more than the gross domestic product of Spain, Mexico or Australia."*

Constrained Budgets: Many private colleges that depend on cash-flow from tuition payments to sustain their operations were already walking on a financial high wire. Now, they face existential peril. Schools with insufficient cash on their balance sheets will be forced to close or require taxpayer rescue. The consequences for institutions that already benefit from state support or healthy endowments may be less dire, but they will be transformed. The impact of this crisis on budgets will mean there is no "going back to normal."

8 https://www.epi.org/nominal-wage-tracker/
9 https://www.forbes.com/sites/zackfriedman/2020/02/03/student-loan-debt-statistics/#3ca2f3f4281f
10 https://www.pewtrusts.org/en/research-and-analysis/reports/2019/11/student-loan-system-presents-repayment-challenges
11 https://www.americanprogress.org/issues/education-postsecondary/reports/2020/01/13/479220/graduate-school-debt/

"The impact of this crisis on budgets will mean there is no going back to normal"

Institutional leaders are making decisions that will impact their futures while facing a parade of ambiguity and unknown variables in the coming school year. Uncertainties about state support[12] and emergency federal support will require seeing through a glass darkly. One of the biggest unknowns will be future enrollments.

Enrollments: In 2019, fall enrollments declined for the 8th straight year[13]. Several factors drove this, including demography, a strong labor market and price sensitivity. Now, the entire chess board has been flipped over and nobody knows where the pieces will land. There will be no clarity around enrollments across higher education for the foreseeable future. Old models for projecting enrollment will not work. Here are a few of the critical questions that we cannot answer today as we look to September[14] as an enrollment milestone:

- Will social distancing policies allow ground-based students to return to campus?
- Will students feel comfortable returning to campus even if they are allowed to do so?
- Will the massive economic disruption we are experiencing make students reconsider the ROI of their degree?
- How steep will the drop in enrollments from international students, who are central to many higher education business models, be?
- As graduate degrees in non-licensure professions continue to lose relevance in the job market, will declining graduate enrollments accelerate?
- Will enrollments behave counter-cyclically as they did during the 2008/09 economic crisis[15]? If so, to what kinds of institutions will these new enrollees attend?

PHENOMENON #2: THE COLLAPSE AND REBUILDING OF THE LABOR MARKET

The response to the coronavirus has led to the greatest disruption of the American labor market in modern history. In four weeks, over 26 million Americans filed for unemployment insurance[16]. That's millions more than filed for unemployment insurance during the great recession of 2007-2009[17]. Comparisons to the Great Depression are not especially useful because of the fundamental changes in our economy over the last 90 years, but that is the only economic event at the same order of magnitude to what we are experiencing today. The global economy is expected to shrink 3% in 2020 which would be the sharpest downturn since the 1930's[18]. This is truly a world historic event.

"The global economy is expected to shrink 3% in 2020 which would be the sharpest downturn since the 1930's"

The American workforce is in the middle of an event for which it has no precedent. We are like a boxer who got knocked down by a punch we didn't see coming and we're just trying to figure out how to stand back up. The actions taken by the Federal Reserve and Congress to backstop the economy, while justified, have been unprecedented in their scope. Congress has passed a $2 trillion package with more on the way and the Fed has made up to $2.3 trillion available in loans. For perspective, the 2019 United States' federal budget was $4.4 trillion.

"The response to the coronavirus has led to the greatest disruption of the American labor market in modern history"

12 Many states have not yet passed next year's budgets

13 https://www.studentclearinghouse.org/nscblog/fall-enrollments-decline-for-8th-consecutive-year/

14 The idea of "fall starts" is antiquated, but many schools still use it and it matters for our purposes.

15 https://www.census.gov/newsroom/press-releases/2018/postsecondary.html

16 https://www.cnbc.com/2020/04/23/weekly-jobless-claims.html

17 https://www.politico.com/news/2020/04/09/coronavirus-unemployment-claims-numbers-176794

18 https://www.reuters.com/article/us-imf-worldbank-outlook/coronavirus-great-lockdown-to-shrink-global-economy-by-3-in-2020-imf-idUSKCN21W1MA

We do not yet know the duration of the current situation, but we do know it will eventually end. People will go back to work, probably in fits-and-starts, and a "new normal" will emerge. This "new normal" will be shaped by many of the hiring and human capital dynamics that existed before the crisis. Like post-secondary education, the velocity of these conditions will likely be accelerated. This includes an increased skills gap, dissatisfaction with the signals about what potential hires and current employees can do, and the growth of the gig workforce[19].

Let's examine each of these factors.

Skills Gap and Matching

America is bad at matching workers with jobs that fit their skill sets. Prior to the coronavirus crisis, the economy was growing but growth was constrained by the challenges faced by employers in getting the skills and talent they required. The manufacturing and technology sectors were especially constrained by these concerns[20]. At the end of February, there were nearly seven million unfilled jobs in the United States[21]. The American workforce has a persistent mismatch between people looking for jobs and the skills employers are seeking. The mismatch in our human capital is likely to grow and continue to drive social inequity.

> *"The American workforce has a persistent mismatch between people looking for jobs and the skills employers are seeking"*

This reality represents both a challenge of matching people to the right jobs and better preparing people to do the jobs that will be required in a post-coronavirus modern economy.

Signals

I have rarely met with a CEO or talent leader who is satisfied with their ability to identify clear signals about the hard and soft skills of potential hires or among their incumbent workforce. College degrees and years of previous experience serve as a minimum standard with which to screen out job applicants, but they are an insufficient signal to provide an employer with actionable information about a job candidate's grit, communication skills, technical ability or alignment to company culture. Business leaders are often left to rely on social capital (who you know) or the intuition of hiring managers. This is suboptimal in the modern economy and it does not work at scale.

Better signals about what job candidates can do will become increasingly important as we work our way toward the re-employment of the workforce at the end of this crisis. It will also provide a moment when employers may become more willing to think differently and take greater risks around innovations.

> *"Business leaders are often left to rely on social capital (who you know) or the intuition of hiring managers"*

Gig Economy

Gig workers make up over a third of the American workforce (approximately 57 million people)[22]. The trends that drove the growth in the gig economy from the employer's perspective are likely to intensify. The ability of an employer to flex their workforce is going to be paramount as businesses step back into the emerging economy with uncertain demand and supply chains. At the same time, a post-pandemic world may make gig work that is untethered from the benefits of full-time employment less attractive to the individual.

19 Non-traditional or gig work consists of income-earning activities outside of traditional, long-term employer-employee relationships.

20 https://www.adeccousa.com/employers/resources/skills-gap-in-the-american-workforce/

21 https://www.bls.gov/news.release/jolts.nr0.htm

22 https://www.forbes.com/sites/tjmccue/2018/08/31/57-million-u-s-workers-are-part-of-the-gig-economy/#5b53beb97118

PART TWO: IMPLICATIONS FOR POST-SECONDARY EDUCATION, EMPLOYERS, POLICYMAKERS AND INVESTORS

There will be a significant human toll that comes from this change in both the world of post-secondary education and the labor market. Mitigating that toll requires being clear-eyed about the reality ahead. These will be uncharted waters. We do not have data and experience to guide us. The best we can do is try to lay down informed assumptions as a foundation for thoughtful decision making which will ultimately be shaped by experience, our values and priorities. With this goal in mind, what follows are what I believe are the **implications of the coming change for post-secondary education, employers, policymakers, and investors.**

Implications for Post-Secondary Education Leaders

- First and foremost, **only growth mindsets[23] will work in this environment.** This is especially true for leaders at institutions of higher education. The pace of change that is coming will not be kind to fixed mindsets. Flexible thinking, communicating with clarity and precision, and taking responsible risks are going to be incredibly important in the months ahead.
- **The gap between the "haves" and "have nots" will grow among institutions of higher education.** While this crisis will force change and new thinking on medallion private schools and flagship state institutions, it is an existential crisis for smaller schools with fewer built-in advantages.
- **Colleges and universities will close.** Small private institutions that do not have strong endowments and are dependent on tuition for cash flow are in jeopardy. Every college and university president must be intimately aware of their balance sheet and cash-flow statement. For those in a dire situation, the responsible thing to do is begin preparing now for that eventuality so the students who will be impacted are not left abandoned in the fall. Boards of Regents/Trustees/Directors will have to step up their games and hold leadership accountable for clear-eyed planning and become familiar with financial exigencies.
- **Online programs will continue to grow.** Institutions with flexible online capacity should be preparing now for the capacity required to handle an influx of transfer credit requests and financial aid applications. Institutions now pivoting to delivering online programs have an enormous learning curve to master as quickly as possible.
- It is reasonable to expect **a short-term increase in federal and state funds to support students and backstop institutions**. The critical question will be:
  1. whether these funds can be disbursed in time for institutions to have the clarity needed to plan and make choices about the coming academic year; and
  2. whether institutions can use a temporary infusion of emergency funds to create the space needed to do what is necessary to build a model less reliant on taxpayer funding.
- Apart from emergency rescue funds, institutions should plan **for decreased state funding over the long-term**. State budgets are going to be hammered by declines in tax revenue. 2021 will be painful for state schools and the environment will be ripe for consolidation within state systems.
- **Higher education institutions must permanently reduce their fixed costs.** The response to the coronavirus has dramatically increased the timeline on which cost reductions need to take place. It is a mistake to view these cost actions as temporary. There will be positives and negatives that come from this reality. It will force innovation and new thinking, but it will come at a painful cost in terms of livelihoods and culture.

23 https://lessondesign.weebly.com/habits-of-mind--growth-mindset.html

Implications for Post-Secondary Education Leaders—continued

- **Accreditors are going to have to become more tolerant of new models.** Accreditors were created to provide self-regulation and a system of peer-review that leads to continuous improvement. Along the way, they were asked to become arbiters of quality in higher education as a condition for federal financial aid eligibility. The structural incentives for accreditors create conditions for them to avoid risk and be conservative. This will not serve society well in the months and years ahead. They will have to embrace innovation or alternatives to traditional accreditation needed.

- College and university leaders who emerge from this time with a stronger and healthier institution will be the ones who **think more expansively about the value proposition of their institution**. In order to serve their mission, leaders will be forced to be creative about how to leverage the real estate, people, intellectual property and social services they provide to serve a broader range of people and generate new streams of revenue.

- A greater premium will be placed on **delivering student services as effectively and seamlessly as possible**. At a time of declining enrollments and disruptions in the normal course of businesses, institutions can create a competitive advantage by delivering a student experience which eliminates pain at the point of enrollment, financial aid disbursement, degree planning, and social services and then differentiating on this capability. This is, of course, easier said than done, especially at a time of declining budgets, but that is what will be required. One area ripe for innovation is career services. Institutions that can act as a critical staffing resource for local or large-scale national employers will enjoy an element of future-proofing. Directly matching students to jobs will become an increasingly critical point of differentiation.

- **Institutions will not be able to plan on two critical elements which make business models work today: tuition increases and international enrollments.** Leaders should be preparing for the coming financial year without a lift from both critical levers. This is one of the key factors that will force an urgent reassessment of cost structures because, aside from emergency tax-payer support or cracking into endowments, there are few ways to replace this revenue.

- **The value of R1 research institutions will be enhanced by the current moment.** As the nation and world pivot to prevention and mitigation of future pandemics, America's dependence on universities as research leaders will embed them more deeply as pillars of America's future in the long-term. This will increase the gap between the "have and "have not" institutions.

- **Faster, less expensive programs with easily understood learning outcomes which are directly tied to employment will be in increasing demand.** The post-secondary administrators who emerge from this moment as leaders will be the ones who use this moment to challenge the most basic assumptions about how learning is delivered and credentialed. It will become increasingly difficult to charge current tuition prices for siloed learning in esoteric subjects.

- **The institutions that thrive in this moment will be the ones where leaders generate buy-in from their faculty and staff.** The strongest institutions will be the ones where leaders are able to explain a rationale for needed changes and paint a vision of what lies ahead. Time spent defending the status quo will be time lost. But people cannot be commanded to confront this reality; they must be brought to it by effective leadership.

Implications for Employers

- **Workforce training budgets are likely to take a pounding**. As operating budgets constrict, corporate training will fall into the "nice to have" category. We saw this in the Great Recession[24] and I have sat in board rooms when cuts to workplace training are one of the least painful choices before us. This will create opportunity for those who can provide non-traditional, less expensive training and development options.

- When hiring resumes, whether that is in two months or two years, **employers who find better signals than the resume and social networks will create a competitive talent advantage.** The resume is an anachronism of the 20th century which tells where someone has been and who they know; not how they work and what they can do. There are many options before employers to assess meaningful attributes of job candidates but too many employers today don't know how to read these signals. Leaders who commit their businesses to hiring practices equipped for the modern economy will be in a strong position as hiring begins with a deep pool of available talent.

> *"The U.S. corporate training market fell by $2 billion in the 2008 economic crisis"*

- **Employers who can more effectively reskill their incumbent workforce will be at a competitive advantage.** As the pace of change accelerates, the model of laying off existing employees and trying to find more highly skilled workers will become increasingly inefficient.

- The limited sample size of my calls with business leaders says that most businesses are proving surprisingly adaptable to suddenly having remote workforces[25]. Old expectations about the "workplace" will shift and an inevitable consequence will be an **acceleration of workers expecting greater freedom to determine where and how their work gets done.** This will be especially true for knowledge workers. Business leaders who get in front of this change and create space, expectations, and tools to facilitate this freedom and redefine the "workday" will put themselves at a competitive advantage.

- Following this crisis, knowledge-businesses will **significantly reduce the costs associated with the physical space they occupy.**

- As the value proposition of a degree comes under greater pressure and employers find better signals for what job candidates can do and how they work, **tuition assistance will become a less effective retention tool for employers.**

- **The trend of employers valuing flexibility in their workforce will accelerate.** This will manifest itself in how employers view job descriptions, organizational charts and a desire to rely more heavily on fractional, part-time and gig employees versus fully-loaded full-time employees.

24 https://www.workforce.com/news/training-is-taking-a-beating-in-recession-studies-find

25 I used to serve on a board with a colleague liked to say that "the plural of anecdote is not data." One day we'll have data about the implications of all businesses moving to remote workforces in a matter of days. For now, I'll lean on my anecdotes.

Implications for Policymakers

This is a profoundly challenging time for policymakers. The old playbook isn't going to get the job done in these times. No idea is without challenges, but now is the time to take responsible risks, try new things and learn. Below are a handful of ideas for consideration:

- States should pay for unemployed residents, college students and high school seniors to voluntarily receive **assessments** that will create new signals for employers about what kind of worker they would be (e.g. Meyers-Briggs, Gallup Skills Finder or Angela Duckworth's Grit Scale).

- States should immediately scrub **every single licensure requirement** in non-medical fields. When every American is cutting their own hair, the absurdity of the cost and licensure barriers we put in front of people to practice as professional hair stylists or cosmetologists is evident. We can maintain responsible licensure requirements while removing time, cost and pain from these licensure processes.

- States' university systems should thoughtfully **liberalize their treatment of transfer credits and the credits they will allow for work experience.** Out-dated transfer credit policies are one of the biggest drivers of cost in college education. The federal government should partner with states to remove regulations that impede liberalized transfer credit policies. This would normally take years. It could be done in 3 months.

- State policymakers need to prepare for the reality that small private institutions in their states could close and put together procedures to **create smooth transfer options so displaced students at private institutions can easily transfer within state systems.**

- In coming months, many more citizens are going to be eligible for Pell Grants. **Congress should extend Pell eligibility to cover non-degree training programs.** In order to be eligible, the cost of the training programs should not exceed $3.9K[26] and not take more than a year to complete. States or employers who commit to hiring program graduates should be responsible for determining program eligibility, essentially performing the role of accreditor. There is a lot of complexity and challenges in this plan (fly-by-night offerings that don't produce real value; asking states to regulate programs they are unprepared to oversee; a direct challenge to institutions that rely on Pell Grant recipients to stay open). But I believe the downside is outweighed by the potential upside. Pell Grant recipients are not well enough served today. Creating incentives for Pell offerings that widen the aperture on options and create incentives to decrease time to complete is a responsible risk.

- **Congress should also extend Pell-style grants directed at displaced adults for high-need graduate fields like engineering, nursing, computer and data science.**

- The federal Department of Education and Congress should create **grants to allow colleges and universities to create and deliver competency-based degree programs that award degrees based upon what a student knows rather than the amount of time it takes to complete the program.** There are institutions that do this today[27] but not nearly enough are pursing this model which has significant potential to lower-costs and time-to-completion. The cost to create the program, comply with regulations and disburse financial aid for these non-traditional programs is an enormous barrier for institutions. The Department of Education and Congress can ease this path by creating resources and support to pursue these new pathways. The ROI on this investment could be enormous for the taxpayer.

- States should protect funding to support **State Longitudinal Data Systems.** As educational programs undergo a period of transformation, these data systems will be critical in knowing which programs deliver the best outcomes, especially for the most critical populations of workers.

26 Roughly two-thirds of a Pell Grant to allow for living expenses.

27 Capella University and Western Governors University are two leaders.

Implications for Investors

Investors who participate in the ecosystem of post-secondary education and workforce solutions are drawn to the opportunity to see returns while putting good into the world through innovations that increase knowledge and put people to work. Smart, strategic and wise investors with this focus are needed now more than ever. Below are some observations for them to consider:

- **Valuations are going to be volatile for the foreseeable future in the post-secondary and workforce training/staffing ecosystem, but the conditions for deal activity will be ripe[28].** Financial investors have capital they still need to put to work and will be looking for value. Strategic buyers will be more hesitant in the current environment, but right now every CEO is looking at their portfolio of offerings and determining whether it is adequate for the new world to come.
- This is an important moment for **digital direct-to-consumer learning tools/apps in high demand knowledge areas.** Products that can differentiate on experience in this moment when people are staying home and available to engage in learning activities for which they would not normally have time can establish a strong beachhead in the market.
- **Workplace solutions that enable remote workforces, flexible scheduling and ease the pain of dispersed teams have just seen their markets grow dramatically.** These are no longer just tools for the scrappy start-up. The Zoomworld genie will not go back into the bottle. There is a significant opportunity to bundle these solutions.
- **There will be pluses and minuses for established online education providers.** Institutions like Arizona State, Southern New Hampshire, Western Governor's, Capella[29], Strayer and Walden stand to benefit from an increased number of students who will be willing to pursue online education and, possibly, an increased number of students who are forced to pursue online education. Their demonstrated ability to scale will allow them to attempt to differentiate on experience[30]. This will benefit all the companies that enable these large-scale providers. However, the price sensitivity of potential students is likely to increase. In every other aspect of student's lives, they have seen digitization drive down costs and increase efficiency[31]. Eventually, they will expect the same in higher education. It will become increasingly difficult to hide under the price umbrella of traditional institutions. They will also inevitably face a significant increase in the number of offerings in the online space against which they will compete.
- As most post-secondary institutions confront the reality that digital education is not something to be dabbled in, **online program managers (OPMs) will see their market grow.** Cost sensitivities will likely benefit unbundled OPM solutions that can meet universities where they are in their digital education lifecycle with the tools they need, rather than all-in-one revenue share models. There will likely be new entrants into this space.
- **Specialized services for universities to help strengthen their business model** like retention programs, recruitment tools, and non-term financial aid management systems will be in increasing demand. It is likely that OPM providers will be building-out their portfolio of offerings to provide more of these services.
- Fast, cost-effective **assessment tools** for employers should see an expanded market opportunity once businesses return to hiring.
- Once hiring picks up, **staffing companies that are 1) aimed at high-demand areas, and 2) can provide trusted assessments of a job candidate's abilities, will be well positioned.**

28 Just because it's in my interest to say this doesn't mean it's not true.

29 Full disclosure: My former employer.

30 Especially among those who are experiencing a difficult transition to online education with their current institutions.

31 Except healthcare.

- As the value proposition of a degree continues to be increasingly questioned, the opportunity for **non-degreed upskilling solutions and tools that can provide workplace skill-tracking and alternative credentialing that is relevant to employers will be in increasing demand.**
- As wealth has concentrated, **"non-traditional" investors from the world of philanthropy have become significant players in the education/workforce ecosystem.** This trend will accelerate.
- Finally, for investors with a thesis about the education/workforce ecosystem in which they have confidence, **now is a unique moment where the pace of change and the need for new solutions create favorable conditions for putting capital to work and putting a lot of good into the world.**

CONCLUSION

The response to the coronavirus is going to leave post-secondary education and the American workforce forever changed. The question for educators, employers, policymakers and investors will be how best to shape and how best to respond to the new normal. The first step to mitigating the human toll of this change is accepting the reality that things will not go back to the way they were. The second is embracing bold thinking, experimentation and learning quickly. The objective of this paper is to be a starting place in that conversation.

ABOUT THE AUTHOR

Mike Buttry, Cherry Tree & Associates

mbuttry@cherrytree.com | *(952) 253-6027*

Mike Buttry is a Senior Executive Director of Cherry Tree & Associates, a boutique investment bank with a national education practice. He is a former Vice President for Public Affairs and Strategy at Capella Education Company and served as Chief-of-Staff to U.S. Senator Chuck Hagel.

ABOUT CHERRY TREE

History and Background

Cherry Tree is a private investment banking and wealth management firm headquartered in Minneapolis, Minnesota. Our firm specializes in serving middle market companies and their owners, whether private, public, or divisions of larger corporations. Founded in 1980, Cherry Tree managed several successful institutional private funds focusing on platform acquisitions. Those funds led to more than 300 financings, 26 public offerings, and 41 strategic sales. In 1996 the firm diversified into investment banking services to take advantage of our long history and position in the market. In 2003 we added wealth management to our operations by acquiring and growing our existing business. Our professionals collectively have been members of more than 80 boards of directors, worked with more than 250 different companies, and advised on hundreds of financings and M&A transactions.

Broad Market Expertise

Cherry Tree has been working with middle market companies for more than 35 years. Our core M&A activity is sell-side engagements with middle market companies where ownership wants to achieve some liquidity goals or desires to recapitalize its business to better position the company for future growth. Additionally, we represent buy-side clients attempting to add acquisition strategies to complement their organic growth efforts. We are experts in the capital markets, having previously managed four private funds. Our firm primarily has been focused on investment banking transactions since 1996 and has an exceptional team of dedicated investment banking professionals. Most of our managing directors have had C-level operating experience with backgrounds as CEOs or CFOs. Collectively, they represent more than 200 years of transaction and operating experience.

Research

We distinguish our firm by conducting comprehensive research and publishing our findings in reports that provide in-depth analyses of selected industries and overall market conditions. For each client assignment, we apply our internal research capabilities and our deep domain expertise in relevant markets in order to provide the highest value to our clients. Some of our industry research is sponsored by our clients with an interest in specific industry segments.

Contacting Cherry Tree

For more information, please contact Cherry Tree: 952.893.9012, info@cherrytree.com, or visit our website at www.cherrytree.com

Cherry Tree
& ASSOCIATES, LLC