New Business Models
Higher Education
Business Model Challenges

• The changing competitive landscape presents a serious challenge for colleges and universities across the country

• Institutions are struggling to match revenues with expenditures, while simultaneously trying to cope with
  • lower net revenue per student,
  • rising costs,
  • evolving consumer behaviors,
  • shifting student demographics

• As a result, institutions are forced to address their business models
  • Institutional willingness and resolve will be greatly tested
Migration of Industries

- Publishing
- Automotive
- Music
- Steel
- Trucking and Logistics
- Telecommunications
- Higher Education?
Situational Assessment of Higher Education
Areas of change over the next five years, 2014-19

Demographic Shift

Key

- States that will have severe overall declines in high school graduates (decreases greater than or equal to 10 percent)
- States that will have a moderate overall decrease in high school graduates (decreases between 3 and 10 percent)
- States that will have a minimal overall change in high school graduates (less than 3 percent change, up or down)
- Students that will have a moderate overall increase in high school graduates (increases between 3 and 10 percent)
- States that will have large overall increases in high school graduates (increases greater than or equal to 10 percent)

Technology Migration

• More than 7.1 million students, 33 percent of total higher education enrollment, have taken at least one online class. [http://chronicle.com/blogs/wiredcampus/exactly-how-many-students-take-online-courses/49455](http://chronicle.com/blogs/wiredcampus/exactly-how-many-students-take-online-courses/49455).
  
  – In 2014, there were 3.4 million college students engaged in fully online programs.

• Technology will play a growing role as part of the delivery methodology.
  
  – Digital delivery, interactive video, mobile learning…
    • Beyond the demographic shift, students are migrating towards technology for convenience.
State Appropriations

- State appropriations have been in decline for 23 states, since the recession of 2007-2008.

- Forty-eight states — all except Alaska and North Dakota — are spending less per student than they did before the recession of 2007-2008 (AK and ND now reducing)

- The average state is spending $2,026, 23 percent, less per student than before the recession. These appropriation cuts have resulted in a 28 percent rise in tuition prices at state institutions across the country.

- Over the past two years, state funding for higher education has started to increase at the rate of 4.1%. 
  [http://www.cbpp.org/research/states-are-still-funding-higher-education-below-pre-recession-levels](http://www.cbpp.org/research/states-are-still-funding-higher-education-below-pre-recession-levels)
Lower Net Tuition per Student

• The average tuition price published at four-year private colleges is $32,405
  – The average freshman discount in 2014 was 54.3%
    • Net tuition revenue of $14,809.
  – Some private colleges have discount rates as high as 65%
    • Net tuition revenue of $11,341.

• The average in-state tuition for public institutions is $9,410
  – Public institutions are now starting to discount or offer out-of-state students, in-state tuition

• Median household income for the United States was $53,657 in 2014 – Discounting pressures will continue
  
http://www.collegedata.com/cs/content/content_payarticle_tmpl.jhtml?articleId=10064
Changing Consumer Behaviors

• Consumers are becoming more judicious with their college selection
  – Price and value are critically important
  – In the eyes of the consumer, student loans are no longer considered “financial aid”

• For consumers, lower cost of education means lower tuition prices
  – Institutions are cutting costs, which is required for survival, but cut costs do not necessarily lower consumer price
Cost Cutting is the Norm

• Across the country, institutions are reshaping their business models starting with cost cutting
  – Consolidation of institutions with a single administration
  – CT proposal, stating that tenured faculty members may be assigned involuntarily to another campus, without the guarantee of continued tenure
  – Faculty layoffs in the absence of financial exigency, including tenure track
  – Deep cost cuts across the board
  – Pay cuts, elimination of 403-b contributions
Alignment of Costs and Revenue

• Cost containment is critical for a successful long-term financial model

• Short-sighted cost cuts can also have negative consequences
  – Across the board cuts, hurt great programs and reward weak programs
  – Good people leave the organization
  – Service diminishes
  – Revenue erodes
Sustainable Business Models

• While cost alignment is an important element in fostering a sustainable business model, revenue growth and diversification are critical factors.

• Growing and diversifying revenue is usually more difficult than reducing expenses, but it is critically important element in developing a sustainable and prosperous institution.
Campus Based Model

- Market demand for campus based delivery is shrinking
  - Negative trends working against the campus base delivery model
    - Geographic shifts
    - Consumer behaviors – cost issues
    - Technology – convenient and lower cost
    - New alternatives becoming available for traditional students – certificates, badges, corporate training
  - These trends are reducing the available market for traditional students
    - In five years will those trends reverse?
Creativity and Innovation

The greater the financial challenge, the higher the need will be to rely upon creativity and innovation in forging a sustainable business model and reaching prosperity.
High Innovation and Creativity Requirements

<table>
<thead>
<tr>
<th>High</th>
<th>Low</th>
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</thead>
<tbody>
<tr>
<td><strong>Innovation and Creativity Requirement</strong></td>
<td><strong>Financial Challenge</strong></td>
</tr>
<tr>
<td>High</td>
<td>Revenue diversification; new programs; blended delivery; service, speed, statistics; macro-trend revenue; productivity; lowering costs</td>
</tr>
<tr>
<td>Low</td>
<td>Make slight operating adjustments</td>
</tr>
<tr>
<td>Low</td>
<td>Cost cutting (traditional approach) is not enough to create a long-term sustainable business model</td>
</tr>
<tr>
<td>High</td>
<td>Low</td>
</tr>
</tbody>
</table>

Strengthen competitive position; market-share gains; leverage strengths; new revenue sources
Quantifying Financial Challenges

• As part of a diagnostics review, institutions must quantify their situation

  – Financial Gaps
    • Existing gap in financial performance due to service, debt, and fund depreciation
    • Cash flow or losses from operations

  – Operational Gaps
    • Student services and support
    • Academic support
    • Marketing and student acquisition
    • Program development (R&D)
    • People – salaries

  – Infrastructure Gaps
    • Deferred maintenance – funding depreciation
    • Technology requirements
    • Facility needs
Exploration

Macro Trends Shaping Higher Education
The Exploration Process

• The exploration process fosters creativity and innovation to develop alternative strategies for a sustainable business model

• As part of the exploration process, institutions are encouraged to “find themselves” within the macro trends

• Alignment of the macro trends with institutional strength, mission, and needs (quantified in the discovery process) sets the vision for prosperity
Macro Trends
Setting Context

MACRO TRENDS SHAPING HIGHER EDUCATION
UNBUNDLING THE DEGREE
TRANSFER STUDENTS
EXPLOSION OF LOW COST ACADEMIC CONTENT
IBM CEO STUDY ON SKILLSETS
ASSOCIATION OF AMERICAN COLLEGES AND UNIVERSITIES
EXPECTATION GAPS
NEW ENTRANTS
JOB RELATED CURRICULUM
SPEED, SERVICE AND STATISTICS
Unbundling and Transfer Students

Unbundling the Degree

The trend of unbundling classes and credits from the institution’s core has already begun

- Similar to purchasing individual songs (94%) vs. albums (6%)
- Allows students to obtain college credits from many sources; the world will become the classroom
- There is an explosion of education content, allowing students to more easily obtain credits for transfer towards their degree

Transfer Students – 75%

75% of students will attend two or more colleges prior to graduation

- Students Attending One College
- Students Attending Two or More Colleges
There is an explosion of widely available, quality general education content – at low prices

Freedom to develop a college level course – unattached from the institution

With sufficient quality and learning outcomes, classes can be certified by the American Council on Education (ACE)

ACE certification allows credits to transfer to most colleges across the country

Unbundling of academic content will continue at a rapid pace
Transfer Students

• Transfer students represent a major opportunity for growth and diversification

• Requires speed and service to maximize competitiveness

• Many old paradigms around serving and processing transfer students (tactical)

• Transfer student entry class should be as large as your freshman class – great diversification opportunity
Comparing Market Segments

• The available market for adult degree completion is larger than the traditional high school segment.

  • 40 million adults with college credit and no degree
    • National market
    • Necessitates speed and service

  • 3.3 million high school students graduating annually
    • Local and regional market
    • Demographic shift
    • Changing consumer buying habits
Expectation Gap

STUDENTS

PARENTS

EMPLOYERS

COLLEGES
Liberal Arts Brand Gap

• Perception that liberal arts does not prepare students for a job

• Today, the brand – Liberal Arts is not synonymous with jobs and careers

• Liberal arts will help prepare you for a job that does not exist, in an industry that has yet to be invented

• Liberal arts will keep you on the inside of a job and career because of your ability to think, collaborate, solve complex problems
Expectation Gap

What External Constituents are Saying

Forbes on Education
“No field operates more inefficiently than education. A new breed of disruptors is finally going to fix it.”

1,500 CEO’s on Education
“#1 CEO challenge is hyper-complexity. Higher Ed is not equipping graduates with the right mindset or skills.”

McKinsey on Education
“Students don’t believe traditional education drives job skills. Bottom line. Skills matter. Hard to get them.”
Top Ten Global Skills Needed

Collaborative: 75%
Communicative: 67%
Creative: 61%
Flexible: 61%
Systems Thinking: 54%
Critical Thinking: 50%
Technology-savvy: 41%
Globally-oriented: 41%
Customer-oriented: 25%
Disruptive: 16%
Given the abundance of liberal arts institutions, why do many industry leaders and other employers continue to complain about a “skills gap”?

## Top 10 skills

<table>
<thead>
<tr>
<th>in 2020</th>
<th>in 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Complex Problem Solving</td>
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</tr>
<tr>
<td>2. Critical Thinking</td>
<td>2. Coordinating with Others</td>
</tr>
<tr>
<td>3. Creativity</td>
<td>3. People Management</td>
</tr>
<tr>
<td>4. People Management</td>
<td>4. Critical Thinking</td>
</tr>
<tr>
<td>5. Coordinating with Others</td>
<td>5. Negotiation</td>
</tr>
<tr>
<td>6. Emotional Intelligence</td>
<td>6. Quality Control</td>
</tr>
<tr>
<td>7. Judgment and Decision Making</td>
<td>7. Service Orientation</td>
</tr>
</tbody>
</table>
The Association of American Colleges and Universities (AACU) asked groups of employers and college students a series of similar questions about career preparation.

Job Related Curriculum

3-D PRINTING

JOB BOOT CAMP

SOFTWARE CODING

CREDENTIALS

CERTIFICATES
Student Expectations

• Jobs - Why students attend college
  o Consumers are trending towards certifications and credentials as a means towards job creation
    o Bypassing college to focus on jobs
    o Reduces the available student market

• Cost - Student debt is now at the consciousness level of consumers
  o $1.6 trillion of student debt
  o Average debt $29,400 (requires $440 per month of gross income over ten years)
Job Boot Camps

Koru and Fulbridge offer college seniors and recent college graduates accelerated job preparation boot camps.

Boot camps usually last four to six weeks.

Tuition ranges from $2,500 per module (up to $4,000) or a flat rate of $6,000 to $9,000 per student.

Sample program curriculum

- Workplace Communication Skills
- Project & Time Management
- Professional Development & Leadership Skills
- Design Thinking and Iteration
- Program Management
- Excel, PowerPoint, Web-based Collaboration Tools
- Customer Service, Sales, and Marketing
Xavier University has opened a MakerBot Innovation Center on its campus. The University has become the first private institution in the US and the first university in the Midwest to take part in this initiative.

The center is established with an aim to enlighten the students and faculty on generating prototypes, small-scale creative and manufacturing projects, and model making processes. The program allows space for networking and start-ups, attracting researchers, innovators, and other local entrepreneurs.
Software Programming

• There is a growing demand in the job market for software programmers and subsequent potential to combine a campus-based tutorial program with an online programming curriculum.

• Coding boot camps have proliferated over the past few years. They offer a rapid, relatively inexpensive path to a career change into the software development. In a matter of weeks, a successful graduate can entertain programming job offers with high salaries (five- or even six-figure). When aligned with a liberal arts degree, the concept could be powerful.
Coding Boot Camps
Concordia University – Saint Paul

- 41 Liberal Arts Majors
- 1,421 Traditional Undergraduate Students
- 1,146 Adult Undergraduate and Continuing Studies
- 1,624 Graduate Students
Concordia Coding Bootcamp
St. Paul

This bootcamp is a product of a partnership between Concordia University – Saint Paul, the Software Craftsmanship Guild and The Learning House. Students of Concordia can now take a slightly modified version of the Software Craftsmanship Guild’s program as part of their education. The program is also available for those who are not enrolled at the university.

<table>
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<tr>
<th>Format</th>
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<tbody>
<tr>
<td>Cost</td>
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<tr>
<td>Required Experience</td>
<td>No programming experience required</td>
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<tr>
<td>Languages</td>
<td>Java, C#, .NET, ASP.NET, SQL, HTML/CSS, JavaScript, jQuery, AngularJS, Bootstrap, Git, Visual Studio</td>
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<tr>
<td>Course Length</td>
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<td>Hours/Week</td>
<td>40+</td>
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<tr>
<td>Sessions/Year</td>
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<tr>
<td>Application Process</td>
<td>Standard application + Interview + Programming assessment</td>
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<tr>
<td>Job Assistance</td>
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<tr>
<td>Tuition Reimbursement</td>
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<td>Description</td>
<td>.NET coding bootcamp</td>
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<tr>
<td>Contact</td>
<td><a href="mailto:bootcamp@csp.edu">bootcamp@csp.edu</a></td>
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</tbody>
</table>
Other New Developments

NEW ENTRANTS AND EXPECTATIONS

ONLINE PROGRAMMING

SPEED, SERVICE AND STATISTICS
New Entrants and Expectations

Innovation is taking place outside of the walls of our campuses.

Students, parents, and employers are starting to consider alternative approaches to degree completion that address both cost and job preparation issues.

Minerva Schools - San Francisco, CA
- World class degree – Raised $100 Million
- To compete against most elite institutions

New College of the Humanities - London, UK
- Oxford and Cambridge faculty
- Business and Liberal arts
- Plans to enter the USA market

MOOCS – Massive Open Online Courses – Accreditation

StraighterLine, Baltimore, MD
- Has served 15,000 students with alternative blended content
  American Honors College – Washington DC
- Transfer program; serves 5,000 students

Flat World Education – Competency based digital content
Echo 360 – Active Learning Technology
Promethean – Interactive video learning platform
Koru – Job Boot Camp – Seattle, WA
Fullbridge Program – Job Boot Camp – Boston, MA

Competency Based Programs (Partnership Opportunities)
A decade ago, the concept of online learning was new to higher education. Today, more than 1,000 colleges have some form of online programming.

Why do some institutions flourish with online programming, while others flounder? And what of the third group, that sits on the sidelines?
ADULT AND TRANSFER STUDENTS

Requires speed, service, and convenience

- Processing speed measured in seconds, minutes, hours, days

Multiple enrollment start times

- Instant start times

Colleges that rely upon a traditional selling rhythm are able to get “some students”

Institutions that have separate selling methodologies take the vast majority of market share and have significant growth

HIGH SCHOOL MATRICULATION

Single entry point for recent high school graduates

- Establishes a rhythm that is slow and predictable
  - Days, weeks, months, years
  - Travel season, campus visits, acceptances, FAFSA, financial packaging, deposits

Slower rhythm compared to requirements of adult and transfer students
Financial Packaging

• Widespread change in financial packaging is headed to higher education
  • Institutions that are not proactive will lose market share
  • New FASFA policy – 2015 taxes for 2017 matriculation – start packaging students in September of 2016

• New financial aid questionnaires allow the use of statistics to determine the financial package
  • Institutions providing firm financial packages (not estimates) without FAFSA will improve service
- New FAFSA change will allow faster packaging – window of opportunity to take market from institutions that do not become proactive.
Summary – Situational Assessment of Higher education

- Demographic shift
- Technology migration
- State appropriations
- Lower net tuition revenue per student
- Changing consumer cost behaviors
- Cost cutting
- Revenue and cost alignment challenges
Summary of Macro Trends

- Adult students
- Digital delivery
- Transfer students
- Certificates and job related curriculum
- Hispanic market
- Speed and service for student acquisition
- Financial packaging
- Shrinking demand for campus based delivery
- Deflationary net tuition trends; more pricing pressures
- Big institutions will get even bigger
- New entrants
- Brand perception pressure on L.A.
Focus on Prosperity

- Situational assessment for your own institution (Diagnostics)
  - Which includes the quantification of need
  - Collaboration and consensus on the diagnostic assessment

- Macro trends shaping higher education (Exploration)
  - Alignment of mission and strengths
  - Creativity and innovation will be required, along with institutional resolve

- Develop tactical execution plans (Implementation)
  - Key assumptions, leadership accountability, required measurement metrics, financial modeling, risks, investments, milestones, and timelines
AGB Institutional Strategies

• AGB Institutional Strategies helps institutions focus on prosperity in a time of uncertainty

• Higher education is our only business

• A proven, collaborative approach that includes:
  o Discovery
  o Exploration
  o Implementation
Thank You