



Private Higher Education in Malaysia: Charting the path ahead

December 2021



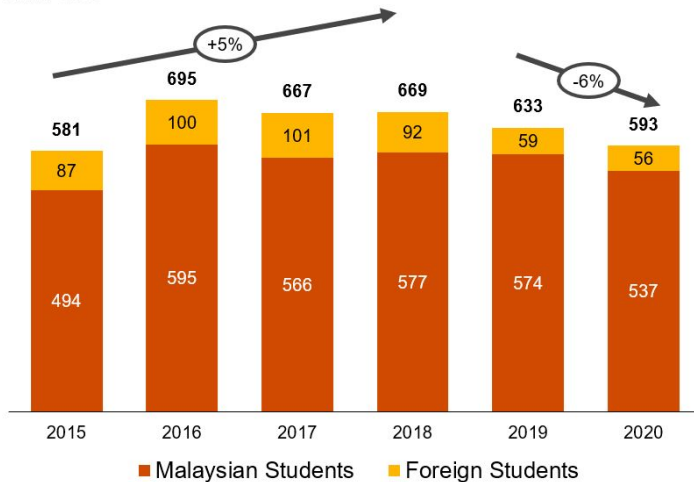
Private higher education under pressure

A competitive market further challenged by the pandemic

Given the competitive intensity amongst over 400 Private Higher Education Institutions (PHEIs) in Malaysia, many have faced financial pressures in recent years. Efforts to grow student enrolments have been hindered by the pandemic and international border closures during the lockdown.

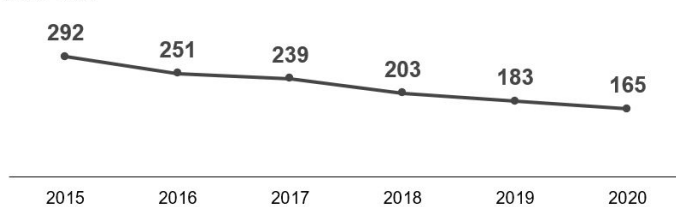
Total Student Enrolment in PHEIs

Unit: '000



Total New Intakes in PHEIs

Unit: '000



Source: Ministry of Education, PwC analysis

Key observations

- **Market consolidation is inevitable** particularly amongst PHEIs with small student enrollments and weak financials pre-pandemic
 - PHEIs which are undifferentiated face greater threat of further declining enrolments, as students generally value institutions with stronger academic reputation and branding
- **New student intakes have been declining since pre-pandemic days, largely driven by the drop in foreign students**
 - Recent movement restrictions and border closures have further fueled this decline, with some PHEIs reporting up to c.50% decline in new intakes

Increasing financial stress in the current climate is likely to lead to untenable losses for some players, potentially putting them at risk for closure. However, enrolments are expected to pick up in the medium term when market conditions improve, as underlying demand for tertiary education remains robust

- **PHEIs typically have high fixed costs.** Those with large campuses and international student numbers are expected to be more heavily impacted. However, PHEIs with strong brand reputation and a more efficient operating model are better placed to weather the temporary slowdown
- **Leading players with healthy financials and enrolments** pre-pandemic are likely to have sufficient cash flows to sustain operations in the current climate
- **PHEIs with weaker propositions and losses pre-pandemic** are less likely to overcome the sharp decline in enrolment revenues, given the expected average **3 year impact** from each year of enrolment loss

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Up to one-fifth of the 440 private higher education institutions nationwide [are] **at risk of closure**

”

– Malaysian Associate of Private Colleges and Universities (MAPCU), President

Key challenges faced by PHEIs

Further analysis and engagements with industry practitioners have highlighted several challenges contributing to the financial pressures facing PHEIs:

Declining new student enrolments amidst the pandemic



Border closures and movement restrictions

- Health and safety concerns and international travel restrictions have caused many new students to defer their tertiary studies
- Physical recruitment activities have also been dampened due to various levels of MCO (Movement Control Orders) restrictions imposed during the peak March to June recruitment intake in 2020 and 2021



Uncertainty and preference for in-class learning

- Uncertainty around reopening timelines, lack of physical teaching and campus experience, coupled with negligible reduction in fees
- Some students have opted for shorter certification courses (e.g. diploma / professional certification) whilst waiting for on-campus learning to resume



Operational challenges amidst industry decline in profitability



Profit squeeze

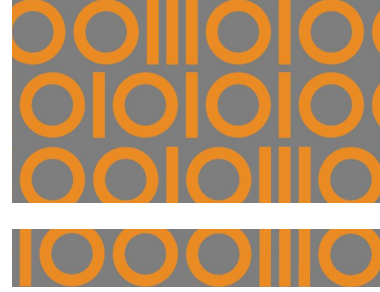
- Industry-wide decline in profitability given PHEI's high fixed cost structure and drop in new student intake
- Investments into Online Distance Learning infrastructure has increased cost pressures, with no corresponding fee increases to offset investments
- Many have streamlined headcount cost to preserve operational cash flows, however there is limited room for reduction of full-time teaching staff given the need to meet the anticipated increase in demand when on-campus teaching resumes



Resourcing challenges

- Delays in major examinations may result in resourcing and capacity issues in the new academic year
- Additional teaching staff and lesson schedules may be required to cope with the overlap in intakes (from deferrals and new intakes), and to comply with health and safety requirements (e.g. limited in-class capacity)

Expectations for a new learning paradigm



There will be an accelerated shift towards hybrid education delivery

In order to maintain operations and sustain enrolments amidst the uncertain operating environment, PHEIs will need to continue to invest in EdTech and online learning infrastructures, as a hybrid delivery model is expected to prevail beyond the pandemic

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Flexible synchronous and asynchronous modes of learning

- Students learn via live in-person lectures and practical work coupled with shorter engagement sessions, whilst being able to revisit recorded sessions, lecture notes and participate in online discussions, amongst others, in their own time
- Use of social media platforms (e.g. WhatsApp, Telegram) to regularly engage with students in a collaborative learning environment

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Investments in EdTech and developing new online modules and assessments

- Open Educational Resources (OER), online university (fully online degrees), micro-credentials, and Massive Online Open Courses (MOOCs) will be more prevalent
- Many institutions have also had to adapt the way they conduct exams and assessments for online delivery

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Future outlook - physical learning to remain as a core delivery method, enhanced with online delivery modes

- Campus experience and in-person learning will continue to be an important criteria for students
- Hybrid learning will be key and enable players to cope with the potential increase in enrolments and different modes of learning

“Smooth transition to online learning...I enjoy the **flexibility** of it and find it **easier to ask questions in lectures online**”

- University Student

“In the future, I would prefer **hybrid learning** as I enjoy both online and on-campus learning such as meeting friends, going to the library, as well as being able to review or watch lectures at my own pace online”

- University Student



The future of private higher education

Despite the current subdued market environment, private higher education in Malaysia remains an attractive space in the long-run for investors. This can be observed in recent market activities including private investment into the Minda Global education group (institutions include University of Cyberjaya) and the acquisition of RSDH College by the University of Wollongong.

Those that are able to weather the temporary slowdown in the immediate term stand to capture and benefit from the expected surge in demand, as the pandemic gives way to an endemic.

Similarly, the market can also expect intensifying competition as PHEIs are expected to be more aggressive in their student recruitment activities to make up for lost ground. This leaves limited prospects for significant fee increases in the near term.

"There is potential for a **surge in demand** in the next year or two from students waiting out the pandemic. Institutions must be prepared to scale up their operations when the time comes."

– Private Higher Education Industry Expert



Governmental support continues to be critical in supporting the growth of the private higher education sector



Supportive policies for hybrid learning

Digital pedagogy is key for universities to operate in the new norm and cater to shifts in student preferences towards open and distance learning (ODL) and hybrid learning. Clear policies to continue supporting this form of learning will encourage players to invest and innovate to remain competitive



Streamlining foreign student applications

Given Malaysia's potential to appeal to the international market, the coordination and streamlining of the student visa process and reduction of bureaucracy will further support the growth of international student enrolments in Malaysia



Government support on international student policies

With the government's ambition to establish Malaysia as an education hub, the continuing support and potential removal of barriers (e.g. fees, licences, student work visas) for both PHEIs and international students will help to drive growth and innovation in the industry

Thriving in the future landscape

Value creation in private higher education

Several PHEIs have shown resilience amid the ongoing pandemic and movement restrictions over the past year, consolidating market share from smaller players. As the market gradually recovers, leading players are presented with opportunities to create value and further strengthen their market positions as discussed below.



Rethink education delivery

- From a predominantly classroom-based set-up, there is now an increasing demand for ODL or a hybrid format with online and offline components.
- With traditional campus life unlikely to make a full recovery within the next 1 to 2 years, offering effective alternative modes of learning is imperative, which will also allow for continued access to international students.



Pursue targeted marketing

- Marketing activities are crucial in establishing awareness of a PHEI, which directly impact enrolments. This factor is amplified by border closures, effectively limiting the industry's customer base.
- PHEIs that have typically relied on their previously established reputation could benefit from actively implementing customised marketing strategies to revitalise their local reputation.



Diversify revenue streams

- Upskilling has become a growing theme in the job market and is more apparent now given hybrid work arrangements.
- Utilising existing assets, PHEIs can consider diversifying their revenue streams by venturing into micro credentials, massive open online courses (MOOCs), or partnerships with professional associations to meet the demand for work readiness via industry-focused offerings.



Consider M&A and strategic partnerships

- Many PHEIs are facing financial distress as a result of challenges brought by the pandemic
- Considering that the market was already saturated pre-pandemic, the current climate could present an opportunity for strategic and value-added acquisitions for further consolidation among the players.

Act now to recover

A proactive approach to act now can make a difference in business recovery. To position themselves well to capture opportunities for growth, PHEIs need to have a strategic plan in place and act swiftly to ensure survival. Key considerations include:

Preserving cash-flow

Given the 3-year rolling impact of reduced enrolments on revenues, immediate priorities for PHEIs include identifying optimal cash generation and conservation strategies, further supported by robust forecasting and planning.

Streamline operations

Beyond headcount reduction, operational streamlining will need to consider ways in which cost structures can be flexed in line with evolving delivery models, whilst ensuring that the eventual resurgence in demand is effectively captured.

Seek value deals

Strategic investments and partnerships can help address vulnerabilities exacerbated by the pandemic, as scale and capability enhancements will contribute towards a viable market position

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