



THE COMPETENCY-BASED EDUCATION BUZZ IN THE UNITED STATES & OPPORTUNITIES IN INDIA AND BRAZIL

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Introduction

Transformative technology, strong consumer demand, and the emergence of compelling business strategies have aligned to put competency-based education on the map in the United States. Business opportunities exist in emerging markets and education leaders interested in expanding must understand the evolving landscape of the global post-secondary education space.

Competency-Based Education

For over a century, academic credit has been awarded under Andrew Carnegie's credit hour-based system, where the time spent in class is a deciding factor in how students earn credit. Simply put, competency-based credit is awarded when a student can demonstrate competency through an exam, a presentation, a portfolio assessment or other task. Eliminating the seat requirement allows students with competency in a subject area to gain credit through prior-learning assessment.

For example, prior-learning assessments such as the College Board's Advanced Placement Tests or College-Level Examination Program have been in use for some time. CBE programs that are untethered from the credit hour also allow students to progress as quickly (or as slowly) as they want. The U.S. Congress defines CBE as an "educational process or program that measures knowledge, skills, and experience in place of or in addition to the use of credit hours or clock hours."¹

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¹ U.S. House of Representatives (2014)

Buzzword or long-term trend?

Competency-based education is generating significant buzz in the U.S. due to unprecedented political and economic conditions lending support to experimentation in higher education.

With traditional higher education slow to adapt to the changing needs of the 21st century economy and tuition costs skyrocketing, the calls for a rethink of the current model are louder than ever. The House of Representatives recently passed a bill to expand CBE throughout the nation's universities and community colleges and the U.S. Department of Education has eased rigid financial aid regulations to allow more institutions to develop their own programs.² And private sector employers have begun to collaborate on customized CBE programs in partnership with schools to serve as valuable talent pipelines for future workforce needs.³

Perhaps the most compelling agent of change in higher education today is the emergence of new technology. Personalized, data-driven, adaptive learning holds the potential to be a game-changer in higher education. We are not far from the day when a proliferation of ed tech products will allow students to receive tailored instruction at their own pace. When this day comes, the traditional seating-hour based model will become obsolete.

It is important to note that such a fundamental change will not happen overnight. We anticipate seeing core concepts of CBE begin to gradually influence traditional curriculums. New ways of credentialing such as portfolio assessments, prior-learning assessments, micro-credentials or skill badges may initially gain currency as supplementary add-ons to traditional degrees—Fidelis Education currently offers micro-credentials at over 20 institutions.⁴ In fact, we are already seeing these trends spreading beyond the U.S. and into other markets around the world.

² The Landscape of Competency-Based Education, American Enterprise Institute (2015)

³ Talent Pipeline Management: A New Approach to Closing the Skills Gap, U.S. Chamber of Commerce (2014)

⁴ Fidelis Education (2015)

A market-making disruptive force

With a burst of new technology and long-standing barriers beginning to fall, competency-based education is poised to gain market share by appealing to an untapped customer base of adult learners and other non-traditional students.

CBE attracts non-traditional students in three ways. First, it allows students to leverage previous knowledge and experience into academic credit through specially designed prior-learning assessments—one student earned the equivalent of one year of credit, 30 competency credits, over the course of a daylong exam.⁵ Secondly, because most programs are online and students may complete courses at their own pace, time constraints no longer stand in the way of adult learners with job and family responsibilities—data from a selection of nine CBE programs show that 9 in 10 students are over the age of 25.⁶ Most importantly, CBE offers a more direct path to employment unencumbered by the cost of bundled services offered in traditional higher education. In some cases, fully accredited CBE degrees cost just a fraction of traditional associates or bachelors degrees.

Southern New Hampshire University's CBE degree programs utilize an "all-you-can-learn" pricing structure costing \$1,250 for each 6-month period.⁷ At that price, the average student could complete their bachelors for just \$10,000. Because the unbundled delivery model of CBE presents an attractive low-cost alternative to students, this streamlined model of higher education could pose a disruptive challenge to traditional higher education over the long term.

"While competency-based education is better for all students because it allows them to study and learn at their own pace, it is particularly ideal for the 37 million American adults with some college but no degree"

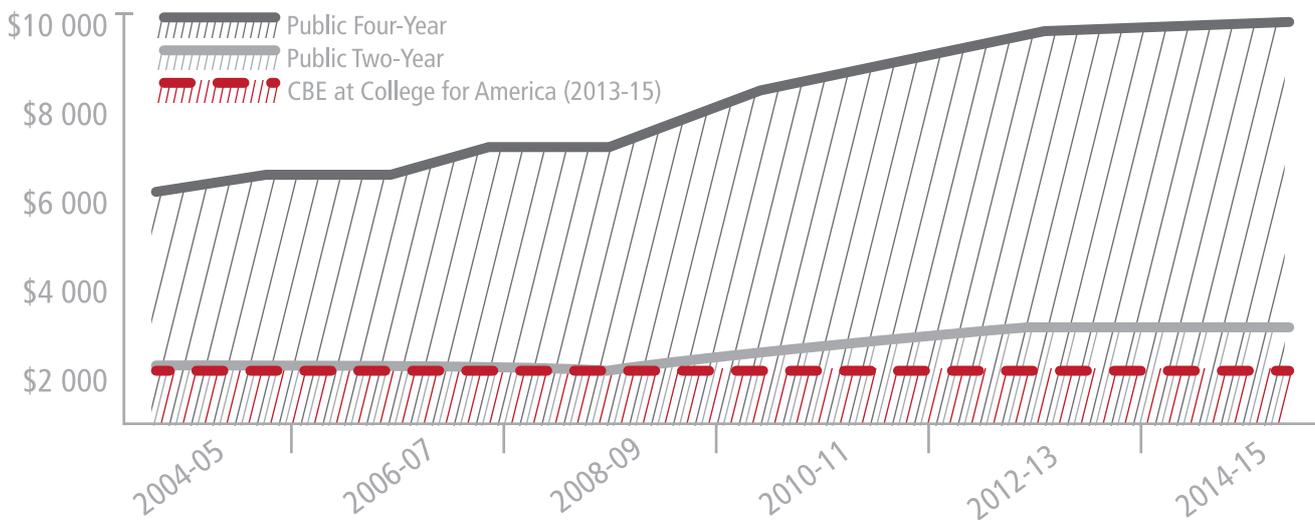
- Western Governors University

⁵ Hire Education: Mastery, Modularization, and the Workforce Revolution, Clayton Christensen Institute (2014)

⁶ The Landscape of Competency-Based Education, American Enterprise Institute (2015)

⁷ The Case for Competency Based Education: A New Age of Teaching and Learning, New England Board of Higher Education (2015)

Average Annual Tuition and Fees in 2014 Dollars



Source: American Enterprise Institute. "The Landscape of Competency-Based Education" 2015

International landscape for competency-based education

For private service providers, international expansion presents both opportunities and pitfalls, especially in the education space. Targeted resource deployment is among the most important strategic decisions when moving into emerging markets. Emerging Strategy has developed a framework to evaluate the relative attractiveness of international markets. Using data on post-secondary enrollment, per student expenditure of post-secondary institutions, and workforce skills from 21 countries from a variety of sources including the OECD and World Bank, we developed a three-factor analysis framework to evaluate market attractiveness for competency-based education services.

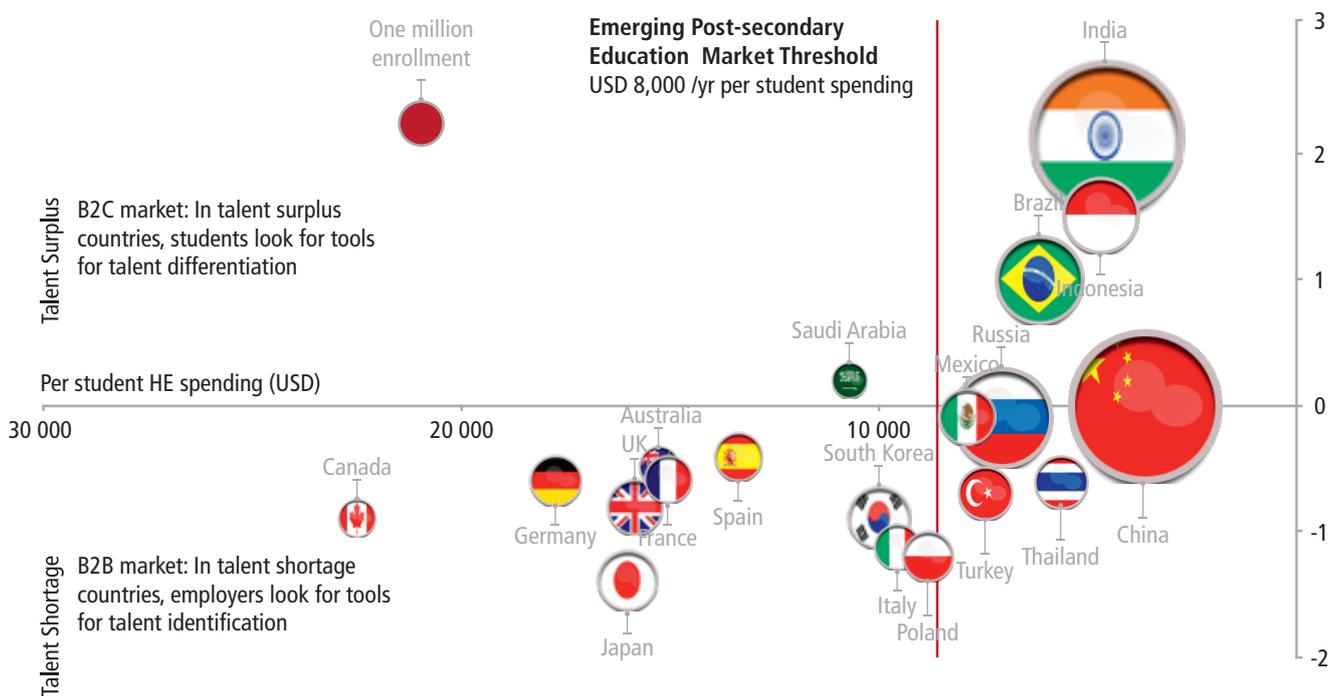
The aforementioned variables indicate the potential market size, price sensitivity and the nature of demand for supplementary post-secondary education services such as CBE. Greater enrollment naturally translates to greater potential market size. Lower post-secondary expenditure indicates higher price sensitivity for supplementary educational services, meaning that consumers in price-sensitive markets will more readily choose low-cost options.

The unbundled CBE model is well positioned to take advantage of high price sensitivity in these markets. Finally, from the talent gap figures it is possible to derive the nature of demand present in a given market. In markets with a talent surplus, the need for individuals to differentiate themselves in a competitive employment market indicates a greater potential for consumer-facing CBE services (B2C). In markets suffering from a talent deficit, the opposite is true—employers face pressure to identify scarce talent, making them more likely seek help from third party employer-facing solutions (B2B).

At first glance, several emerging economies such as India, Indonesia and Brazil stand out. Our analysis reveals that these countries have large potential markets, significant talent surpluses and are also highly sensitive to price. Demographic youth bulge combined with slowing economic performance dictates that these economies will have trouble absorbing a growing talent pool of new college graduates into the medium term.

These are not the only factors to consider in making decisions to expand internationally. Education policies and regulatory environments also impact how CBE is recognized in foreign markets and should be taken into account.

Three-Factor Framework Analysis for Market Attractiveness



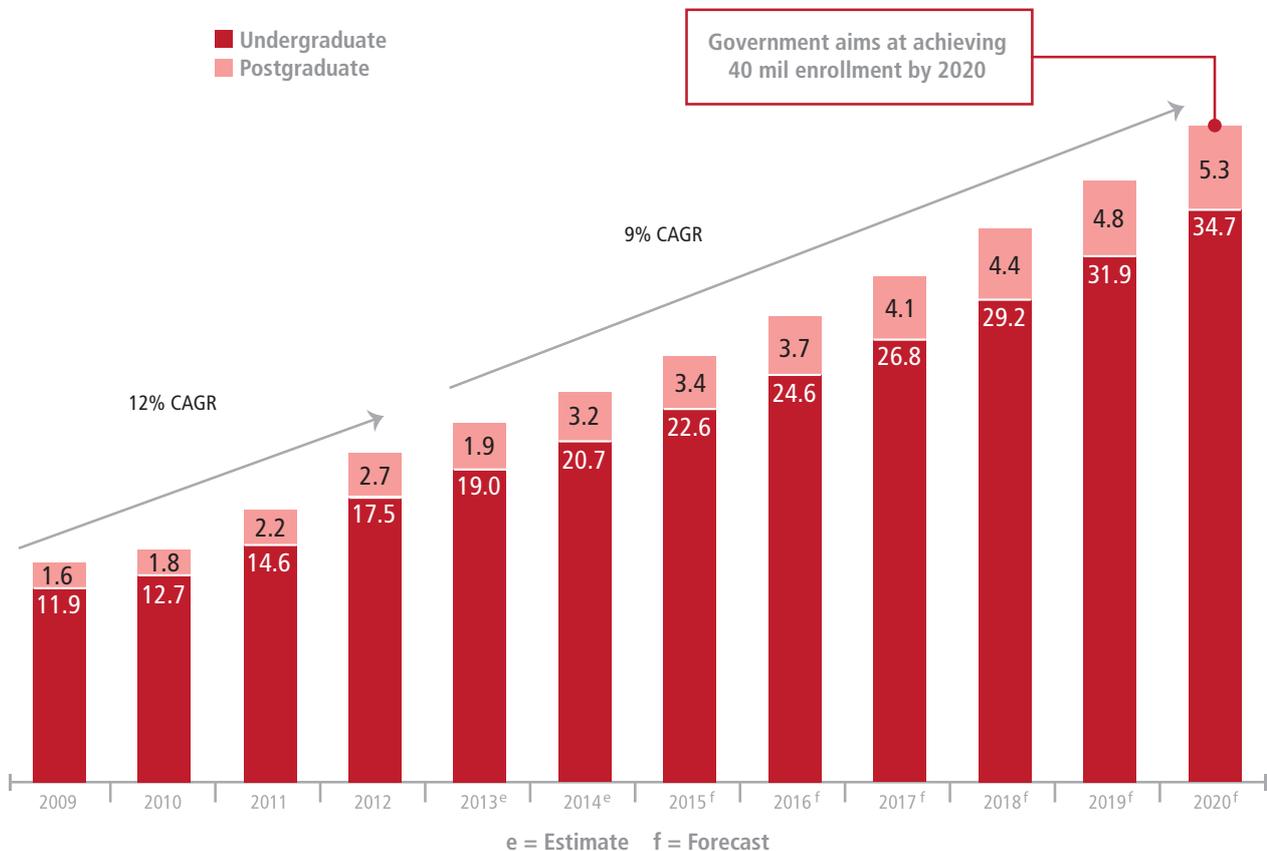
1) Skills gap derived from annual rate of progression of mismatch between talent supply and demand towards 2021 (Oxford Economics 2012). 2) Per student HE spending derived from annual expenditure per student by educational institutions for all services (2010, USD, PPP); for countries without data, OECD's analysis was applied for prediction (OECD 2013); data on China derived from Statistical Bureau of PRC. 3) HE enrollment from 2012 (World Bank).

Source: Emerging Strategy analysis based on public data

A closer look at India

Our analysis shows India to be one of the most promising markets for competency-based education services. Post-secondary enrollment is substantial and will continue to grow—nearly two-thirds of Indians were under 35 as of 2014. Between 2009 and 2012, enrollment ticked upward (at a CAGR of 12%) and the number of degree-granting institutions now totals 700 universities and 33,000 colleges. The national government’s goal of expanding higher education access in India will likely continue—a post-secondary enrollment target of 40 million by 2020 has been announced, a 70% increase from today. As a result, the number of college-educated youth entering the workforce is expected to rise dramatically.⁸

Enrollment in Universities and Colleges in India (in mil)



⁸ University Grants Commission, Indian National Government (2012); Emerging Strategy analysis

Given the projected pace of post-secondary enrollment growth, India's economy alone will have trouble producing enough jobs for its graduates to fill, generating a significant talent surplus. In 2014, one in three graduates up to the age of 29 found themselves unemployed. In a job market with so many graduates, the burden rests with students to bolster their resumes with marketable, value-added credentials. Skill badges, micro-credentials and even competency-based degree programs may gain traction as Indian graduates struggle to bolster their resumes with the skills desired by employers. If the poor employment outlook for Indian graduates persists, the potential market for consumer-facing CBE services is projected to reach millions of students.

Responding to this impending surplus, service providers are emerging to help students identify opportunities and obtain value-added credentials. Aspiring Minds and Talarang are two such service providers targeting the demand. Aspiring Minds offers the AMCAT, an employability and aptitude assessment targeting finance, engineering and IT. Having already scaled nationwide since their founding in 2007, the company is planning expansion into the U.S. and Africa. Talarang was founded in 2013 as a hybrid staffing and training firm. They screen high potential employees, give core competency training and place talent in suitable positions as interns. The company envisions preparing 200 million graduates in India to be work-ready by 2020. The success of both companies demonstrates the emergent demand for talent differentiation among Indian job seekers.

High youth unemployment and the skills gap have become issues of public concern, prompting the Indian government to invest in private and public partnerships to narrow the skills gap. The National Skill Development Corporation (NSDC), established in 2008, promotes public and private partnerships to establish youth skills training programs. NSDC has now trained over one million young people.⁹ Furthermore, investors looking for both social and financial returns are actively funding startups that provide skills training, employability evaluation and certification services. By offering low-cost alternative training solutions, education service providers can help India reap the benefits of its demographic dividend. In a price sensitive market such as India, the potential of competency-based education to become a solution in the workforce skills training space appeals to a multitude of potential partners including education institutions, investors and government.

⁹ National Skill Development Corporation (2014)

A closer look at Brazil

In 2012, Brazil surprised the world by announcing that it would devote 10% of GDP in education expenditures by 2020. It is an audacious goal, but through partnership with for-profit education providers, Brazil has rapidly improved access to higher education in the past decade—from 1999 to 2009, Brazil's gross enrollment ratio shot from 15 to 36%.¹⁰ In 2012 the total enrollment in post-secondary education institutions in Brazil stood at 7 million.¹¹ According to projections, it is expected to reach ~9.2 million by 2020.¹²

Further driving the growth in enrollment, more Brazilians have been drawn to higher education due to the availability of heavily discounted student loans, most of which are used at for-profit institutions. Brazil's heavily subsidized student loan program has rapidly expanded since President Dilma Rousseff took office in 2011—her reelection in 2014 promises continuation of student loan policies. Another factor driving HE enrollment in Brazil is the fact that for students, earning a post-secondary degree is worth the investment. They stand to earn substantially more than their peers—average income is 2.6 times greater for post-secondary graduates than for upper-secondary graduates, a much higher multiple than the OECD average.¹³ A combination of inexpensive loans and the promise of high wages make post-secondary qualifications a low-risk, high-reward prospect for Brazilian students.

Even with the multitude of motivating factors contributing to Brazil's higher education boom, there are a significant number of post-secondary graduate job seekers unable to leverage their degrees into gainful employment. Brazil's present unemployment rate is just 5.3%, but taking a closer look reveals that today's graduates are dealing with a graduate unemployment rate of ~13%.¹⁴ These figures are widely expected to worsen with economic contraction in the near term, making marketable credentials an increasingly attractive prospect for job seekers looking for an edge.

"It's no secret that unemployment is increasing due to poor economic activity. The scenario is likely to deteriorate even more, with the expected contraction this year"

- Chief Strategist, Banco Mizuh do Brasil SA"

¹⁰ World Bank (2009)

¹¹ National Institute for Educational Studies and Research (2013)

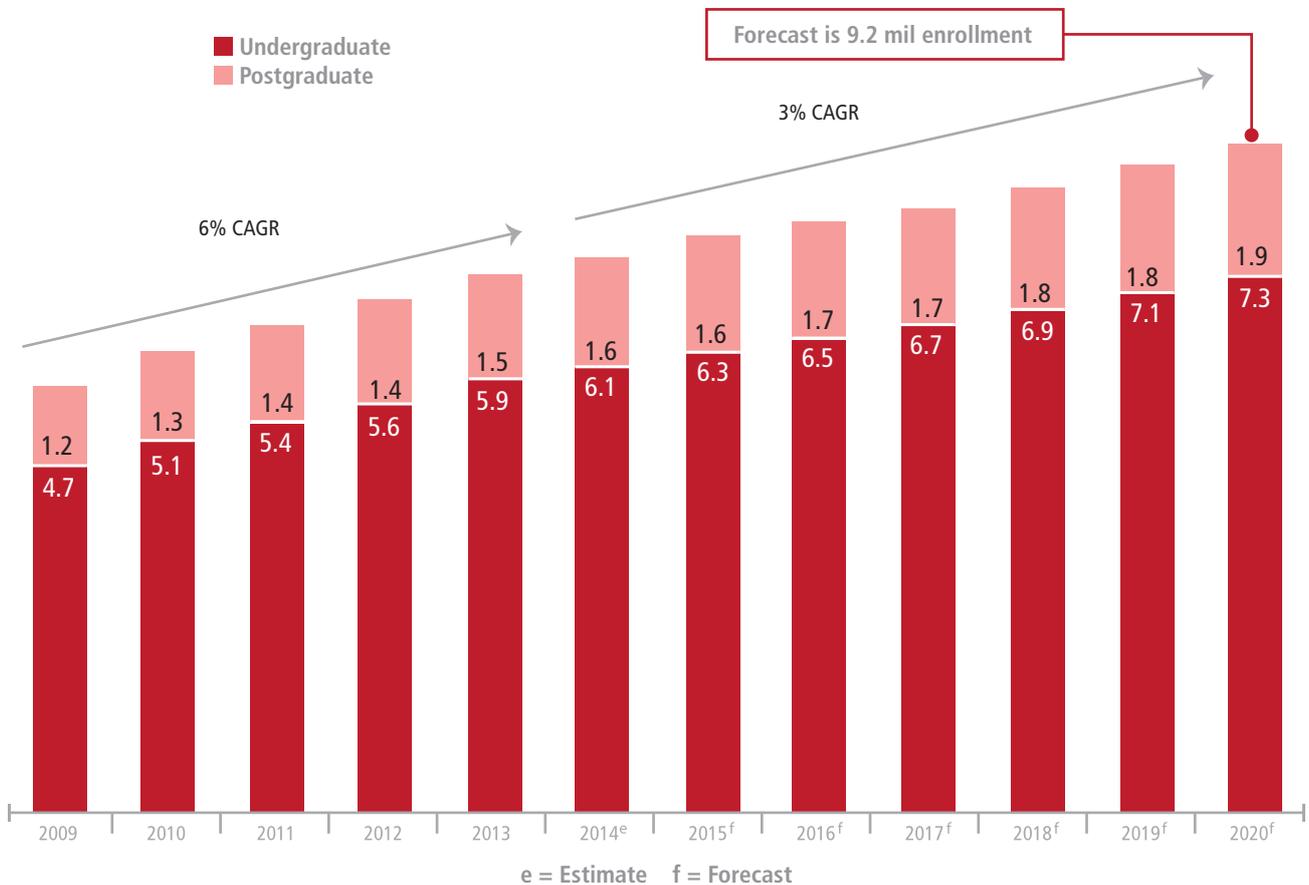
¹² UNESCO, Oxford Economics (2012); Emerging Strategy analysis

¹³ Better Life Index, OECD (2015)

¹⁴ Pathways from University to Work, Western Cape Higher Education Consortium (2013); Emerging Strategy analysis

Should the current trends continue over the next five years, Brazil's economy will be forced to reckon with a large pool of unemployed graduates. In anticipation of these conditions, one forward-thinking firm is marketing an innovative solution. Brazil's leading for-profit education provider Kroton now serves 1.5 million students, and to boost the employability of their graduates, they have implemented a software platform to showcase students' competencies and match them to job openings. Offering integrated education and career mapping, Kroton is providing value for students and employers alike. Targeting the growing surplus of recent graduates by offering the marketable qualifications competency-based education specializes in could be a compelling strategy to break into one of the developing world's largest higher education markets.

Enrollment in Universities and Colleges in Brazil (in mil)



By 2020, India, China, Indonesia and Brazil alone will account for 52% of the world's 474 million college-aged population.¹⁵ Post-secondary gross enrollment rates in these markets are half those in developed markets. Their enrollment growth will undeniably be the driving force for growth of the global post-secondary education space. Talent surpluses coupled with skills gaps in these emerging economies is bound to generate tremendous opportunity for education services and skills training. Emerging Strategy developed an analytical framework to identify attractive markets for competency-based education services and further elaborated on the market potential of both India and Brazil in this report.

¹⁵ Higher Education Global Trends and Emerging Opportunities to 2020, British Council (2012)

ABOUT EMERGING STRATEGY

Emerging Strategy is the leading provider of customized market intelligence services across global emerging markets. We understand the complexity and opacity that businesses face when competing globally, particularly in emerging markets. We believe in lifting the veil by providing senior management with objective insights about markets and market participants, so that global businesses can get world-class products and services in the hands of customers. Our work spans all continents, with a focus on Asia and Latin America, but our studies have spanned over 50 countries to date.

We are recognized for in-depth research and superb analysis, which we produce by drilling deep into primary and secondary sources not widely available, and then by analyzing and triangulating research to draw conclusions and recommendations. Due to the limited reach of English-language resources in international markets, our research is conducted by locally based, native speakers of the relevant language(s). Our global headquarters are in Shanghai, our Latin America headquarters are in São Paulo, and we have a presence in other key client locations such as Singapore, Hong Kong and New York.

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