

TEACH AND PROFIT



Eddy Groves, founder, ABC Learning: A highly fragmented sector transformed

Government subsidies are behind a boom in private higher and vocational education. This is the final in a series on doing business with government. **Report: Anthony Sibillin**

● Government business consists of far more than new stationery, complex information technology and pricey military equipment – all examples of public sector agencies buying goods and services to use themselves.

Increasingly, governments have entered the arena of buying or, at least, subsidising goods and services to be used by others. And it is already big business.

This year alone, child-care providers will receive \$3 billion in federal government subsidies. Remarkably, a single company, ABC Learning Centres, will get \$500 million, equal to 45 per cent of its Australian revenue.

The local and overseas investors piling into higher education and vocational education and training could be forgiven for having “ABCs in their eyes”. ABC founder and *BRW Rich 200* list member Eddy Groves built ABC into the world’s biggest listed child-care provider through a series of acquisitions, transforming what had been a highly fragmented sector, dominated by local council-run centres, into a multibillion-dollar business opportunity.

LESSONS FROM THE (PRIVATE) CLASSROOM



01 Governments don't just buy from business – they subsidise the businesses of others as well. Child care is the classic example.

02 Local and international investors, including private equity firms, are piling into to the next multibillion-dollar opportunity – higher and vocational education.

03 Direct government loans to students in FEE-HELP are likely to be maintained by the new federal government and public universities will be prevented from charging full-fee places in a free kick for the private sector.

04 Red tape is a burden on private-sector education operators – but it also encourages consolidation of smaller operators who decide to exit as a result.

Perhaps the clearest sign that a similar transformation is underway in higher education and VET is the presence of private equity. In September 2006, Sydney company Champ Private Equity joined a \$176.4 million management buy-out of Study Group International, which offers English language and business and IT training to about 35,000 students each year. In February this year, another management group bought the Australian College of Natural Medicine with backing from Melbourne firm Hastings Private Equity. “Private equity doesn't go buying up assets if they don't think there is a big opportunity,” says Peter Ryan, principal consultant of Consult Ed, a specialist education consultancy.

And neither do public companies from outside the sector. Australian Securities Exchange-listed online job advertiser Seek acquired half of Amadeus Education Holdings for \$37.5 million in October. One year earlier, it paid a similar amount for a half-share in IDP Education Australia, the country's largest recruiter of international students.

**DOING
BUSINESS
WITH
GOVERNMENT**
No. 4 IN A SERIES

A combination of international students and government subsidies is behind the stream of private money flowing into the education sector. The number of international student enrolments at non-government providers has almost doubled between 2002 and 2007 (see table, below right). Changes to the government's skilled migration program, allowing overseas students graduating in areas of skills shortage to stay and work, are credited with almost trebling international VET enrolments over that period.

Equally dramatic is the impact of the government's 2005 decision to offer FEE-HELP loans to cover the course fees of Australian students attending any approved higher education provider. The loans, which students repay only when their incomes rise above a minimum level, were previously restricted to public universities.

The extension of FEE-HELP has enticed many private VET providers to move up to higher education where they can charge bigger fees. The number of non-university higher education providers leapt by 34 per cent between 2005 and 2007 to 145, of which not-for-profit entities make up about half, Ryan says. Loan advances to the 64 non-university providers so far approved to offer FEE-HELP hit \$103 million this year, compared with \$68 million the previous year. At the same time, enrolments in public universities have stagnated.

Private providers contend that students prefer them to universities and TAFE colleges run by state governments for at least three reasons. First, they are taught by teachers, not researchers forced to teach.

Amadeus chief executive and co-founder Mark Rohald, says: "As private providers, we differentiate ourselves by our emphasis on teaching excellence rather than research excellence. We say to students we have access to all the best research out there, but our focus is on teaching delivery in a classroom."

Second, students get the full "customer" treatment. Teachers are usually on hand to answer questions, "summer" semesters hasten graduation, and class sizes are generally smaller. "[Private] providers live and die by their reputations," says Juliana Stackpool, acting national executive officer of the Australian Council for Private Education and Training (ACPET), which represents about 1000 private institutions. "People are paying full fees. This puts the onus on them to deliver."

A third advantage is speed to market. Ponderous decision-making delays universities in introducing courses to match emerging employer needs. State bureaucracies apply the same brakes to their TAFE colleges.

"TAFEs have been slow off the mark in reacting to changes in the industry," Rohald says. "They tend to be cumbersome in their structure, and can't move quickly enough to respond to the needs of the market."

Mark Rohald,
chief executive,
**Amadeus: 'Teaching
excellence rather than
research excellence'**



NON-UNIVERSITY HIGHER EDUCATION INSTITUTIONS

Type of institution	No.	%
Private entity	66	45
Professional/membership assoc.	14	10
Faith-based institution	42	29
Government instrumentality	19	13
University private arm	4	3
Total	145	100%

Source: Peter Ryan, Constiff Ed

**INTERNATIONAL STUDENT ENROLMENTS AT
NON-GOVERNMENT PROVIDERS***

Sector	2002	2007
Higher education	3288	5044
VET	34,601	84,335
English language	32,685	60,348
Schools	14,155	15,511
Other	3985	4983
Total	88,714	170,221

* Year to September 2007

Source: Department of Education, Science and Training

So what can stop private education from conquering all before it? Ironically, the bureaucracy that is holding back universities and TAFEs. For example, state governments accredit higher education institutions and courses; forcing private providers to repeat the time-consuming and expensive process for every jurisdiction they wish to operate in.

Unsurprisingly, ACPET is calling for a single national regulatory body covering higher education, VET and English language training.

In the meantime, the red tape burden is accelerating the consolidation of the sector.

"If you are a small provider, it is near impossible to meet all those compliance requirements and remain profitable," Rohald says.

Amadeus has made five acquisitions in the past 12 months, including most recently the Jansen Newman Institute, a Sydney provider of undergraduate and postgraduate degrees in counselling and psychotherapy.

Andrew Gonczi, an honorary professor at the University of Sydney and former head of William Blue International School of Hotel Management, now part of Amadeus, believes it will be difficult for providers with fewer than 1000 students to survive on their own. "If someone offered them the right money, I think they would take it."

Consolidators such as Amadeus, Study Group and ASX-listed Navitas (formerly IBT Education) do not only offer potential targets accreditation and compliance expertise. For Andrew Little, of the Australian College of Applied Psychology, the benefits of being part of Navitas, which acquired the 1400-student college for \$13.1 million last year, even extend beyond centralised back-office services, such as legal, accounting and IT. "If we had a great idea, we would have had to self-fund it in the past," he says. "Now we can put up for the funds from Navitas."

Providing funds for the best ideas will be crucial in heading off any counter-challenge from universities and TAFEs. Gonczi, for one, thinks public institutions won't stand idly while the private sector picks off students in lucrative courses with low capital requirements, such as business and IT, and leaves them holding expensive-to-run courses such as engineering.

However, as Rohald is keen to point out, past attempts by universities to emulate the private sector by setting up commercial arms have generally failed. And the newly elected federal government is expected to give a free kick to private providers by maintaining FEE-HELP while preventing public universities from offering full-fee places alongside government-funded ones as they do now.

The new federal government has also made a commitment on the further extension of FEE-HELP to diploma-level VET courses in the second half of next year. A straw poll of ACPET members suggests this could boost private VET enrolments by as much as 50 per cent. **BRW**