Market Analysis Report:
Global Market for Full-Time MBA Programs in English*

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Market definition

We focus our analysis on the *global market for full time MBA programs in English language* offered by formally established business schools in English, with duration ranging between one and two years. The market involves about 120,000 students each year based on the number of business schools offering such programs globally (1000-1200), average annual intake (60-100) and number of GMAT exams taken each year (247,000, about 80% for full time programs) (Geographic Trends Report, 2008, p. 3; The Global Management Education Landscape, 2008). Part-time programs (Executive, weekend, evening, modular), programs delivered to students outside the traditional business school setting (corporate, online), programs offered in other languages as well as any programs not leading to a MBA degree (specialised and pre-experience Master programs) are not considered part of this market.

Key players are the established business schools worldwide (ranked by FT and WSJ and/or members of professional associations such as AASCB, EFMD, AMBA). Leading business schools in terms of market share are Harvard and Wharton with annual enrolments of 900 students each.

Typical buyers of full time MBA programs in English are men and women in the age of 23-35 who predominantly come from North America, Europe and developed Asian economies, they are success oriented, intelligent and geographically mobile.

Cost structure

Until very recently full time MBA has been the only program that had been ranked and accredited globally and therefore one of the very few ways to create and maintain the business school reputation (along with publishing, research and marketing). Business schools offer a good full time MBA program in order to build reputation and create the demand for their premium products (EMBA and executive education). Therefore, the financial goal for full time MBA is typically to *break even* while profits are generated by other products in the schools' portfolio.

Business schools have a very large proportion of *fixed or semi-variable costs* with main items being payroll (faculty and staff), maintenance of the buildings and campuses, technologies (learning and research) and marketing. Therefore the players are very sensitive to capacity utilisation and

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significant economies of scale exist for schools with larger student intakes. Many schools therefore consider increasing their intakes to benefit from economies of scale (e.g. Stanford, Haas). This sensitivity is amplified by the fact that demand for MBA is counter-cyclical and depends heavily on the state of economy (Application Trends Survey, 2008, p. 3).

The key *variable costs* include teaching materials, buying case studies. *Sunk costs* in most cases are relatively large (campuses, libraries etc.). *Entry costs* are significant in the mature markets and include investments into faculty, facilities, learning technologies and marketing. In emerging markets entry costs are low or modest.

The price range for full time MBAs in English (tuition only) varies globally between USD 10,000 and 90,000. If we assume that prices reflect costs, then significant *cost differences* exist between premium and mass segments players. Typically, quite significant resources (best-in-class facilities, faculty and staff, libraries, IT infrastructure etc.) are required to properly run and support a premium full time MBA program.

Leading faculty worldwide have significant *bargaining power* over schools as there is no direct substitute for their input. Schools tend to make significant investments in attracting faculty, their development and research whereas faculty invest their time into adjusting to specific school requirements.

Overall, the nature of costs makes this market vulnerable to changes in demand and players have relatively few opportunities to change their pricing to protect their profitability during downturns.

Demand drivers

The global market for full time MBA programs can be divided into several segments – by product (premium and mass) and by the stage of market development.

The *premium segment* represents about 10% of the market globally (in number of students) and includes the top MBA programs offered by the leading business schools worldwide according to the FT and WSJ rankings and at the price (tuition only) starting from USD 50,000. Although most players in this segment are US-based, there is a significant and growing number of leading business schools in Europe and Asia (LBS, INSEAD, IESE, CEIBS etc).

The consumers of premium MBA programs typically are high achievers with GMAT score of 680+. Reputation of the business school (including ranking), particular subject strength and location are the key decision factors for buyers in this segment (Application Trends Survey, 2008, pp. 7-8).

Prices in this segment are consistently high, but availability of financial aid makes payback of the costs relatively quick (about 3-5 years for top schools) which makes price elasticity relatively low. The cost to consumer of the top 2 year full time MBA is about USD 100,000-150,000 for two years including living expenses but excluding opportunity costs of not working for 2 years.

The *mass segment* (tuition below USD 50,000) represents about 90% of the global market. Key players in this segment are the second tier business schools, predominantly US-based (about 700 schools). Price elasticity in this segment is much higher and tuition/cost of living plays an important role in purchase decision.

By the stage of market evolution we can divide the global market for full time MBA programs in English into three *geographic segments* based on number of schools in both segments, number of students and degree of internationalisation measured by proportion of international students, faculty and research publications: mature market (US and Canada); developed MBA markets in Europe (e.g. UK, France, Spain), Asia and Latin America; emerging markets (countries from Europe, Asia, Latin America and Africa where tradition of full time MBA education is relatively new).

In the last two decades the market has been influenced by the growth of *substitutes* such as EMBA, specialised Master programs, pre-experience Master programs, corporate MBA, online and part-time MBA (The Future of Graduate Management Education, 2004). Substitutes range from low cost online models to very expensive EMBA programs. Given the 'reputation-building and breakeven' nature of full time MBA program, the business schools which were able to build high quality substitutes into their portfolio will only benefit from the opportunities to generate the extra demand for premium products. Therefore, most hit by the new trend will be the schools which are not able to appropriately diversify their portfolio, particularly within mass market segment.

Competitive situation

The mature (US and Canada) segment is characterised by relatively slow growth and fierce competition among players for a narrow pool of talented applicants with GMAT scores of 700+. The emerging markets are growing fast and there is still room for quick development of a new entrant.

Prices in this market are the indicator of quality and therefore competitors maintain high level of prices and should not be expected to participate in any kind of price competition. However, though price information is perfectly transparent, the actual cost to consumer is hard to detect as schools give out large numbers of financial aid options. Therefore, playing with discounts (financial aid) allows schools to 'adapt' their pricing strategy.

Due to significant entry barriers in the form of brand loyalty and reputation (particularly in the top segment) and learning and scale economies, the new entrant schools will not pose a significant threat to existing players in the medium-term. New entrants will initially face difficulties with access to qualified faculty and research, investment in learning and research technologies, facilities etc. Incumbents on the other hand, will initially have significant experience-based advantage and network externalities. In the long term, however, incumbents will reply with differentiation strategy to protect their revenue base.

The key cost-related factors driving industry and individual MBA program profitability are related to the high fixed cost nature of this market – its sensitivity to capacity utilisation and cyclical changes in demand as well as scale economies. The key demand-related drivers are program and school reputation and brand loyalty. Switching costs for buyers are relatively low at the stage of application so the school at the top segment have to rely on their reputation in order not to loose the best potential students to competition.

Internal rivalry is the most important force of the competition in the full-time MBA market impacting profitability followed by the threat from substitutes.

Conclusion: Prospects for long-term profitability

Market for full-time MBA program is increasingly global by nature, so global is the competition for top buyers (most talented students) and top suppliers (faculty). Competition between sellers (business schools) is rising in both top and mass segments of the market. Differentiation based on brand reputation is a key competitive factor for the top segment while location and price are most important for the mass segment. We should expect more schools entering the market in both segments in emerging markets and relative stability in provider numbers in mature markets. An increasing number of business schools from emerging markets will gain global reputation and therefore will participate in global competition for talents (both faculty and students) within the next decade (Hiwawini, 2005).

The power of substitutes will gradually increase to have significant impact on profitability in the market. We expect all forms of substitutes to flourish and more cheap and expensive options as well as more hybrid formats to evolve. The power of buyers (currently low) and suppliers (currently moderate) may continue to increase as a race for talents speeds up. Entry barriers are substantial and have a potential to become higher for the top segment while they will be kept at a relatively low level for the mass segment.

Long-term profitability will be rather kept at breakeven level, but will be compensated by income from other programs, sensitive to the reputation of a school.

Appendix

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Five Forces Analysis

(This is NOT a part of the final report. Please consider this appendix as an example of background analysis done in order to write the report above)

Internal Rivalry

Characteristics	Current situation	Future trend
Degree of seller concentration	Concentration is very low. Two biggest schools (Harvard and Wharton with enrolment of 900 students per year) take less 1% of the market	New school from emerging markets will lower the degree of concentration even further [number of new school entered the FT 100 ranking over the last 5 years only]
Rate of industry growth	Average growth of 5-10% annually with significant fluctuation during economic cycle (mostly contra-cyclical)	The same pace will be kept globally in the next 10 years, but the market is at different stages of the life-cycle in different geographical segments. The US market is mature, European is still growing, and emerging markets are at embryonic stage.
Significant cost differences among firms	Yes, between two major product segments, but very much similar inside segments. If we assume that prices reflect costs, the range is $10-90K (plus living cost). The most expensive schools (Harvard - $90K) are only breakeven or even subsidize their full-time MBA programs [HBS financial report]	Same, product is a major differentiator of costs
Excess capacity	None in top segment, some excess capacity in mass segment	Excess capacity may arise with the development of the market (close to the point of excess capacity in UK, for instance).
Sensitivity of costs to capacity utilization	Very high, most costs are fixed or semi-variable	Same
Product differentiation among sellers. Brand loyalty. Cross-price elasticity	See differentiation above. Brand loyalty is high in the top segment. Cross-price elasticity is low in the top segment (but might become modest if we take into account the price to customer – that is tuition minus scholarship provided by schools). Relatively high in mass segment.	Brand loyalty will become stronger: new brand are rising in the continental Europe and in the emerging markets, and they are trying to differentiate from each other. “Old” brands have to enforce their elite identity
Buyer’s cost of switching	No switching since taking MBA is a non-repetitive transaction. Alternatively, cost of switching	Brand loyalty will increase (see above)

	at the application stage depends on brand loyalty and location. Switching inside product sets (similar programs in term of their brand positioning): top US schools for an average American buyer; INSEAD / LBS / IESE for European buyer in the top segment; etc.	
Are prices and terms of trade transaction observable?	Prices are fully observable, but cost to customer is not always transparent due to financial aid to students	Cost to customer might become more transparent due to sharing information about financial aid via students blogs, etc.
Can firm adjust prices quickly?	Prices can't be decreased since for this product (credible good) this would be interpreted as a signal of a lower quality. Besides, prices are set at least a year in advance. But, cost to customer can be easily adjusted by providing scholarships	Price flexibility will increase (measured as cost to customer) due to broader availability of financial aid in different schools
Large or infrequent sales orders?	No	No
Facilitating practices	Advance announcement of prices. No price leadership. Financial aid (see above)	Same
Cooperative pricing	Yes, tacit collusion (agreement) between top schools.	Might expand in less developed geographical markets
Exit barriers	Abandoning full-time MBA is detrimental for reputation of a school. Full-time MBA is a flagship program for any school needed for rankings and attract customers from executive education segments (the reason why schools are usually merely breakeven with the program)	School's reputation dependency may decrease with the development of specialized rankings for Master in Management, executive education, and other types of programs.

Conclusion: internal rivalry is moderate to high and growing. The key factor for the top segment is brand loyalty, for the mass segment – price and location.

Threat of Entry

Characteristics	Current situation	Future trend
Significant economies of scale?	Yes, since the proportion of fixed costs is very high	Higher. More schools try to increase their MBA programs to reach efficient level of both the program and faculty
Importance of reputation and brand loyalty in purchase decision	Very high	Higher

Entrants' access to distribution channels	Moderate cost barrier to gain access to top MBA fair, presentations, GMAC results.	Same
Entrants' access to raw materials	Access to qualified faculty of hard, access to teaching materials is very easy	Faculty – higher, other raw materials – lower.
Entrants' access to technology / know-how	Access to teaching and learning technologies and know-how is easy, but costly. Access to research technologies and know-how is moderate and costly	Same
Entrants' access to favourable locations	Yes, but limited on new markets. Very limited on mature markets	Access will be more difficult
Experience-based advantage of incumbents	Very high	Higher
Network externalities	Very high (alumni network, etc.)	Higher
Government protection of incumbents	Only in some countries, but very limited	Lower
Perception of entrants about expected retaliation of incumbents	No significant reaction expected from incumbents due to high brand loyalty. Differentiation is much more important than price competition and toughness of reaction of incumbents	Same

Conclusion: Threat of new entrant is low in mature markets and high in emerging markets. Key factors: brand loyalty and reputation, experience-based advantages, scale and networks.

Substitutes and Complements

Characteristics	Current situation	Future trend
Availability of close substitutes	Yes, online MBA, modular MBA, EMBA, specialized masters, pre-experience master in management programs (ranked separately by the FT from 2006)	Higher
Price-value characteristics of substitutes	Varying from low-cost online MBAs to expensive EMBA programs	Higher: more diversity of programs
Price elasticity of industry demand	Low in top segment, high in mass segment. Elasticity depends on the stage of the economic cycle	Same
Availability of close complements	Campuses, textbooks, etc.	Same
Price-value characteristics of close complements	Cost other than tuition (cost of living on campus, textbooks, etc.) are comparable to the tuition level	Same

Conclusion: Threat of substitutes is modern to high.

Suppliers

Suppliers are faculty.

Characteristics	Current situation	Future trend
Is supplier industry more concentrated than industry it sells to?	No, it's atomic and not unionized. However, top talent is scarce	Competition for top faculty will increase. General supply is not enough to cover the demand of the schools [AACSB about PhD graduates shortage]
Do firms in industry purchase relatively small volumes relative to other customers of supplier? To sales of typical supplier?	Purchase volume is usually large since a faculty normally teaches in 1-2 schools. Suppliers are able to sell to consulting industry, business, and government.	Due to increasing shortage of top faculty, their mobility may increase (they will teach in a number of schools, even in different continents), so their power will increase as well
Few substitutes for suppliers' input?	No direct substitutes for suppliers' input in case of full-time MBA	Same
Relation-specific investments	Yes, mutual investments at very high level. Schools invest in faculty development and research. Suppliers (faculty) invest their time into learning and adjusting to specific teaching and administrative requirements of the schools	Will increase on the schools side in order to retain top talents
Credible threat of forward integration	No. The only possibility is establishing a new educational center by the former faculty members, but it's quite rare done for the purpose of running their own full-time MBA program	Same
Are suppliers able to price discriminate?	Yes, in case of: new hiring, career progress, hiring for a specific course or for a limited time	Higher

Conclusion: power of suppliers is high for top talent, otherwise moderate. Key factor: increasing shortage of qualified faculty

Buyers

Characteristics	Current situation	Future trend
Is buyers' industry more concentrated than the industry it purchases from?	No, it's atomic	Same
Do buyers purchase in large volumes? Does a buyer's purchase volume represent large fraction of typical seller's sales revenue?	No	Same
Can buyers find substitutes for	Yes, specialized masters, pre-	Higher: the share of specialized

industry's product?	experience master in management programs, modular and online MBA programs, EMBA programs	master programs may increase as well as modular MBAs and EMBAs [AACSB about different forms of MBA programs]
Do firms in industry make relationship-specific investments with specific buyers?	Scholarships to attract top talents as students	Same
Is price elasticity of demand of buyer's product high or low?	It's low in top segment and relatively high in mass segment. Price elasticity depends also from the availability of student loans and, therefore, from the stage of the economic cycle	Price elasticity may increase with the growth of substitutes
Do buyers pose credible threat of backward integration?	No	Same
Does product represent significant fraction of cost in buyer's business?	Yes, typically buyers take student loan and pay back within 3-10 years.	Same
Are prices in the market negotiated between buyers and sellers on each individual transaction or do sellers post a "take-it-or-leave-it" price that applies to all transactions?	It's a single price, but sellers typically provide financial aid in order to get the best buyers (best in terms of career perspectives, providing diversity in class, etc.)	Price discrimination might increase

Conclusion: Power of buyers is low, although top schools are fighting to attract the same pool of best perspective students. Key factors: growing market for substitutes.

Summary

Internal rivalry is the most important force of the competition in the full-time MBA market followed by the threat from substitutes. The power of buyers and suppliers may continue to increase as a race for talents speed up. Entry barriers are substantial and have a potential to become higher for the top segment while they will be kept at a relatively low level for the mass segment. Power of complements is not significant and will not change in the near future.

Synthesis: Long-term profitability and nature of competition in the market (why profitability doesn't matter much at this market)

Market for full-time MBA program is increasingly global by nature, so global is the competition for top buyers (most talented students) and top suppliers (faculty). Competition between sellers (business schools) is rising in both top and mass segments of the market. Differentiation based on brand reputation is a key competitive factor for the top segment while location and price are most important for the mass segment. We should expect more schools entering the market in both segments in emerging markets and relative stability in provider numbers in mature markets. An increasing number of business schools from emerging markets will gain global reputation and therefore will participate in global competition for talents (both faculty and students) within the next decade.

The most relevant strategy for the existing top schools is to differentiate even further by quality of faculty (typical for most top schools) and facilities (Booth, Michigan, HEC-Paris, Kellogg, Stanford are all examples). In some cases, they will increase the size of their programs to exploit economies of scale (Stanford, Haas, and some others are considering this move).

New top providers from emerging markets have to differentiate from the schools in the same region by focusing on quality of research (and, therefore, by having globally renown faculty) and regional expertise (through teaching and applied research). Top five Chinese schools as well as Indian School of Business follow this strategy.

Long-term profitability will be rather kept at breakeven level. But having full-time MBA as a flagship program will be still crucial for any business school as a way to be accredited and ranked, and, therefore, pursue differentiation strategy. Full-time MBA program is a must for the schools' portfolio to obtain brand reputation in the global market. Low or zero profitability (or even a need to subsidize the program) will be compensated by income from other programs, sensitive to the reputation of a school (EMBA, executive education).