Conversion rates and margins in education

Industry benchmarks and data-driven optimisations for UK / EU B2C education providers

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Executive Summary

This report provides actionable insights for further education providers on optimising profit margins and stimulating demand for their courses. Based on survey data from further education providers across the UK and EU, the findings highlight the challenges and opportunities facing the sector and offer data-driven recommendations to enhance financial performance and market positioning.

Key findings include:

- **Profitability Metrics**: The average gross margin for further education providers is 80%, with significant variability based on course type and structure. Optimising variable costs and leveraging automation are key strategies for improving margins further.
- **Customer Acquisition Costs (CAC)**: CAC averages 12% of unit revenue, with conversion efficiency proving more impactful than marketing spend reduction. The most cost-effective channels for student acquisition include word of mouth, partnerships with feeder institutions, and events such as webinars and open days.
- **Capacity Utilisation**: Providers operate at an average of 63% capacity, indicating untapped revenue potential. Increasing demand through digital offerings, payment flexibility, and targeted marketing can help fill this gap.
- **Demand Stimulation**: Deferred payment systems significantly enhance applicant conversion rates, removing upfront financial barriers for students. Further education providers using such systems report conversion rates up to three times higher than those without.
- **Market Trends**: The shift toward digital and AI-enhanced learning is reshaping the industry, creating opportunities to scale operations and reduce costs. However, increasing supply also risks putting downward pressure on prices.

Recommendations:

1. Track and optimise key financial metrics such as gross margin and CAC.
2. Focus on high-performing acquisition channels while strategically managing less effective ones.
3. Implement flexible payment systems to unlock demand.
4. Differentiate course offerings through innovative content and unique value propositions.
5. Enhance operational efficiency by leveraging AI tools and scalable digital solutions.

By adopting these strategies, further education providers can improve profitability, adapt to market trends, and remain competitive in an evolving industry landscape. In the interests of keeping this report focussed on actionable insights to improve the economics of further education providers we have left out a lot of the background analysis. We intend to release this analysis alongside further insights in a future report.

Introduction

Further education providers face increasing pressure to remain competitive as the number of course places available increases faster than demand for those places. This puts pressure on profitability and leads to many challenges.

This report provides industry benchmarks as well as some examples of ways firms are tackling these challenges.

The report was facilitated and authored by the team at StepEx. StepEx facilitates deferred payment systems, enabling students to pay course fees over time. By reducing upfront financial barriers, this infrastructure has allowed close to 100 further education providers—including universities, IT bootcamps, and specialised training providers—to amplify demand for their courses by reducing checkout friction, and significantly widening their market reach to students who would otherwise be unable or unwilling to afford full upfront payments.

StepEx's cutting edge platform uses the latest automation and AI solutions to support further education providers from the small and specialised institutions to many of the largest and most recognisable providers. Seamlessly integrating into existing application and finance workflows to improve conversion rates and create more inclusive educational offerings.

This report was initiated in response to StepEx's partners requests for benchmarks to measure conversion rates and identify the most effective marketing channels. To ensure both accuracy and comprehensiveness, data was collected via a combination of estimated inputs and high-quality extracts from respondents' customer relationship management (CRM) systems, with the latter given greater weighting in the analysis.

We extend our sincere gratitude to all the further education providers who participated in this survey. Their responses have enabled us to develop actionable insights that aim to drive improvements in profitability and demand generation across the sector while expanding access to the less wealthy. This report represents the first in a planned annual series, which will capture and analyse emerging trends to provide further education providers with ongoing support and guidance.

Survey Details

This survey was conducted with responses collected both through unsupervised mediums via an online form (available in the appendix) and supervised mediums via phone calls and screen share to see real system data.

Data was collected from close to 100 institutions, with deep analysis of 10 institutions that represented a cross-section of them. This occurred in the period from September to November 2024, with most respondents reporting 2024 annualised figures (i.e. using the year-to-date 2024 figures and then adjusting them based on the % of 2023 revenue that occurred in the missing period).

Answers were validated by asking a question to which StepEx had real data per respondent (on course completion rates) to weight the overall responses.

- 80% of respondents were UK based; 20% in the EU.
- 30% were private universities; 70% were other for-profit training providers.
- Of the for-profit-training providers, 85% predominantly or exclusively provided IT training.
- The average number of students taught per year by respondents was 900 (ranging from 180 to 13,500).
- The average course price was £12,000.

In order to analyse the data, it needed to be standardised across providers that had different definitions of conversion rates by pipeline stage, to achieve this in some cases we aggregated or disaggregated stages to fit our standardised definitions in order to be able to compare across respondents.

Findings & Analysis

Course capacity

We defined maximum capacity as the maximum number of students a course provider could provide for within their current constraints, such as physical space, teaching resource and other learning infrastructure. This was measured to ascertain whether more demand was desirable for respondents. If courses were at or close to 100% then customer acquisition cost (CAC) should be reduced as there would have been insufficient supply of course places for the demand. However, this was not the case, with significant unfilled seats.

On average, respondents were at 63% capacity ranging from 50% to 71%. This was surprisingly consistent even across respondents from different types of institution with vastly different course prices and cohort sizes. The guided respondents also advised that course capacity varied significantly across courses and cohorts. With June and July course start dates seeing the lowest levels of demand and the highest levels of discounting and spare capacity.

This capacity gap represented an opportunity to increase revenue significantly, if sufficient demand could be found to fill all available places. Especially as, if demand were sufficiently high, fewer course places would be discounted, meaning revenue would rise by the increase in volume of students as well as an increase in the average course fee paid.

Gross margin

Gross margin for our purpose is defined as the course fee revenue minus the additional cost of accepting one extra student onto a course, or in accounting terms unit revenue minus the cost of goods sold (COGs).

There was significant variance across the portfolio for this metric, with an average of 80% and ranging from 60% to 100%. Surprisingly universities, for whom online courses account for a lower proportion of their course portfolio, reported gross margins of 89%. This was surprising given we expected on-campus taught courses to have a higher variable cost, but this was more than offset by higher prices.

For the supervised respondents we queried the drivers of their variable costs. The overwhelming majority was payment to third parties for industry certificates that ranged in price from £250 to £1,200, a minority of courses provided multiple industry certificates. This relatively fixed portion of the variable cost was the same for on-campus or online courses, accounting for the lower average margin for online courses.

Customer acquisition costs (CAC)

Another key driver of profitability for further education providers is customer acquisition costs (CAC) which we define as the cost to attract a single applicant divided by the applicant conversion rate. This means there are two key elements to improving this metric;

1. Optimising marketing spend to minimise the cost per prospective applicant attracted
2. Optimising the conversion pipeline to maximise the number of prospective applicants who become paying students.

CAC ranged from 1% of unit revenue to 47%, averaging 12%. We are reporting CAC in terms of a percentage of unit revenue given the huge disparity in unit revenue per respondent. There was a strong correlation between a high conversion rate and a low CAC, indicating that converting applicants rather than attracting applicants is the key driver of profitability for this metric.

Given the interest in optimising this metric amongst our partners we assessed each of these elements in more depth.

CAC: spend

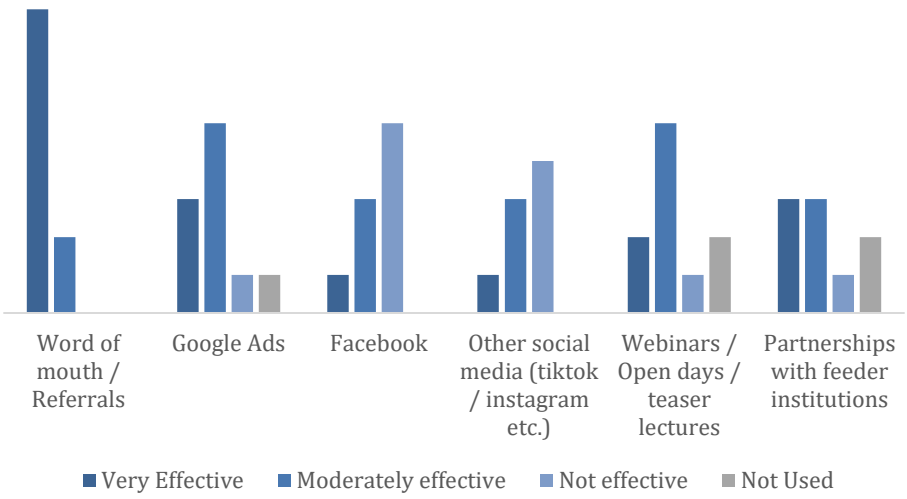
Anecdotally, CAC was very high on Facebook. Many providers traditionally used these mediums to attract candidates, especially where their target demographic skewed younger, but the cost per applicant had significantly increased over the last decade to make this the least effective marketing channel. Other social media platforms referenced were referenced as being somewhat effective, with LinkedIn being seen as the most effective channel of mainstream social media (noting that LinkedIn was only referenced by UK based respondents).

Google Ads remained a key channel for most respondents although the cost of this was also significant and most respondents felt this was only a moderately effective channel.

The three most effective channels in order of effectiveness in figure 1 were:

1. Word of mouth (80% very effective; 0% not effective)
2. Partnerships with feeder institutions (30% very effective; 10% not effective)
3. Webinars / Open days (20% very effective; 10% not effective)

Figure 1: Ratings of key marketing channels



In the supervised responses we queried some of the key initiatives for these channels which we have detailed below.

Word of mouth

Almost universally a referral system was implemented whereby both the referrer and student received an incentive. This was almost always a discount for the student applying. However, incentives for the referrer varied from a credit that could be applied as partial or full payment for another course, "swag" such as a free hoodie, or a cash incentive in the form of a course fee refund or an amazon voucher.

The marketing collateral promoting the scheme most commonly referenced some version of "give someone you know the transformational opportunity you had". This marketing collateral would typically be sent to the complete contact list of prior students. The incentive typically cost 5% of the unit revenue. For example a £10,000 course might provide £250 to the referrer and a £250 discount to the student referred.

Partnerships with feeder institutions

This was most common where the course being offered required some prior knowledge or qualifications. For example a masters degree requiring a completed undergraduate degree, or an advanced IT course requiring foundational IT knowledge.

The amount paid to the feeder institution per student as a percent of the unit revenue (i.e. course fee) varied considerably between 5% and 20% (averaging 8%).

A minority of providers paid lower referral fees to the feeder institution but offered non-financial value, for example providing some of the lectures or course materials to the feeder institution or allowing them to promote an "affiliation" to the respondent.

Webinars / Open days

Webinars and open days were seen as highly effective tools at not just attracting students but also for converting those already in the pipeline.

For both webinars and open days, the primary objective was to convey was that the course was engaging and useful. Engaging by involving former or current students describing their experiences. Useful by showcasing the employability of their graduates through testimonials from now employed alumni or from employers with whom they have a relationship.

For open days a common strategy was to have "taster lecturers" or a talk from a prominent alumnus.

We weren't able to get estimates for the cost per student of these events, however they were estimated by respondents to be very cost effective.

CAC: conversion rate

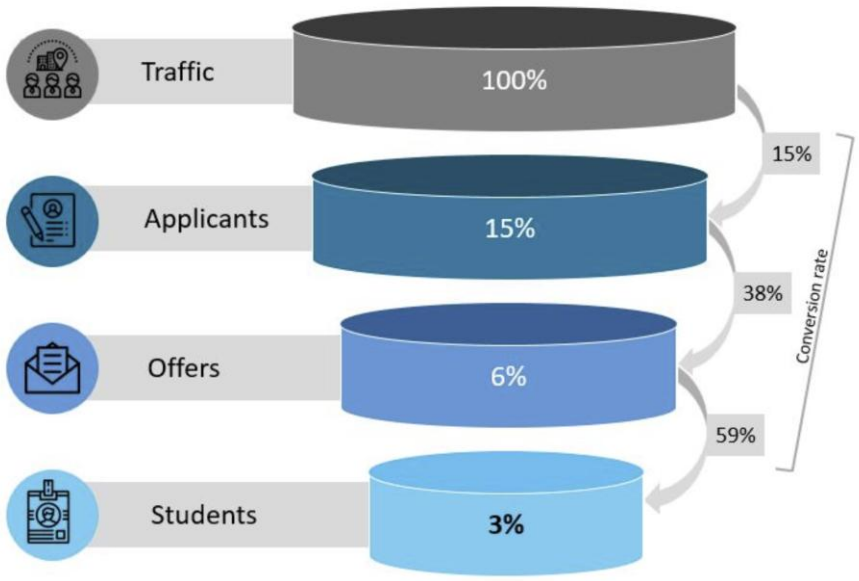
On average 3% of further education traffic (web visitors / campus visits) results in a paying student, with big variance across providers. This ranges from 20% where the majority of visitors are driven by word of mouth with generous referral programmes, through to 0.1% where a mix of strategies are used. It should be noted that even respondents who relied primarily on word of mouth had spare capacity. The definition and recording of "traffic" was the least consistent of these categories so it is worth also looking at the average conversion rate from "applicant" to paying student of 20%. The conversion rate at each stage is in figure 2.

We defined each stage of an applicant pipeline to standardise what is a diverse process as the below:

1. Traffic – encompasses all the prospects that view a landing page, website, webinar, physical campus or other infrastructure or collateral of the partner.
2. Applicants – includes all prospects who submit their information to the partner. This ranges from "requests for a callback / more information" type applications through to a full submission.
3. Offers – includes all the applicants who receive an offer for a position on the course, after filtering to ensure they meet the required eligibility criteria.
4. Students – individuals enrolled in the course.

The conversion rate through each of the above stages is defined in figure 2.

Figure 2: Conversion rate by application stage



Drivers of CAC efficiency

Traffic to Applicants

Ease of application was highly correlated with conversion rate from traffic to applicants. Those with the highest conversion rates enabled people to directly submit an application form that typically took less than 3 minutes to complete when tested by our team. These application forms often did not require any payment and typically just collected contact information which was then followed up by a call from the respondents sales team.

Applicants to Offers

Targeted marketing was the key driver of applicants to offers. A significant correlation was found between the inclusion of course price and eligibility criteria in a marketing campaign and conversion rate to offers. Likewise, partners whose primary marketing mediums were via word of mouth, open days / webinars, feeder institutions and google adverts had higher conversion rates while social media marketing of all types had lower conversion rates.

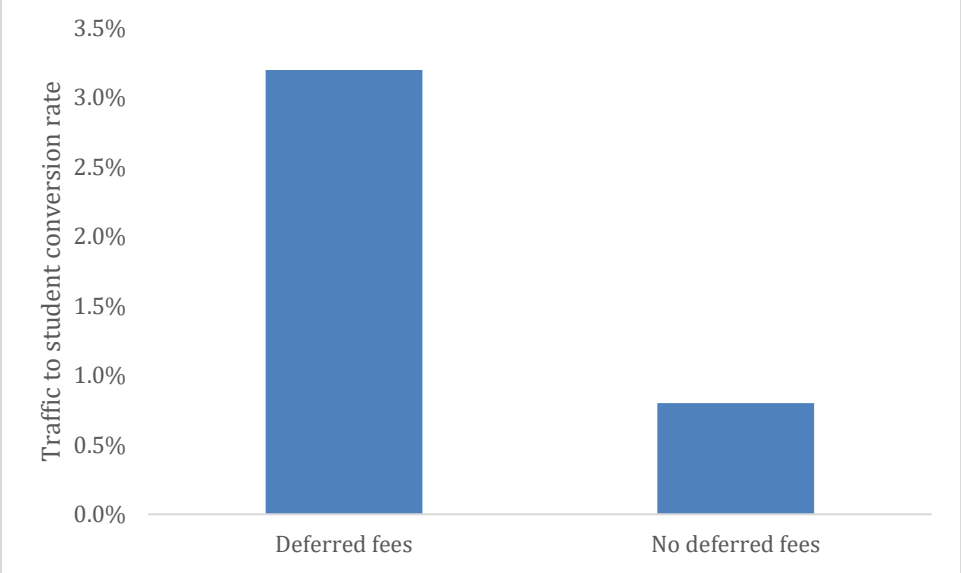
Offers to Students

Some of the drivers from offer to student was a quick response (in sales terminology, short periods between follow up cadences), often including a sense of urgency to accept. Partners varied in how they achieved this, from assigning this manually to individuals to creating automated email cadences.

The sense of urgency was typically created via one of either an “early-bird discount” if the offer was accepted and paid for within a time-frame; providing mandatory pre-course material that typically took X weeks to complete but sometime longer and that was only accessible after acceptance of the offer.

These figures largely hide the key conversion rate of applicants accepting offers which is the upfront fee barrier. To measure the impact of deferred fees we used the data from respondents who had deferred payments setup, and those who had didn't or had data on their conversion rate prior to setting up a deferred fee programme. The results were incontrovertible – with deferred fee programmes benefitting from quadruple the number of paying students per 100 applicants relative to those who only enabled students to pay upfront or in instalments of less than 12 months (figure 3).

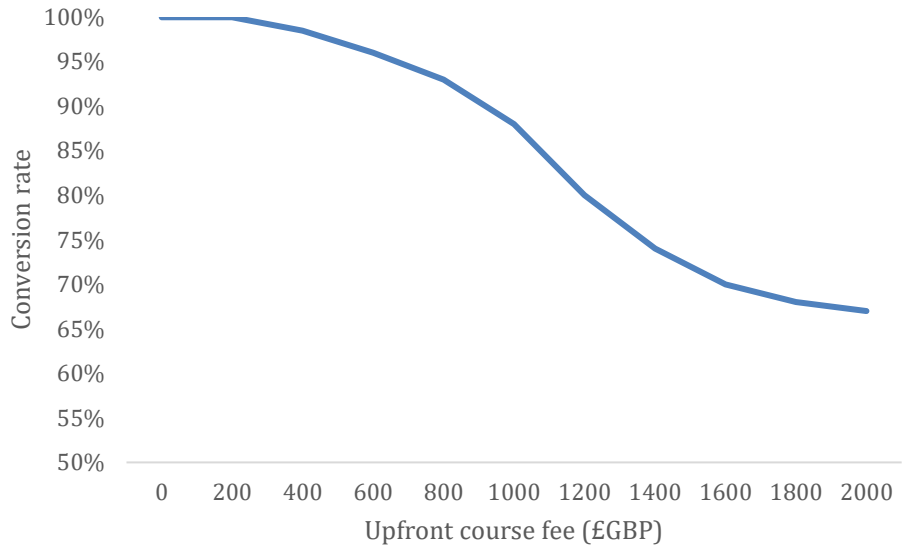
Figure 3: Average conversion rate of applicants to students for further education providers who offer deferred course fee payments and those who don't.



NB: Deferred fee only includes those that offer payment terms of greater than 12 months.

Our own portfolio data backs this up. The loss of applicants due to the upfront fee barrier varies based on the magnitude of the fees and because many users of StepEx infrastructure defer only a portion of their course fee (e.g. pay 20% upfront and defer the remaining 80%) we are able to map the conversion rate by magnitude of upfront fee (figure 4).

Figure 4: Applicant conversion rate by upfront course fee requirement



NB: A trendline was fit to data points collected by StepEx from students seeking finance on their platform for a variety of courses. The upfront fee was in all cases a portion of the total fee only.

Challenges, Opportunities & Predictions

Course capacity

Almost universally across the UK, further education providers are moving a higher proportion of their portfolio online. Providers that are pre-dominantly digital are rolling out online offerings, which alleviates physical real-estate capacity constraints, constrained instead by teaching resource capacity. Pre-dominantly online providers are rolling out "self-paced" offerings where students have access to a content library with student interactions and exam marking conducted by AI tools, alleviating the teaching resource constraint and making supply fully scalable.

One of the key challenges with universities expanding their online degree programmes has traditionally been completion rates. Online students complete and graduate from their course in far lower proportions then those on-campus. This is an issue in most countries, and certainly in the UK, because universities are penalised if their completion rates fall beyond thresholds set by the university regulator. Many are mitigating this by rolling out "stackable micro-credentials", which break up a full degree into a series of component courses which are easier to commit to and complete. When the required number of individual courses is completed the student is eligible for a certification e.g. a diploma or degree.

Moving courses online means the medium term supply of "course places" is rapidly increasing which will inevitably lead to downward pressure on course price (figure 5). Government

controls over fees, for example the skills fund for IT bootcamps and student loan company for public undergraduate degrees in the UK act as a price floor for some courses, and the following impacts are sensitive to changes in government policy. However, assuming no change to policy, the subsidy-set price floor in most UK and EU countries is decreasing in real terms. This means that all providers will be incentivised to either increase the number of taught courses or downsize – such as by replacing the wages of human content generators with cheaper AI course content generation tools - to remain viable as cost inflation continues. Almost all providers we spoke with have chosen to increase volumes predominantly through increased digital offerings.

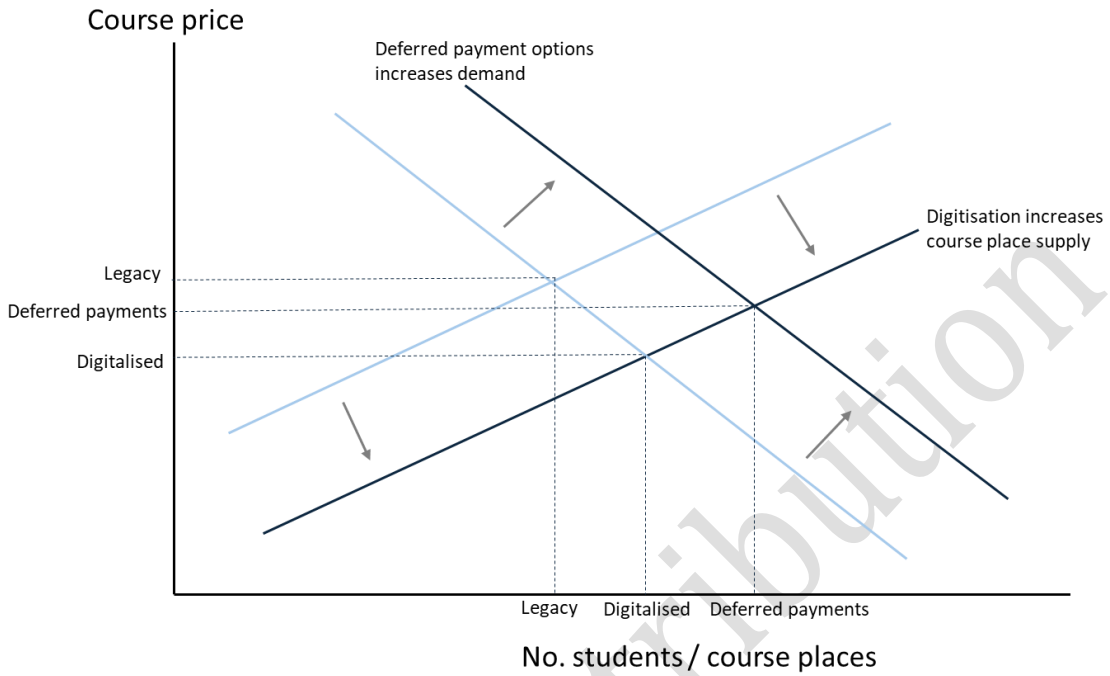
The core focus to mitigate cost inflation across the respondents we spoke with is increasing student demand. This focus is especially pronounced in the UK market, where two distinct demand strategies have emerged, often simultaneously.

The first is to stimulate demand from international students. Anecdotally demand from the Chinese market has significantly reduced in recent years so the current focus is predominantly through the use of "agents" who source students and assist them in applying from outside the UK/EU, particularly but not exclusively amongst university respondents. The largest markets for this are India and Nigeria, where agents are paid between 20-25% of the course fee per student sourced, which is a significant increase from 5 years ago where fees where typically 15-20%.

The second strategy focus is unlocking demand from the domestic market. A core pillar of this is amplifying the market for a course by removing the course fee. This increases the courses target market to all of those who are unable or unwilling to outlay the full course fee upfront, the additional market size increases with course. As an example, for an £8,000 course fee for a 3 month IT course, we see an average of 2.5x higher conversions at the "checkout" or invoice payment stage of the application process, when students are able to pay in instalments (this rises to 3.2x when there are both options, payment instalment plans and a future earnings agreements).

The impact of a shift to online and use of automated technologies is greater scale and more supply of course places from existing course providers, which will put downward pressure on course prices (figure 5; legacy->digitalised). The impact of increasing the addressable market by offering deferred fee options will increase demand somewhat mitigating the downward price pressure from digitalisation (figure 5: digitalised->deferred payments). Both trends will increase the number of students and will also likely lead to education businesses being more viable as their cost base per student reduces. This is all in a perfect economic bubble however, there will inevitably some short term restructuring costs and government policy has the potential to disrupt this balance significantly. The impact of deferred payments will be negligible for sectors that already receive government subsidised or deferred payments such as the UK's public sector undergraduate market.

Figure 5: Supply and demand of course places before and after digitisation and deferred fee places:



Other strategies for unlocking demand that respondents reported focus on differentiating the course relative to competitors. Some strategies for achieving this include:

- Creating bespoke course content (AI generated) based on an individuals own personal or career goals
- Including add-ons such as mindfulness training or career coaching
- Building courses with practical exercises designed to mimic specifically large employers' challenges, including using the employers' own policies e.g. security policies.
- A minority are emphasising their on-campus experience to juxtapose against the digitalisation trend.

Recommendations

- It's obvious that in the long term revenue needs to be greater than expenses. However few respondents actively tracked their gross margin and used it to define the level of discount they were prepared to offer. Calculate and track your gross margin (revenue – variable cost) and CAC. Optimise your class size in the short term by filling otherwise empty seats by discounting your course fee for that seat. If you sell an otherwise empty course place for greater than your variable cost this is net positive.
- Increase the "efficiency" of your course provision wherever possible without damaging student outcomes and your brand. Consider outsourcing to AI some elements of course content generation and exam marking. This reduces variable costs and can also lead to better student outcomes as course content can more easily be kept up to date and exam feedback can be instant.
- Maximise your use of the high performing marketing channels that are feasible for you; word of mouth, partnerships with feeder institutions and webinars / open days. These are almost definitely going to be the lowest cost acquisition channels. Use the other channels as long as financially feasible until you get to optimal capacity.
- Optimise your applicant pipeline, prioritising the stages your conversion rate is lower than the industry average.
- Consider implementing an agent network and offering both payment instalment plans and future earnings agreements as fee options if you don't already.
- Find ways to differentiate your course against the competition.

Conclusion

Gross margins remain viable across the education sector. The variable costs of providing a course continue to fall through automation. However, this automation comes with greater scalability leading to higher supply and likely a continued downward trend in course prices. This course price trend is floored for some providers by government set subsidies which for some providers results in a price control.

This downward pressure on price can be alleviated by expanding the addressable market for a course by reducing the upfront fee burden with deferred fee payments.

Standing out in the market is an aim for many providers but difficult to achieve. Fortunately, there are many ways to optimise marketing spend and applicant pipelines to increase demand in the short and medium term.

We intend to conduct this survey annually to capture trends and greatly appreciate the support of our respondents. continued participation. Thank you to all the respondents and our partners for your support in creating this report. If you are an education provider and would like any further information in relation to boosting demand for your courses please don't hesitate to contact StepEx.