

Where Have All the Applicants Gone?

**Prepared by the Graduate Management Admission Council®
February 2004**

Introduction

In 2002, the topic on the lips of most business school professionals was the unexpected bounty of applications to graduate business school. GMAT® test volume similarly climbed steadily over 2001 volume, culminating in the highest-volume month ever (December 2002).

In 2003, the talk was of the precipitous drop in application volume, following the previous year's high-water mark. GMAT® test-taking volume declined, as well.

Thus far in 2004, the buzz is again of a widespread decline in application volume compared with last year—which has many in the industry worried. (GMAC® launched its preliminary Application Trends Survey February 16; the survey will yield definitive results in March and be followed by the final Application Trends Survey 2004 in June. Final results of Application Trends Survey 2004 will be reported in July.)

This article aims to answer the following questions:

- Why has there been a change in the outlook at business schools?
- Why was 2002 a banner year for applications and GMAT® test taking, and why have application volume and test-taking volume fallen since then?
- What can schools expect in the coming year and beyond?
- Finally, what GMAC® offerings can help schools address their business problems and meet their objectives, even in the face of a challenging market?

This article also seeks to offer some context for the recent changes in the business school market that can inform discussions with colleagues, applicants, students, and members of the media.

Revisiting 2001–02

Summary points:

- Application cycle 2001–02 was marked by high application volume, with highest volume early in the year.
- More GMAT® tests were taken in 2002 than ever before (249,632).
- Individual applicants applied to more schools in 2002 than in 2001.
- The U.S. economy started a downward trend, prompting many who had been considering business school to take advantage of low opportunity costs by applying.
- The MBA graduating class of 2001 felt the first effects of a shrinking job market.

In order to understand what is happening now in the business school market, let's first journey back to our most recent "golden age," the 2001–02 application cycle and GMAT® testing year. An impressive 84% of full-time programs, 60% of part-time programs, and 58% of executive programs GMAC® surveyed in Application Trends Survey 2002 reported application volume increases. Admissions professionals told GMAC® of hiring additional full-time, part-time, and even volunteer readers to handle the increased volume. *BusinessWeek* online and *Graduate Management News* identified several prominent U.S. schools whose self-reported early-round

volume was significantly higher than the previous year's (with schools reporting increases as high as 300%).

GMAT® test-taking volume was higher in 2002 than ever before in the test's history, with a total of 249,632 tests taken overall—162,502 in the United States and 87,130 outside the United States. In December 2002, more GMAT® tests were taken than had ever been taken before in a single month, but toward the end of 2002, the disparity between the number of tests taken in the United States and the number taken elsewhere began to widen, with non-U.S. volume trailing U.S. volume. This trend is still evident today.

A GMAC® survey conducted at the 2002 MBA Forums® school fairs revealed that in 2002, on average, applicants planned to apply to more schools than had applicants who attended the MBA Forums® in 2001. This information dovetailed with the story playing out in the media and on Internet discussion boards: A widespread belief in increasing competition for seats in business schools—fueled by quotes from business school representatives—was influencing applicants to apply early and to more schools than they might have in previous years, in an attempt to secure admission. This behavior on the part of applicants helps to explain the extraordinary early-round application volume increases schools experienced. Application volume tended to level off later in the application cycle, however, resulting in overall annual gains that were significant but not quite as dramatic as some of the early-round increases.

In retrospect, although the rate of increase in both application volume and GMAT® test-taking volume was surprising, a general increase in both these measures of interest in business school should not have been surprising. A number of factors contributed to the surge in interest, most obviously weak or declining job markets in many countries, and in the United States, a sudden downturn in the U.S. economy and a contraction of various industries as a result of the September 11, 2001, terror attacks (e.g., the travel and hospitality industries); the continued slide of the high-technology sector after the dot-com bust; and the shake-up of industries affected by corporate scandal (e.g., the energy and utilities industry and the accounting and finance industry).

In the early days of the U.S. recession, before it became apparent how difficult it would be for international applicants to obtain study and work visas (in the U.S. and elsewhere outside their countries of citizenship), international applicants still accounted for much of the growth in worldwide application volume, as they had for years. In the U.S., the sudden dip in the economy prompted many people who had been considering business school to apply. A decade of economic strength and job market expansion had caused some prospective applicants to delay going back to school, but as soon as the opportunity costs of going to grad school decreased—or when layoffs in their industries began—these would-be MBAs decided the time was right to apply.

Despite all the activity on the application front, though, graduates of the class of 2001 felt the first results of economic weakness after graduation, a harbinger of things to come. Many members of the graduating class of 2001 reported that their postgraduate employers had delayed the starting dates of their jobs and had even rescinded job offers. The class of 2002 would face an even more difficult time.

2002–03: What Goes Up Must Come Down

Summary points:

- Application volume declined in the 2002–03 cycle, compared with volume in 2001–02.
- Despite decreased application volume, the quality of applicants remained consistent or improved in 2002–03.
- GMAT® test-taking volume declined, with the biggest decline in test taking outside the United States.
- International application volume declined in the United States but increased elsewhere.

Coming off the heady 2001–02 application cycle, the 2002–03 cycle seemed all the more disappointing. Among programs that responded to Application Trends Survey 2003, the majority reported decreases in application volume compared with the previous year. In fact, 2003 showed the most pervasive and significant decreases in application volume across program types since the Application Trends Survey began in 1998–99.

However, despite the smaller pool of applicants they saw during the 2002–03 application cycle, most schools reported that the quality of their applicants had remained consistent or had improved. In Application Trends Survey 2003, when asked to compare the quality of 2002–03 applicants to 2001–02 applicants, 41% of respondents said the quality had remained about the same; 46% said the quality had improved somewhat; and 9% said the quality of their applicants had definitely improved compared with the previous year.

GMAT® test-taking volume was also down in 2003, compared with 2002. A total of 218,037 tests were taken in 2003, a 12.66% decrease from the previous year. The number of tests taken outside the United States declined the most—16.99%. The decline in the number of tests taken in the United States was more moderate—10.34%. The lag in non-U.S. testing that began at the end of 2001 continued in 2003.

Interestingly, although one might assume that a decline in testing and application volume would be accompanied by a drop in the number of international applications to business school, this was only true in the United States, where, according to Application Trends Survey 2003, 61% of programs in the United States experienced a decline in the number of international applications during the 2002–03 application cycle. Most non-U.S. programs reported an increase in the number of international applications. This finding would indicate a shift in application volume as prospective students decided against attending school in the United States, perhaps because of security, visa, and job concerns, and possibly also because of the increasing availability of graduate management programs closer to home.

Why the Decline in Application Volume?

Summary points:

- Responding to the weak economy and less-than-promising job market, applicants do more research up front and apply to fewer schools.
- Prolonged economic weakness makes it increasingly difficult and financially undesirable for people to go to graduate school.
- Worries about the job market might deter prospective applicants.
- Members of the graduating class of 2002 faced a difficult job market upon graduation and were less satisfied than other classes with the jobs they accepted.
- The business school–age population has decreased in North America and Western Europe and reached a flat growth rate in Asia.

Some factors behind the drop-off in the number of applications to business school in 2002–03 have to do with consumer behavior in times of economic weakness. One such factor is the trend toward applying to fewer schools. Whereas in 2002 applicants applied early and often, in 2003, applicants were more judicious with their applications. They researched their options thoroughly (with the help of easily accessible online resources), decided on their top choices of schools, and then applied only to those schools.

Another behavioral factor in the application volume decline is the fact that people are more likely to decide to go back to school at the beginning of an economic recession, before prolonged weakness in the economy and the job market has affected their financial security—and that of employers who typically sponsor degrees. This would explain the boom in application volume at the beginning of the recession and the decline in application volume ever since.

According to the U.S. Department of Education's model for predicting higher education enrollment, the key economic factors in predicting enrollment are household income (a proxy for the ability to pay for school) and age-specific employment rate (a proxy for opportunity costs). Both of these indicators have been in decline. Household income has decreased while unemployment rates have increased since 2000. Between 2000 and 2002, the household income of those in the United States under the age of 35 dropped 14%—the biggest decline experienced by any age group during that time period (source: U.S. Federal Reserve's Survey of Consumer Finances). The unemployment rate in the United States for men over the age of 20 climbed from a monthly average of 4.2% in 2000 to a monthly average of 5.7% in 2003. The U.S. unemployment rate for women over the age of 20 averaged 4.1% in 2000 and 5.1% in 2003 (source: U.S. Department of Labor, Bureau of Labor Statistics).

Even if people are optimistic about their personal finances, concerns about employment opportunities and overall economic recovery might still keep them from applying to business school and making a large up-front investment in their career potential. Results of a Gallup Poll in the United States released January 28, 2004, show that although overall investor optimism increased slightly during the month of January, growing confidence in personal finances was partly offset by worries about employment and economic growth. According to results of the Global MBA® Graduate Surveys, the primary reason people seek an MBA is to increase their job

opportunities; any concerns about job placement after graduation would deter many would-be applicants.

Indeed, fears about difficulty finding employment after graduation have some basis in fact. Members of the graduating class of 2002 received the fewest number of job offers of any graduating class from 2000 to 2003; they were most likely to report receiving no job offers and least likely to report receiving more than three job offers from which to choose (source: Alumni Perspectives Survey 2003). Graduates of the class of 2002 were also significantly more likely to say that the jobs they got were not what they had been looking for. Furthermore, their starting salaries were lower than those reported by the classes of 2000, 2001, and 2003. These disappointments certainly affected rankings and the messages about business school prospective students received from students, alumni, and the media. (One message prospective students have *not* gotten from graduates is that the degree itself is not worthwhile: Despite placement difficulties, the class of 2002 assessed their overall MBA experience and the value of the degree positively.)

There are other factors behind the slowdown in applications to business school—factors that would probably have presented themselves earlier had it not been for the economic boom of the 1990s, which served to keep many people in the workforce when they might otherwise (in times of lower salaries and less exciting job prospects) have opted to go for an MBA. One major factor is a decline in the typical business school–age population (25 to 34 years old) in North America and Western Europe and a flat growth rate in Asia, which has been one of the fastest-growing markets for graduate management education over the past decade. The business school–age population in North America and Asia are expected to increase between 2005 and 2010, but the number of people in this age group in Western Europe is expected to decline through 2010 (source: Population Reference Bureau).

What's Likely to Happen in 2004 and Beyond?

Summary points:

- GMAT® test-taking volume decreased in January, particularly outside the United States.
- Anecdotally, application volume is in decline; we will know more in March when results of the preliminary Application Trends Survey are tabulated. Final results of Application Trends Survey 2004 will be available in July.
- The number of nonagricultural jobs in the United States grew for the fourth straight month in January 2004, but the bulk of jobs gained through 2012 are expected to be in nonprofessional service industries. Jobs lost in the United States could mean some jobs gained in countries where skilled labor is less costly.
- There is no evidence linking declines in application volume to declines in application quality. In 2003, application quality was reported to be consistent or improved at most schools.
- Admissions selectivity may not be threatened by application volume decreases; applicants seem to be self-selecting, a possible effect of better research and higher opportunity costs.
- There is no evidence that yield will be negatively affected by a smaller applicant pool, especially if the applicants in the pool are more selective about where they have applied

than applicants in years past. Schools' late acceptance of applicants off waitlists could affect yield.

- GMAC® will continue to provide information, products, and services to help schools navigate a challenging market.

We don't have to gaze very long into our crystal ball to see the storm clouds gathering in 2004. What we cannot see is whether they will have a silver lining.

GMAT Volume. GMAT® volume for January 2004 shows a 12.38% decline in U.S. testing compared with January 2003 and a stunning 25.67% decline in non-U.S. volume compared with January 2003. Keep an eye on test-taking trends to see whether we will begin to see an upswing in 2004.

Application Volume. Application volume, according to anecdote, is also down at many schools. GMAC® will know more once preliminary results of the Application Trends Survey are tabulated in March. GMAC® encourages you to make sure your school participates in this important survey. Schools that participate receive more detailed survey reports than are made public—reports that schools use to understand the market, benchmark their application volume against peer schools, develop recruiting strategies, share results, benchmark internal goals, and justify resources. (For information about Application Trends Survey and how to participate, please contact Rachel Edgington, manager, applied research, at edgington@gmac.com or 1-703-749-0131. Results of all surveys cited in this article are available online at www.gmac.com/surveys.)

Jobs. On the employment front, the news is mixed. The U.S. Labor Department's employment report for January 2004 shows that 112,000 jobs were created, for a total of 366,000 new jobs in the United States since August 2003. Will the growth in the number of jobs convince prospective applicants that it's a good time to go back to school? That remains to be seen.

On February 12, 2004, the U.S. Bureau of Labor Statistics released its employment projections for the decade spanning 2002 through 2012. For this time period, employment is expected to grow in the United States by 21.3 million jobs or 15%. The bulk of job growth, however, is expected to be in service industries. In fact, of the 10 job categories expected to add the most new jobs, seven require only on-the-job training. Only two require a four-year university degree or advanced degree—general and operations management (possible good news for business schools) and “postsecondary teachers” (perhaps good news for doctoral programs). The fastest-growing job categories are expected to include three technology jobs—network systems and data communications analysts, software application engineers, and system software engineers.

Job losses in the United States may mean gains abroad, though. Whereas some jobs may be eliminated by automation, others may move offshore to other countries, an increasingly common practice, particularly in the high-technology, manufacturing, and customer service industries.

Admissions Selectivity. One concern school officials are voicing is the worry that in the face of declining application volume, they will be forced to lower their selectivity. Although that remains a possibility, the decline in application volume will most likely be felt by all schools, thus leveling the effects of any decreases in admissions selectivity. It is also possible that despite a smaller pool of applicants, schools may find those who do apply to be well qualified and well prepared for

business school. Preliminary results of the mba.com Registrants Survey reveal that prospective applicants to business school who register on the GMAC® Web site www.mba.com and then decide not to apply to business school tend to do so because they determine that they are not qualified or prepared to succeed at the schools they wish to attend. Certainly this finding begs many questions that are being investigated thoroughly, but what it could suggest is that a process of self-selection is taking place before applications ever arrive at schools; prospects might prefer to drop out of the process rather than apply to a school they know is unlikely to consider them.

Yield. Another concern on the part of schools is the issue of yield on acceptances. In 2003, a number of schools accepted applicants from their waitlists later than in past years, leaving other schools with empty seats in their classes. Will applicants in this year's applicant pool be any less apt to accept an offer than applicants of previous years? Will schools have trouble filling their seats? Again, we can speculatively take some comfort from self-selection. We saw the average number of applications submitted by individual applicants decrease in 2003 as applicants became more discerning about where they wanted to apply and where they thought it was worthwhile to enroll. Taking this fact as an indication of things to come, the size of the applicant pool may have little bearing on schools' initial yield on acceptances. What happens with the waitlists, however, is entirely up to the schools. Waitlist management will be the key to ensuring that waitlists have no significant or widespread effect on yield in 2004.

Business School–Age Population. As stated above, North America and Asia are predicted to see an increase in the business school age population between 2005 and 2010 (while Western Europe continues to experience a decline in this population group). The next demographic bulge, the Millennial generation (who started graduating from secondary school in 2000), will become a viable market for graduate management schools in 2005–06, with those from the United States presenting the leading edge of this generation as it enters higher education. If you wish to read about this generation and its unique characteristics, we recommend *Millennials Rising: The Next Great Generation*, by Neil Howe and William Strauss (Vintage, 2000).

A U.S. Department of Education model based on typical economic conditions predicts a 2% positive change in higher education enrollment in 2005, a 3% positive change in 2006, and a 6% positive change in 2007 and 2008. Business and education degrees are the two most often conferred higher education degree types in the United States, so the increase in higher education enrollment has the potential to affect business schools directly.

GMAC® Products and Services. GMAC® offerings can help schools meet their goals in both favorable and unfavorable market conditions. GMAC® information, programs, products, and services can help schools—

- better understand the general market and the market space they occupy;
- learn who potential applicants are and how they make decisions regarding business school;
- recruit and admit the most desirable applicants for their programs;
- communicate the right messages to the right applicants; and
- improve internal processes, strategies, and communications for the best outcomes.

One of the most powerful tools GMAC® offers schools and their potential students is information. The GMAC® research program conducts several surveys a year, providing information about prospective applicants and application volume, graduating students, MBA alumni, and corporations that hire MBA graduates. This information can help schools set objectives and formulate strategies for recruiting, admissions, career services, program management, and other activities. Schools that participate in GMAC® surveys receive specialized reports with results that are not released to the public, giving them school- and market-specific detail to aid in planning and benchmarking. (For information about how to participate in surveys, e-mail research@gmac.com.) The dissemination of GMAC® survey research findings through our media relations program garnered roughly 50 million media hits in 2003, helping to shape the public dialogue about management education.

The GMAC® research program also provides GMAT-using schools with the Validity Study Service (VSS), which measures the effectiveness of the GMAT® in predicting the academic success of a school's enrolled students. By using this free service, a school can determine whether it is using the GMAT® to make optimal admissions decisions that will result in academically successful students. To inquire about conducting a validity study at your school, e-mail vss@gmac.com.

GMAC® professional development conferences and programs, such as the GMAC® Annual Industry Conference and the MBA Leadership Conference, can help business schools achieve better results in recruiting, admissions, and program management by exposing business school professionals to new perspectives on pressing business issues. See the Career Development section of gmac.com (www.gmac.com/gmac/careerdevelopment) to find out about upcoming professional development opportunities.

GMAC® “names” products help schools select and contact the potential applicants they seek. GMASS® allows schools to search for potential applicants once they have taken the GMAT®, and Applicant Finder offers schools a similar service for locating desirable prospects who have registered on mba.com (www.mba.com), the GMAC® Web site for prospective students, and expressed interest in being contacted by schools.

Two tools offered on mba.com display information submitted by schools and help potential applicants search for schools and recruiting events that fit their criteria. MBA Pathfinder® school search database allows potential applicants to search for programs using a number of different criteria, including program type, size, location, cost, and available concentrations. Recruiting Calendar allows prospective applicants to search for upcoming recruiting events by school and location. To learn how your school can display program data and event information in these search tools, see the School Services section of gmac.com, www.gmac.com/gmac/schoolservices.

A new product that can improve applicant self-selection and admissions outcomes is CareerLeader®, the online career assessment already used by numerous business schools as part of their career services. By encouraging applicants to take the CareerLeader® online assessments before beginning the admissions process, schools can help ensure that applicants have a better sense of their own abilities, motivations, and goals in pursuing a particular school, program, and career path. CareerLeader® is sold to prospective students through the MBA Store® on mba.com

(www.mba.com/mba/store). For institutional sales of CareerLeader®, contact Peter Moran, marketing manager, at pmoran@gmac.com or 1-703-749-0131.

We hope that you will continue to turn to GMAC® for the information, products, and services that will help your school meet the challenges ahead—whatever those challenges may be.

Global MBA®, GMAC®, GMAT®, Graduate Management Admission Council®, MBA Forums®, and MBA Store® are registered trademarks of the Graduate Management Admission Council®. All rights reserved.

CareerLeader® is a registered trademark of Peregrine Partners.