



# STRONGER

Is it time to consider merging with another school? “Everybody wants to be part of a winning team.”



## THE BOTTOM LINE

- Competition, growth prospects, economies of scale compel more schools to consider merging resources.
- Key ingredients: mission alignment, extensive due diligence, strict confidentiality during discussions.

# TOGETHER

By Leah Thayer

**A**round this time five years ago, thoughts of joining forces with another independent school were far from the mind of Terry Del Prete, the busy director of business and finance at Severn School, in Severna Park, Maryland. But he did have concerns about one school that was a critical piece of the enrollment pipeline at Severn, which had 594 students in grades six through 12.

Just over two miles south was Chesapeake Academy. Since opening in 1980, the preK-5 school had been a reliable feeder for Severn's sixth grade. The two institutions were philosophically aligned and mutually supportive, offering reciprocal tuition discounts for the children of faculty and staff, as well as an early admissions process for CA families considering Severn for the sixth grade. Of the 60 new students entering Severn's sixth grade each year, "we were typically getting 20 from CA," said Del Prete. "Our pipeline depended on a strong CA."

(Background photo) The Willow Grove Campus at Springside Chestnut Hill Academy






Severn School's "Chesapeake Campus" (formerly Chesapeake Academy, above) serves students in preschool through grade 5. The school's "Teel Campus" (photo at bottom) hosts the upper and middle schools.

By the 2011–2012 application season, however, those 20 students had become a challenge, a consequence of enrollment and liquidity challenges at Chesapeake. Leaders at both schools acknowledged there could be benefits in consolidating into what they saw as a more sustainable preK–12 model. After months of confidential discussions and extensive due diligence, the merger into a united Severn School took effect with the 2013–2014 school year, with the lower school on the Severn School "Chesapeake Campus" in


Arnold, and the middle and upper schools on Severn's original campus, renamed the Teel Campus for the school's founder.

More than three years later, virtually all of Severn School's 35 or so fifth-graders typically transition to its sixth grade, well above the 20 that CA used to send and more than enough to help fill a complete class of 65. "I can't imagine any better outcomes," said Del Prete. "Our enrollment is strong and we have waiting lists in many grades. We feel our brand is both broader and stronger, with an improved continual


**SEVERN SCHOOL**




**severnschool.com**  
**838 STUDENTS PREK–12**



Severn School (est. 1914)  
and Chesapeake Academy (est. 1980)



Merger year: 2013



Lower school on the Chesapeake Campus  
(previously Chesapeake Academy),  
middle and upper schools on the Teel  
Campus (previously Severn School)

experience for students from preschool through 12th grade." Staff collegiality is also strong, he added, particularly within the fifth-to-sixth-grade transition. "Everybody wants to be part of a winning team."

The transaction itself wasn't wildly complex; CA's assets and liabilities became Severn's, and a unified rebranding effort was required. But it did necessitate delicate and deliberative handling. Given each school's proud history, distinct culture and small size, "The hardest part was managing change," Del Prete said. "What





Scenes from Springside Chestnut Hill Academy's 62-acre campus. See a "campus flyover" at [go.nboa.org/2jqRMbz](http://go.nboa.org/2jqRMbz).

## MANAGING THE MESSAGE

Very early in any merger considerations, develop a careful and far-reaching communications plan. Stipulate strict confidentiality until anything is official — a code of silence for a select few on a need-to-know basis. People talk in tight-knit school communities, "and you never get a chance to tell your whole story," said Terry Del Prete of Severn School. "All they hear is uh-oh, something must be wrong." Imagine if rumors began to spread and then the entities called the plan off. "It could have a negative impact on enrollment at both schools," to say nothing of staff morale and retention. Premature leaks could be "blood in the water," said consultant Chad Tew. Frank Aloise of Springside Chestnut Hill Academy agrees. "Messaging is probably one of the biggest challenges. At what point do you tell certain people what? You have to put a communication plan in right away, from the very beginning."

is more complex to a transaction like this is the emotional impact of a change and the fear of the unknown."

## SURVIVING ENTITIES

*Mergers and acquisitions:* Conjuring images of hostile Wall Street takeovers, the term seems anathema to independent schools, which take pride in their nurturing and unique cultures and pedagogies. While such transactions are not unheard of within the sector — consider the establishment of Buckingham Brown & Nichols in 1974 and Harvard-Westlake in 1991 — they've been relatively rare and typically conjoined two single-sex schools. The last big independent school "M&A boom," in fact, may predate World War I, when "a lot of boys' military schools and girls' finishing schools came together," according to Chad Tew, a consultant who was chief financial officer at Viewpoint School during the execution of its 1995 merger with Meadow Oaks, a neighboring Los Angeles-area private elementary school.

That long dormancy may be ending. Given economic and demographic pressures, and under the right circumstances, "I feel strongly this industry is right for mergers," said Frank Aloise, who witnessed many of them as a Wall Street investment banker before becoming an independent school business officer in the late '90s. In 2011, he led the merger of Philadelphia's all-girls Springside School (enrollment

655 at the time), with the slightly smaller, all-boys Chestnut Hill Academy across the street. He is now CFO of the consolidated entity, Springside Chestnut Hill Academy, whose website boasts "a combined history of over 300 years of tradition and change" and "the best of both worlds," with a single-sex education for its lower and middle schools and a fully co-ed upper school.

A small but growing number of independent school leaders agree with Aloise. "It's inevitable that with no significant increase in enrollment growth in the last five years, we may see an increased number of mergers so that supply (the number of independent schools) is better aligned with market demand (the number of students and families)," said Jeff Shields, NBOA's president and CEO. Tew also worries about a dangerous imbalance between supply and demand, spurred by growing competition (charters, for-profits, homeschooling, online education), contraction in the youth market and delayed household formation by young adults. Some struggling schools are ripe for consolidation, he said; a few have even been acquired by investors or for-profits.

Merger opportunities may be especially attractive to small schools with burdensome demands on overhead expenses, especially if they're in locations with limited growth prospects. Keeping the doors open "doesn't always make a lot of sense," said Aloise. "There are probably



Left: Hawken School's Early Childhood Center opened in 2011. See a video about Hawken's Stirn Hall (right) at <https://youtu.be/OWQ8V4-E-HY>.

really good ideas where these organizations can really help each other out.”

Perhaps unsurprisingly, it may fall to the business officer to give voice to these realities. “The CFO would be key in a merger,” said Tew. Besides playing a pivotal role in the actual execution, “he or she might bring it to the attention of trustees in a very quiet way, [for instance] ‘I don’t want to sow panic, but this is a possibility we might want to consider.’ Leverage the trust you’ve built.”

## MAKING THE MATCH

One school’s relative strengths and another’s relative weaknesses are common factors in mergers, with the stronger entity typically absorbing the latter’s assets and liabilities (there are also mergers of equals). But other factors may be more consequential over the long term. What makes two parties well-suited to come together successfully, and what is your strategic intent in doing so?

A recent analysis of 25 nonprofit mergers in the Chicago area concluded that for mission-based organizations, “growing their impact . . . should be the goal of all charitable organizations and should provide incentives for boards to explore mergers as a strategic option” (see the Nonprofit Quarterly, January 11: [go.nboa.org/2j7KogY](http://go.nboa.org/2j7KogY)). For the merger of two independent schools, mission alignment is essential for cultural compatibility and greater impact alike. “Schools don’t have to be identical in aspirations or values or history, but there

has to be some commonality in the values,” said Tew.

In the case of Severn School and Chesapeake Academy, “They were about teaching to the whole student, and we were about taking each student to his or her upper end,” said Del Prete. “All the teachers had a vested interest in the kids.” Moreover, due to the reciprocal tuition discounts and geographic proximity, “We felt we knew each other well. It was almost like buying a house from your cousin who’s lived next door forever.”

Springside School and Chestnut Hill Academy had a similarly close relationship. Besides being directly adjacent to one another, a 50-year partnership called the “coordinate program” featured joint classes for upper-school students. “For years and years we had worked together but separately,” said Aloise. “Our board recognized that we could be stronger together.”

Market expansion can certainly be a viable strategic intent. In Cleveland last October, Hawken School, with more than 1,000 students in preschool through 12th grade, announced its merger with Birchwood School, a much smaller preschool-through-eighth school 28 miles to the west. Effective with the announcement, Birchwood students became Birchwood School of Hawken students and gained automatic admission to Hawken’s upper school in Gates Mills.

“Merging with Birchwood gives us access to a new market on the west side

## SPRINGSIDE CHESTNUT HILL ACADEMY (2011)

SPRINGSIDE  
CHESTNUT HILL  
ACADEMY

[sch.org](http://sch.org)

1,052 STUDENTS PREK–12



Springside School (est. 1879, all girls)  
and Chestnut Hill Academy  
(est. 1861, all boys)



Merger year: 2011



Single-sex preK–8 on the Cherokee Campus (previously Springside School); co-ed 9–12 on the Willow Grove Campus (previously Chestnut Hill Academy)

of Cleveland and allows us to partner with two truly talented educators who have built a philosophy and a model that we can learn from,” explained Donna Pacchioni, Hawken’s CFO. As explained in an extensive Q&A on the Hawken website ([hawken.edu/page/birchwood](http://hawken.edu/page/birchwood)), “The addition of Birchwood School also positions Hawken





## ECONOMIES OF SCALE

Operational efficiencies shouldn't be a driving factor in a merger, but they can play a role. Debt refinancing can save schools significantly, for example. When Severn School assumed Chesapeake Academy's \$3.2 million in bond-financed debt, it rolled the amount into Severn's existing bond-financed debt and refinanced at a lower interest rate. As a larger customer, you may be able to negotiate more attractive contract terms for expenses such as housekeeping, landscaping, security, garbage collection and utilities.

While cutting staff should never be a priority (and may not be possible), you might be able to collapse two positions into one in certain areas, such as department heads, division heads and operational directors. A second campus may not merit a second head of school. Likewise with institutional memberships in professional organizations. Aloise estimates that Springside Chestnut Hill has achieved \$1.5 million in administrative savings since the 2011 merger.

All that said, "Assuming a merger will be a financial windfall due to operating synergies is likely to be a bad assumption," said Severn School's Terry Del Prete. "We still have two beautiful campuses to maintain."



to withstand demographic changes and shifts in market demand for independent schools." (In a second phase of this westward expansion, Hawken will develop a separate early childhood center.)

Basically, the merger with Birchwood expanded Hawken's presence across the Cuyahoga River, a symbolic east-west divide in the city of Cleveland. Hawken had always done well on the more established east side, with its older neighborhoods and large homes. "But there's a ton of growth on the near west side," which is popular with young families, "and that's what we want to tap into," Pacchioni said. In the past, Birchwood was a strong feeder for Hawken. It is now an integral and reliable part of the pipeline.

As for the "two truly talented educators who have built a philosophy and a model that we can learn from," she meant Chuck and Helene Debelak, who founded Birchwood School in 1984 and were thinking of its continuity long after their inevitable retirement. "What happens to a school when its founders retire?" asked Pacchioni.

Although a merger might eventually lead to significant operational efficiencies (see sidebar), there will almost certainly be new and increased expenses. Budget for legal work related to the transaction, assumed debt, far greater compensation and benefits costs, and infrastructure improvements on a campus and facilities that may need them badly. Don't forget branding and marketing issues, either — from school buses to signage to logo to website.

Take full stock of finances; due diligence will be a basis for your financial projections. "The board needs to understand the assets and liabilities of the two organizations," said Aloise. Del Prete noted that there were several months of due diligence for both Severn School and Chesapeake Academy prior to the merger decision. "We created a cool little automated portal we called 'the deal room'," he said. Using this password-protected site, each school shared some 1,200 documents, including tax returns, enrollment data, and information about compensation, governance and facilities.

## PREPARING FOR TAKEOFF (AND TURBULENCE)

You've documented the assets and liabilities, crunched the numbers, created the seal, drawn up the papers, mapped out the timeline. Now to notify the community. A successful merger requires bringing together diverse constituencies, with diverse and personal opinions, perspectives, questions and concerns. When the time comes to announce it, whether as a merger or "gentler" term like strategic alliance,

## HAWKEN SCHOOL AND BIRCHWOOD SCHOOL OF HAWKEN



[hawken.edu](http://hawken.edu)

1,260 STUDENTS PRESCHOOL-12



Hawken School (est. 1915) and  
Birchwood School (est. 1984)



Merger year: 2016



Preschool-12 on the Hawken  
Campus, preschool-8 on the  
Birchwood Campus



you'll need a unified message and voice that speak to the benefits of coming together as one school.

In announcing the Hawken-Birchwood merger to the Birchwood community, co-founder Chuck Debelak assured them that their beloved school was not closing. "The school that you have known will essentially remain the same Birchwood tomorrow and into the foreseeable future, only better." Broader Hawken messaging noted that "The merger aims to strengthen the future of both institutions without changing the essential qualities of character of either school. . . . We will become a single entity, with Birchwood operating as a distinct division; its administration, faculty, staff, programming and tuition structure will remain unchanged."

Regardless of how sensitively a school rolls out the news, there will be emotions to manage. There may also be some defections among families and staff who don't want to be part of a larger (or co-ed, or K-12, etc.) school. From concerns over potential

job losses to allegiances to one school's mascot, colors, crest or song, "You name it, there was an issue," said Aloise about the Springside Chestnut Hill merger. "It's a very delicate balance. These are mission-based organizations with passionate people. We've seen that only after five years are more people connecting, saying 'Ah, now I understand.' It takes time to heal wounds."

Severn's leaders didn't underestimate the challenges. "One of the biggest concerns was the emotional toll of change," said Del Prete. "Managing that change was a careful and well thought-out process." Meetings and other communications sought to convey openness and transparency. Families were invited to events focused on the "one school" experience, including a celebration of Severn's 100th year.

To integrate staff and cultures, "We spent a lot of time trying to bring the two campuses together for professional development, full faculty meetings and other brainstorming opportunities," Del Prete noted. Assuaging some worries fell squarely on the business office. "One

concern we heard was the possibility of resources being pulled from our middle and upper school to support the lower school." In response, Severn maintained a separate profit-and-loss statement for the lower school for three years to show it could stand on its own as a "division."

"Are you ever done? No," concluded Del Prete. "But we are always striving to make the relationship better than it was the year before. Some of that involves getting to know each other. And some is just process." **N**



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#### MORE ON NETASSETS.ORG

See this article online at [NetAssets.org](http://NetAssets.org) along with videos from Severn School ("Our Centennial Year") and Springside Chestnut Hill Academy ("Who We Are").

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