



## **The Promise and Perils of Innovation**

---

*Competitive Challenges to the Traditional Higher Education Model*

# University Business Executive Roundtable

## Project Director

David Attis

## Consultant

Colin Koproske

## Executive Director

Chris Miller

## Design Consultant

Joy Drakes

### LEGAL CAVEAT

The Advisory Board Company has made efforts to verify the accuracy of the information it provides to members. This report relies on data obtained from many sources, however, and The Advisory Board Company cannot guarantee the accuracy of the information provided or any analysis based thereon. In addition, The Advisory Board Company is not in the business of giving legal, medical, accounting, or other professional advice, and its reports should not be construed as professional advice. In particular, members should not rely on any legal commentary in this report as a basis for action, or assume that any tactics described herein would be permitted by applicable law or appropriate for a given member's situation. Members are advised to consult with appropriate professionals concerning legal, medical, tax, or accounting issues, before implementing any of these tactics. Neither The Advisory Board Company nor its officers, directors, trustees, employees and agents shall be liable for any claims, liabilities, or expenses relating to (a) any errors or omissions in this report, whether caused by The Advisory Board Company or any of its employees or agents, or sources or other third parties, (b) any recommendation or graded ranking by The Advisory Board Company, or (c) failure of member and its employees and agents to abide by the terms set forth herein.

The Advisory Board is a registered trademark of The Advisory Board Company in the United States and other countries. Members are not permitted to use this trademark, or any other Advisory Board trademark, product name, service name, trade name and logo, without the prior written consent of The Advisory Board Company. All other trademarks, product names, service names, trade names, and logos used within these pages are the property of their respective holders. Use of other company trademarks, product names, service names, trade names and logos or images of the same does not necessarily constitute (a) an endorsement by such company of The Advisory Board Company and its products and services, or (b) an endorsement of the company or its products or services by The Advisory Board Company. The Advisory Board Company is not affiliated with any such company.

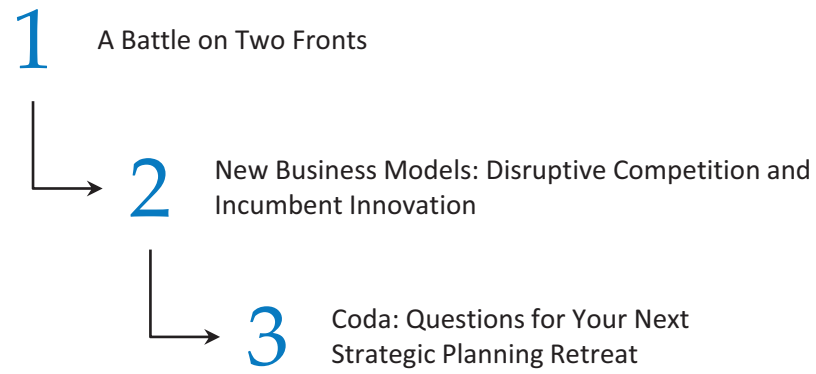
### IMPORTANT: Please read the following.

The Advisory Board Company has prepared this report for the exclusive use of its members. Each member acknowledges and agrees that this report and the information contained herein (collectively, the "Report") are confidential and proprietary to The Advisory Board Company. By accepting delivery of this Report, each member agrees to abide by the terms as stated herein, including the following:

1. The Advisory Board Company owns all right, title and interest in and to this Report. Except as stated herein, no right, license, permission or interest of any kind in this Report is intended to be given, transferred to or acquired by a member. Each member is authorized to use this Report only to the extent expressly authorized herein.
2. Each member shall not sell, license or republish this Report. Each member shall not disseminate or permit the use of, and shall take reasonable precautions to prevent such dissemination or use of, this Report by (a) any of its employees and agents (except as stated below), or (b) any third party.
3. Each member may make this Report available solely to those of its employees and agents who (a) are registered for the workshop or membership program of which this Report is a part, (b) require access to this Report in order to learn from the information described herein, and (c) agree not to disclose this Report to other employees or agents or any third party. Each member shall use, and shall ensure that its employees and agents use, this Report for its internal use only. Each member may make a limited number of copies, solely as adequate for use by its employees and agents in accordance with the terms herein.
4. Each member shall not remove from this Report any confidential markings, copyright notices and other similar indicia herein.
5. Each member is responsible for any breach of its obligations as stated herein by any of its employees or agents.
6. If a member is unwilling to abide by any of the foregoing obligations, then such member shall promptly return this Report and all copies thereof to The Advisory Board Company.

---

## Road Map for Discussion

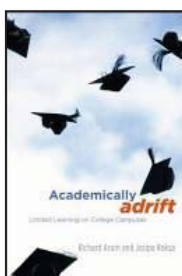
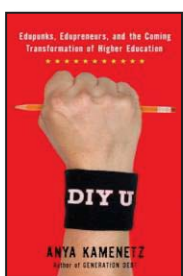
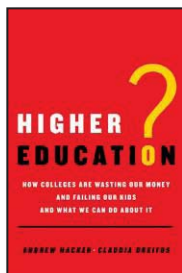
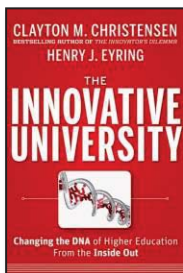


*Notes:*

## Disruption Fatigue

*Who Knew That Innovation Could Sound So Familiar?*

### Required Reading at Board Meetings and Planning Retreats

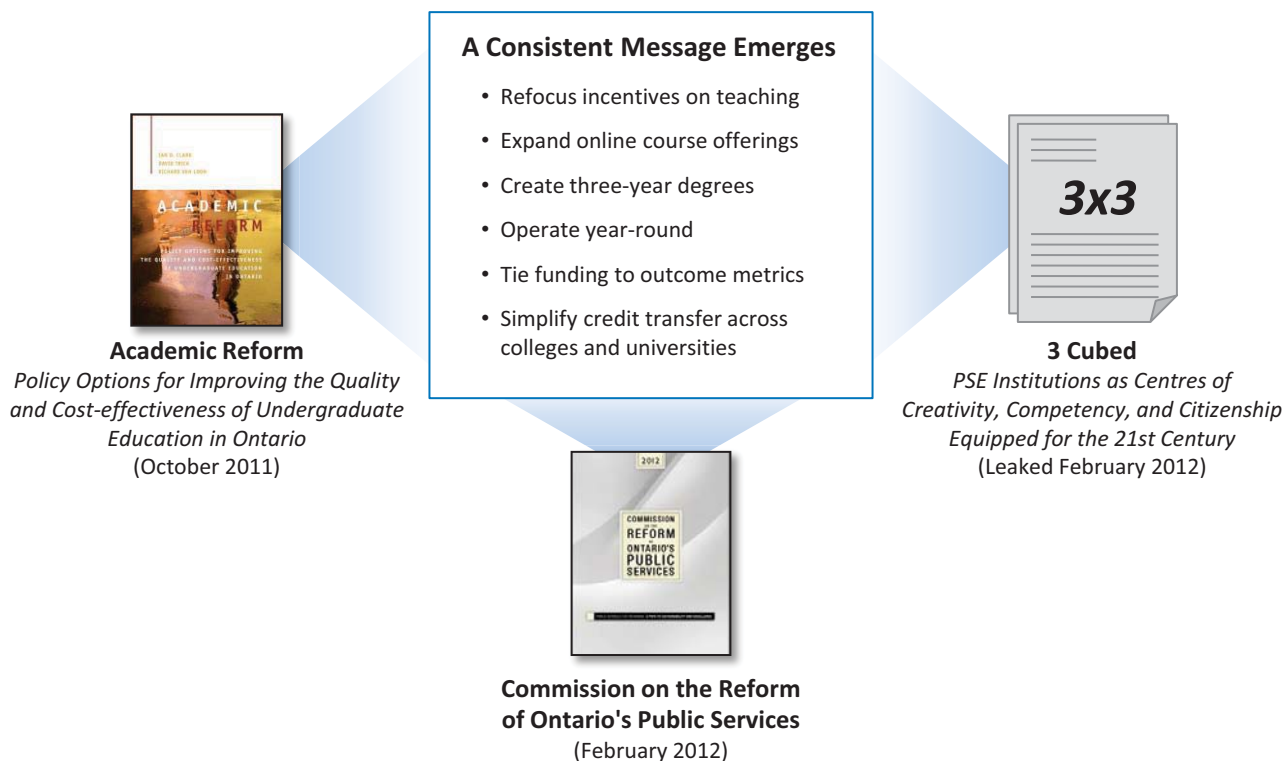


### The Conventional Litany of the Broken University Business Model

- Uncontrolled cost increases
- Graduates lack critical skills
- Resistance to pedagogical innovation
- Irrelevant scholarship
- Tenure protects faculty from accountability
- Undergraduates forced to subsidize faculty research
- Traditional universities captive to the prestige arms race—real change will come from radical, low cost models

## “The Status Quo Is Unsustainable”

*The Case for Government-Led Reform in Ontario*



## The Incumbent's Dilemma

*Certain Downside, Speculative Upside for Exiting Prestige Arms Race*



**Clayton Christensen in a Nutshell:**  
**"Be More Like BYU Idaho"**

- ⊘ End tenure
- ⊘ Dismantle departments
- ⊘ Refocus research on pedagogy
- ⊘ Switch to fully online degrees
- ⊘ Enroll the marginally qualified
- ⊘ Reduce number of programs
- ⊘ Scale back merit-based aid
- ⊘ Cut back big-time sports

### I'm Certainly Not Going First

"I understand that as an organization we could be a lot more efficient. But if I tried to make some of the changes that are being recommended, the accreditors would be all over me, I'd have a faculty revolt, and pretty quickly, I'd be out of a job."

*Provost  
Public Research University*

## Not In Our League

*Startups Hardly Look Like a Threat to Established Universities*



- Peer-to-peer learning
- Unaccredited
- Non-profit, tuition-free
- 1,300 students



- Pay-by-the-course Gen Ed
- Unaccredited
- For-profit
- \$99/month plus \$39/course
- 38 entry-level college courses



- Free video micro-lectures
- Unaccredited
- Non-profit, tuition-free
- 3,000+ lectures available

## The Enduring Power of Reputation

*"Flight to Quality" Increases the Returns to Prestige*

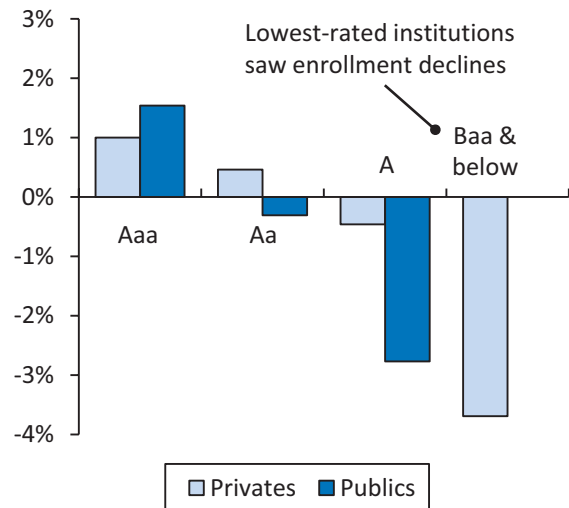
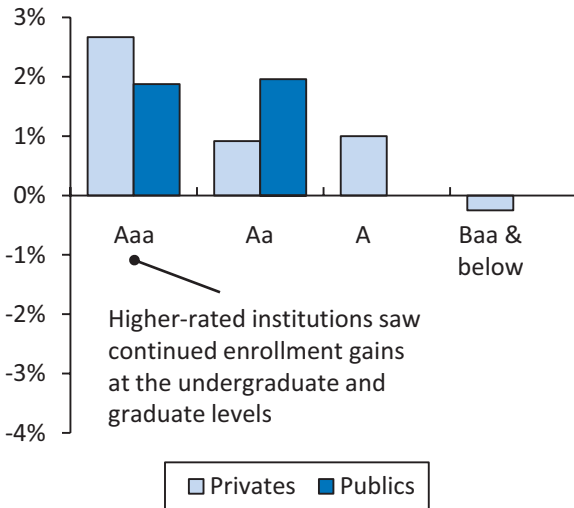
### Higher-Rated Institutions Saw Undergraduate FTE Growth



### Lower-Rated Institutions Saw Declines in Graduate FTEs

Median Percent Change in Undergraduate FTE, Fall 2010 to Fall 2011

Median Percent Change in Graduate FTE, Fall 2010 to Fall 2011



## Opening the Floodgates

### Sebastian Thrun's Massive Open Online Course (MOOC) Goes Viral

#### Two Fashionable Brands

#### One Hot Global Topic

#### Truly Amazing Uptake

Celebrity Faculty

Dr. Sebastian Thrun  
Stanford Professor

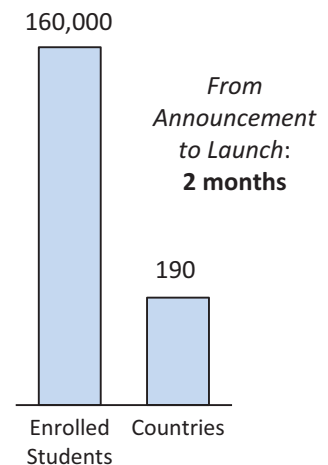
+ Cutting-Edge Corporation



INTRODUCTION TO Artificial Intelligence

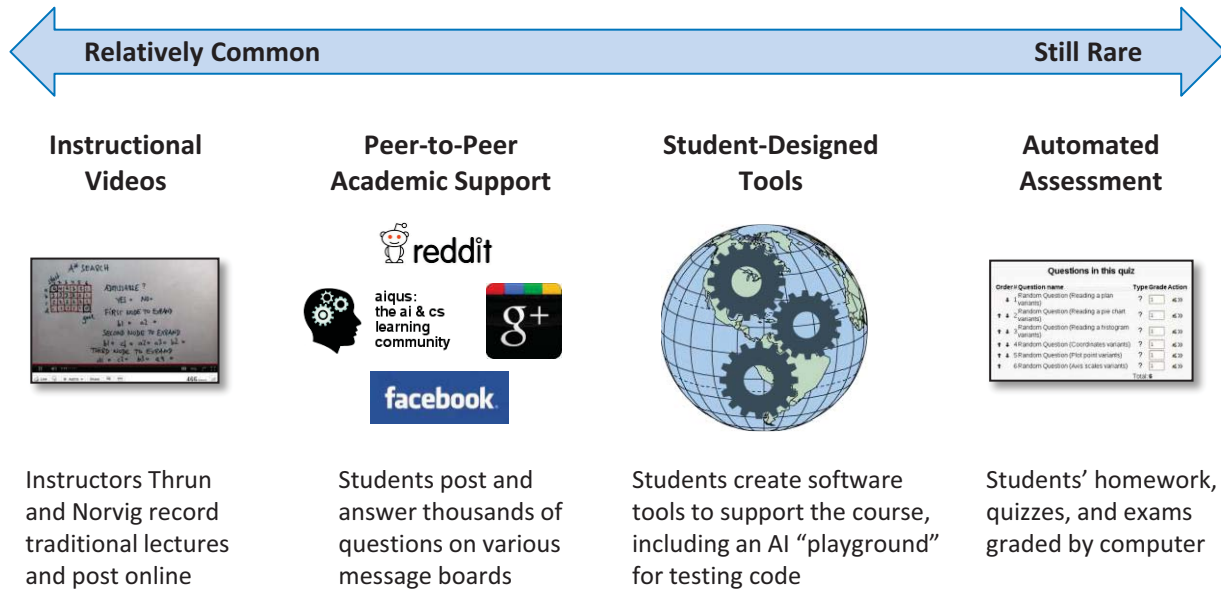
Topics Covered

- Knowledge Representation
- Inference
- Machine Learning
- Planning and Game playing
- Information Retrieval
- Computer Vision
- Robotics



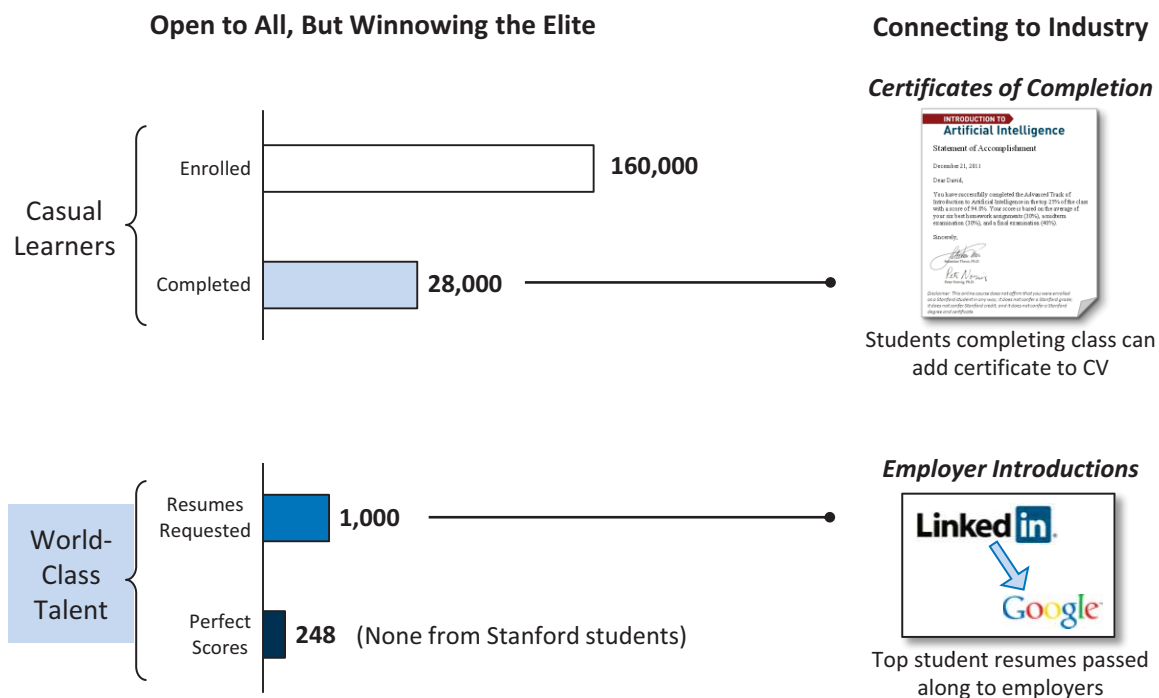
# A Seminar at Scale

## New Teaching Technologies and Social Models Essential to Course Design



# Parting Ways Over Assessment

## Thrun and Stanford Differ Over Credentialing



## A Venture Capital-Backed Start Up

*Your Revenue Model Is Dr. Thrun's Loss Leader*



### A MOOC Incubator

- Private company founded by Dr. Thrun and funded by Charles River Associates
- Infrastructure, instructional design and business services for global MOOC courses
- Six computer science courses now available, eight more by end of 2013
- Taught by prominent faculty on leave from prestigious traditional universities

### An Inverted Revenue Model

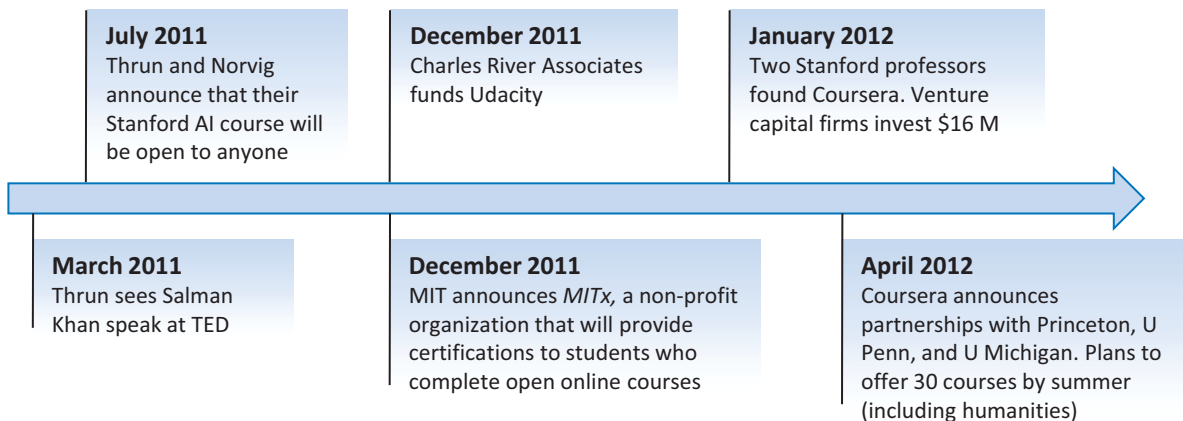
- Courses are free
- Assessment and certificates are free
- Revenue comes from value-added services to students and employers:
  - Premium Tutoring
  - Market Research Data
  - Lead Generation

### Imagining a Multi-Million Dollar Human Capital Search Opportunity

$$1,000 \text{ Students} \times \$100,000 \text{ AI Starting Salary} \times 10\text{-}30\% \text{ Recruiter Commission} = \$10\text{M-}\$30\text{M}$$

## A Tipping Point?

### *Five Elite Universities Join the MOOC Movement in Less Than a Year*



### No Going Back for Thrun

"Having done this, I can't teach at Stanford again. It's impossible. There's a red pill and a blue pill and you can take the blue pill and go back to your classroom and lecture your 20 students. But I've taken the red pill and seen Wonderland."

*Sebastian Thrun*

### ...Or For Higher Education?

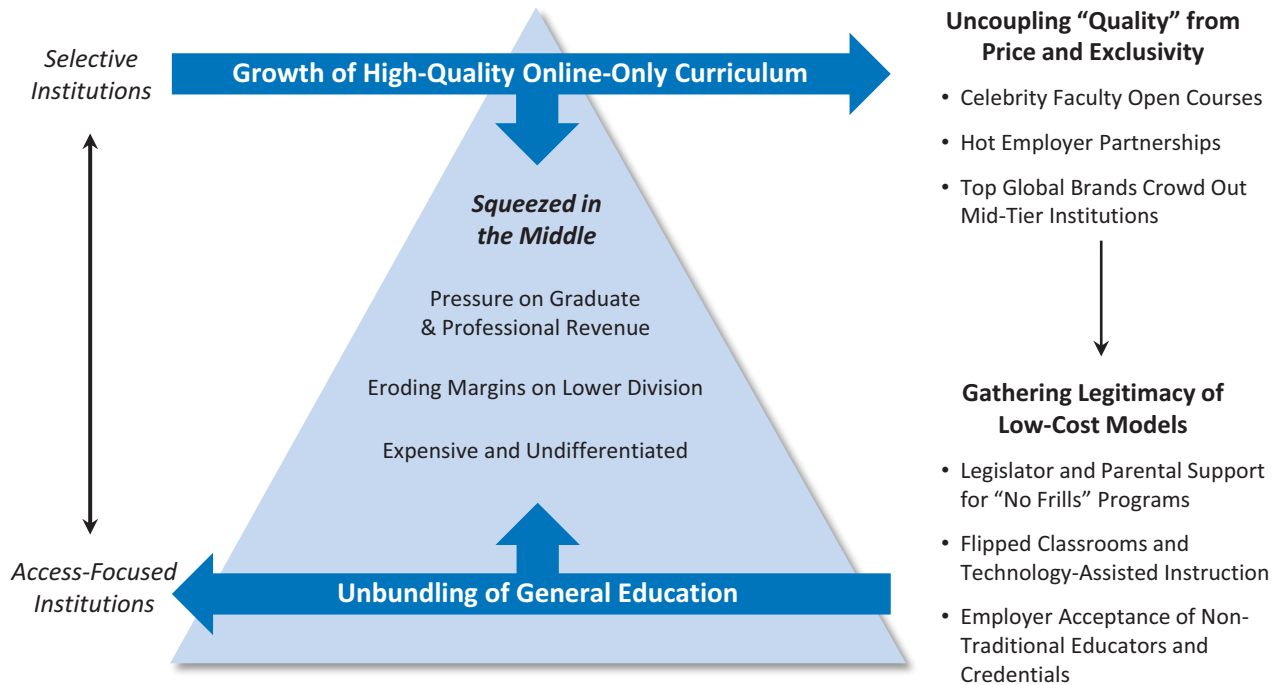
"In 50 years, there will be only 10 institutions in the world delivering higher education and Udacity has a shot at being one of them."

*Sebastian Thrun*



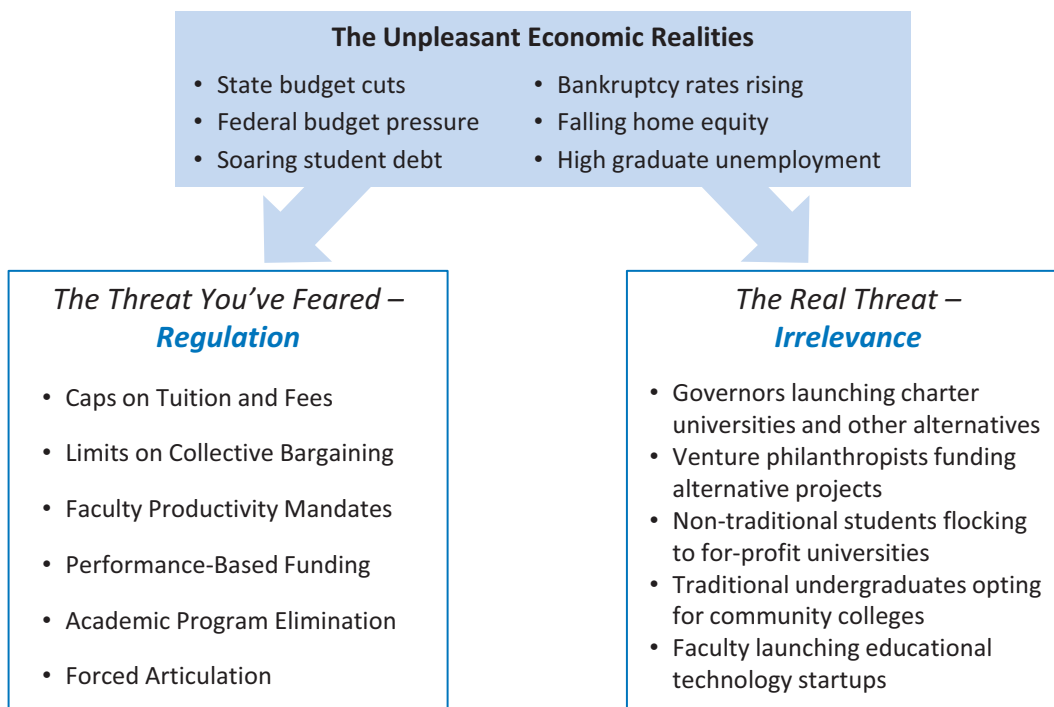
## Disruption from Above, Then Below

*New Models Will Threaten Incumbents from Both Ends of the Spectrum*



## The Burning Platform

*Economic Conditions Accelerating the Rise of Alternatives*



# Disruptive Competition and Incumbent Innovation

## *Pressures on the Traditional Higher Education Business Model*

### **Traditionalists Believe...**

### **But Innovators Show...**

*Quality means small courses with tenured faculty*

**1 Quality at Scale**

*Academic rigor is possible in large-scale settings*

*Students need face-to-face interaction on campus*

**2 Community Over Content**

*Students can self-organize online given proper tools*

*We should not treat students like customers*

**3 Reaching Underserved Student Markets**

*Huge demand exists outside of traditional market*

*Students must complete four full years of credit on campus*

**4 Unbundled Credentials**

*There are many paths to a degree*

*Degrees represent mastery of a discipline*

**5 Integrating Academic and Career Preparation**

*Degrees can represent employer-relevant competencies*

*Curiosity-driven disciplinary research is most fruitful*

**6 Problem-Focused Research**

*Grand challenges can only be solved by multidisciplinary collaboration*

© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

Neither Cassandra Nor Pangloss

20



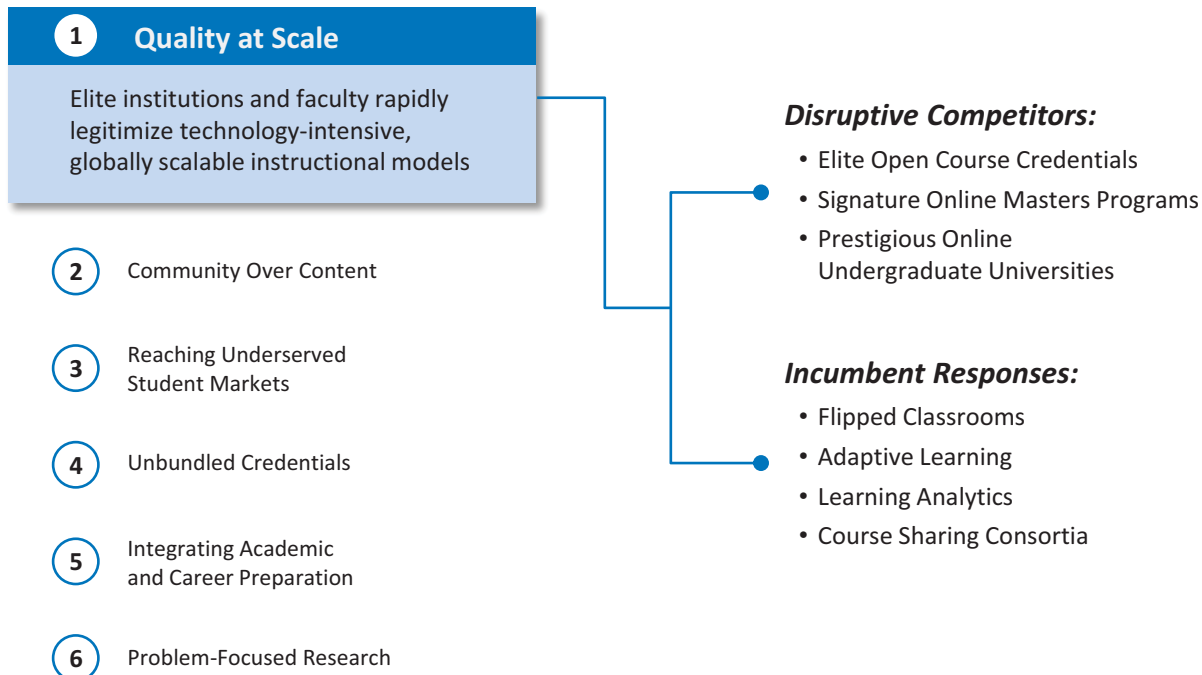
## How We Hope This Research Focuses Your Institutional Planning

- Frame competitive concerns of presidents, provosts, and deans
- Explain strategies and business models of disruptive competitors
- Spotlight innovative attempts to “self-disrupt” at incumbent institutions
- Provide diagnostic questions to evaluate the rate-of-approach and impact of competitive threats to your institution

© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

# How Will Disruption Manifest?

## Pressures on the Traditional Higher Education Business Model



© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

Quality at Scale

22

## Using “Prestige” and “Online” in the Same Sentence

### New Instructional Models Legitimized by Elite Providers

#### Opening Top-Brand Courses

**MITx**

- Expanding on (and separate from) MIT OpenCourseWare, which reached 100 million people
- Launched first open course March 5<sup>th</sup> – *Circuits and Electronics*
- Over 120,000 registered worldwide
- Successful students can attain an MITx certificate for a “modest fee”



L. Rafael Reif

#### Large-Scale Elite Programs

**2tor**

- Established 2008 by founder of Princeton Review
- Exclusive partnerships with premier graduate programs (USC MAT, Georgetown Nursing, UNC-Chapel Hill MBA, MPA)
- Provides start-up capital and expertise for cutting-edge online pedagogy and marketing



John Katzman

#### Still Room at the Top

**Minerva University**

- Pursuing the “untapped international market for an elite liberal arts education”
- Board includes Larry Summers, Bob Kerrey, and former Carnegie Foundation President
- “Probably 250k English-speaking elite students worldwide who can’t go to Harvard; if we get 1% of that market we’ll be self-sustaining”

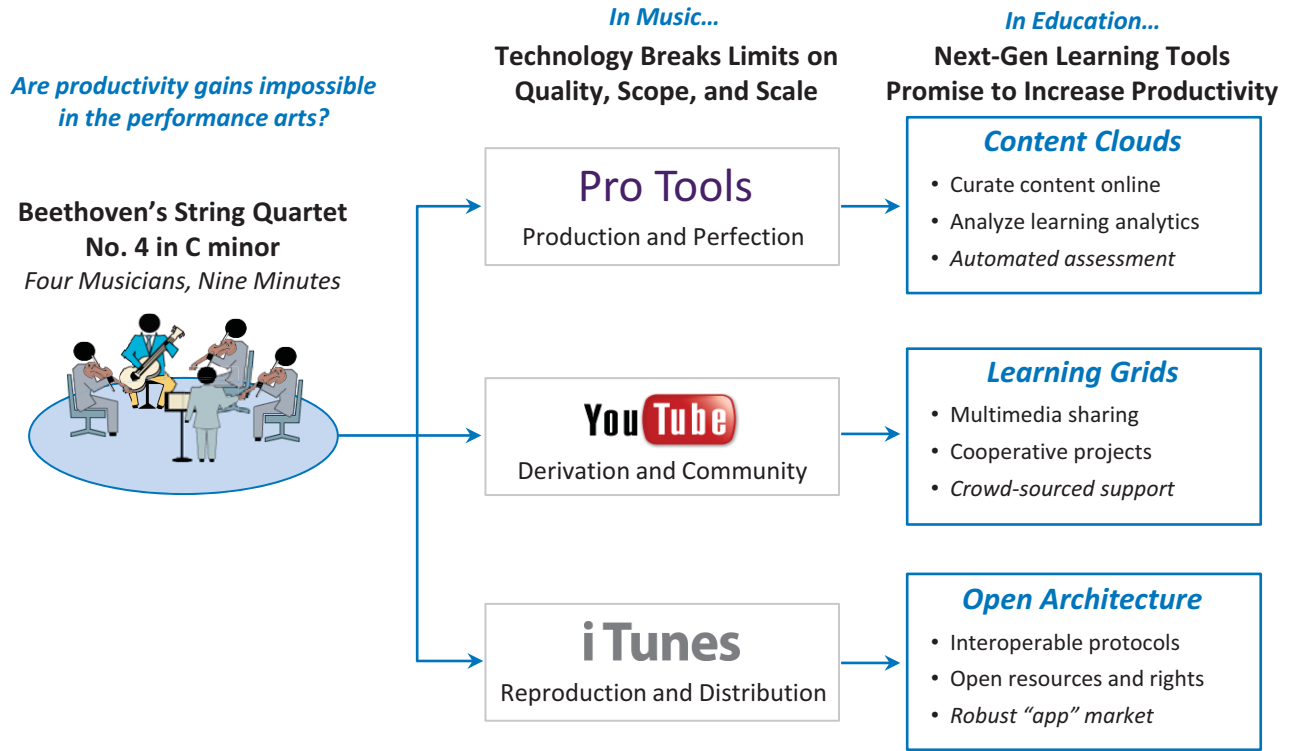


Larry Summers

© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

# A Cure for Baumol's Cost Disease

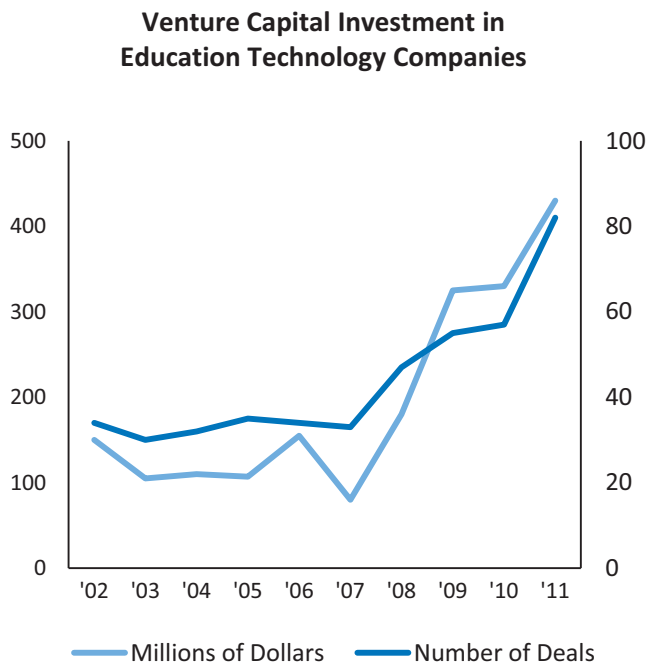
*"Live Performance" Economics Ignore Scaling Effects of Technology*



© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

# The Ed Tech Boom

*Growing Acceptance of E-Learning Spurs Increasingly Crowded Market*



**New Startups Aim to Transform Every Facet of Learning**

 <b>SAGrader</b> Automated Grading	 <b>2tor</b> Online Learning Platforms
 <b>KNEWTON</b> Adaptive Learning Platform™ Adaptive Learning	 <b>Coursekit</b> Learning Management Systems
 <b>PERSISTENCE + PLUS</b> Student Advising	 <b>flatworld KNOWLEDGE</b> Digital Textbooks

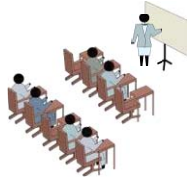
© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

Source: National Venture Capital Association, Thomson Reuters.

# Flipping the Classroom

## Blended Alternatives Replacing Face-to-Face Lecture Model

### Traditional Lecture



#### Classroom Lecture

- 1-2 hours of prepared remarks by faculty
- Students transcribe presented information
- Little time for discussion or engagement
- Impossible to review or repeat presentation

### The “Flipped” Course



#### Recorded Lecture

- Shorter “mini-lessons” mirror TED Talks / YouTube
- Students can pause, repeat, and view indefinitely
- Aids both preparation for class and review for tests
- Expands faculty reach beyond classroom walls

#### OpenClass



#### Online Learning Platform

- One-stop portal for all course-related materials
- Enables online discussion of content
- Breaks traditional limits of physical classroom
- Tracks student activity and engagement



#### Interactive Lab Sessions

- Opportunity for questions, discussion, group work
- Break-out sessions broaden participation
- Multiplies “face time” with faculty and TAs
- Project-based learning encourages collaboration

# Few Excuses Left

## Course Redesign Gaining Traction Across Institutional Types and Disciplines

“I always thought I was a pretty good lecturer, but ... I had come to a realization that even my most successful students weren’t retaining a lot of the material I’d covered from one course to the next.”

*Elizabeth Alexander*  
Texas Wesleyan History Professor



### Physics

- Clickers and frequent feedback opportunities keep students on track
- Students grouped based on answers to questions

### BYU

BRIGHAM YOUNG UNIVERSITY

### English

- From 3 hours to 1 hour in class per week
- Additional time spent in one-on-one sessions, peer tutoring, and multimedia lessons



### History

- Historical Methods class won “Radically Flexible Classroom” award
- Movable furniture and tech-enabled classrooms facilitate group work



### Math

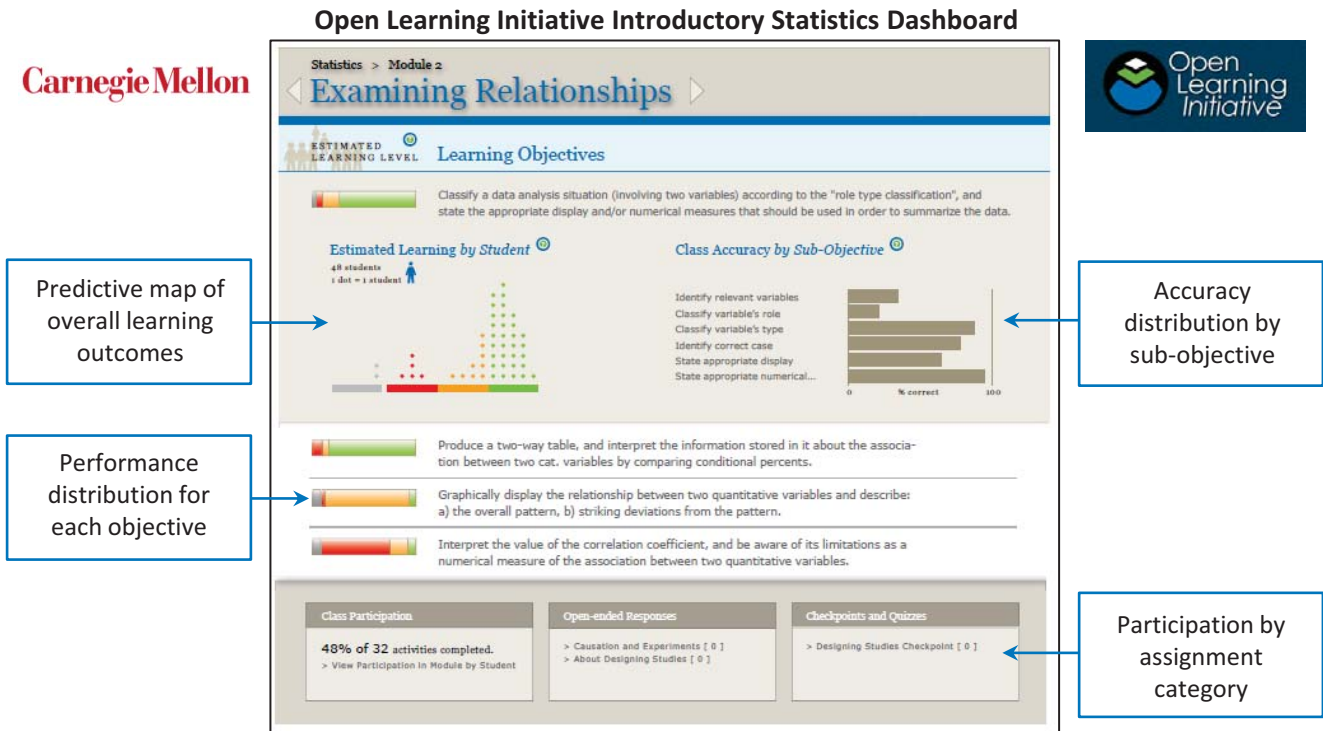
- Emporium model – 1 hr in class, 2 hrs in large computer lab
- Significantly improved completion and retention rates
- 19% instructional cost savings

“Do our students actually *learn* during class, or do they simply feverishly scribble down everything we say, hoping somehow to understand the material later?”

*Eric Mazur*  
Harvard Physics Professor

# “Money Ball” for Education

*Instructor Dashboards Provide Real-Time Outcome Data, Predictive Analytics*



# Course Redesign Transforming Commodity Courses

*Breaking the Cost/Capacity Curve With Self-Paced Learning*

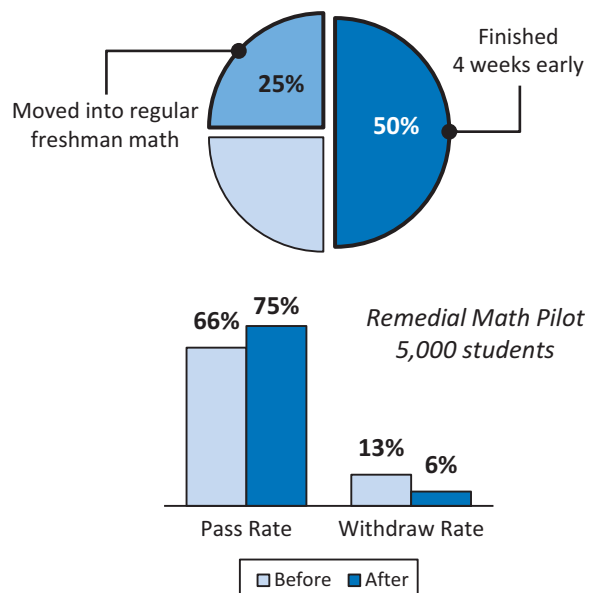
**Adaptive Software Promotes Engagement and Provides Analytics**



**Dramatic Improvement in Remediation Results**



- Activity-Based Learning**  
Short, engaging, "real world" problems to solve
- Achievement Points**  
Uses game-like badge system to track progress and motivate students
- Automated Assessment**  
Built in to activities and diagnostic exams, which adapt to performance
- Performance Dashboards**  
Instructors focus face time on biggest stumbling blocks



# Course-Sharing Consortia

*Comprehensiveness Achieved by Combining Offerings Online*

## Lowering the Cost and Risk of Launching Online Programs

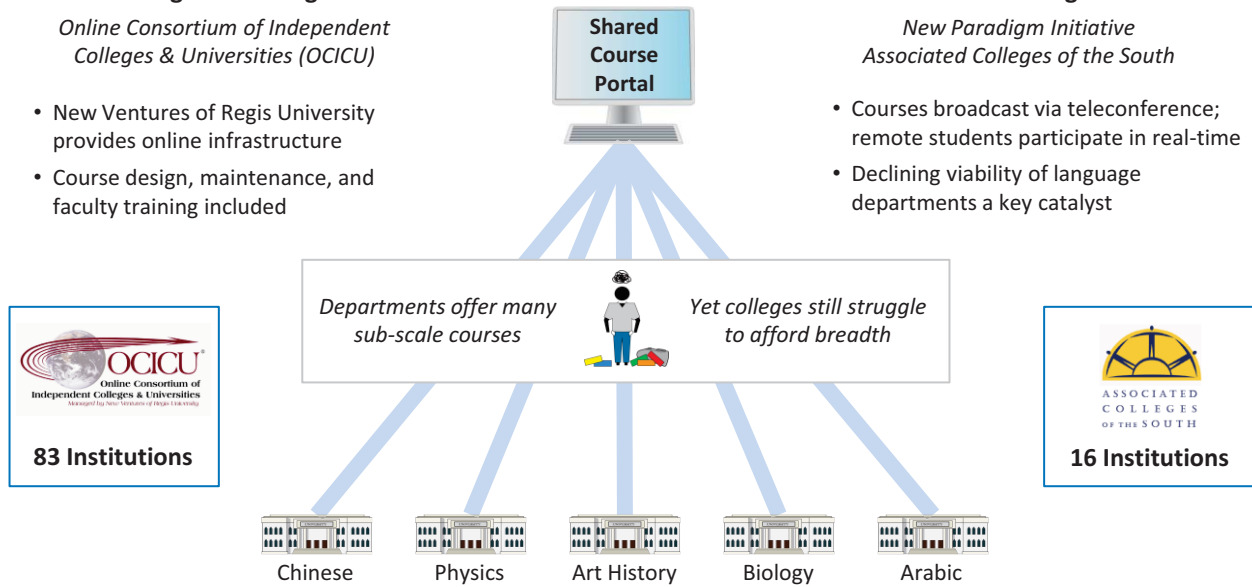
*Online Consortium of Independent Colleges & Universities (OCICU)*

- New Ventures of Regis University provides online infrastructure
- Course design, maintenance, and faculty training included

## Taking Niche Offerings to Scale Without Sacrificing Breadth

*New Paradigm Initiative  
Associated Colleges of the South*

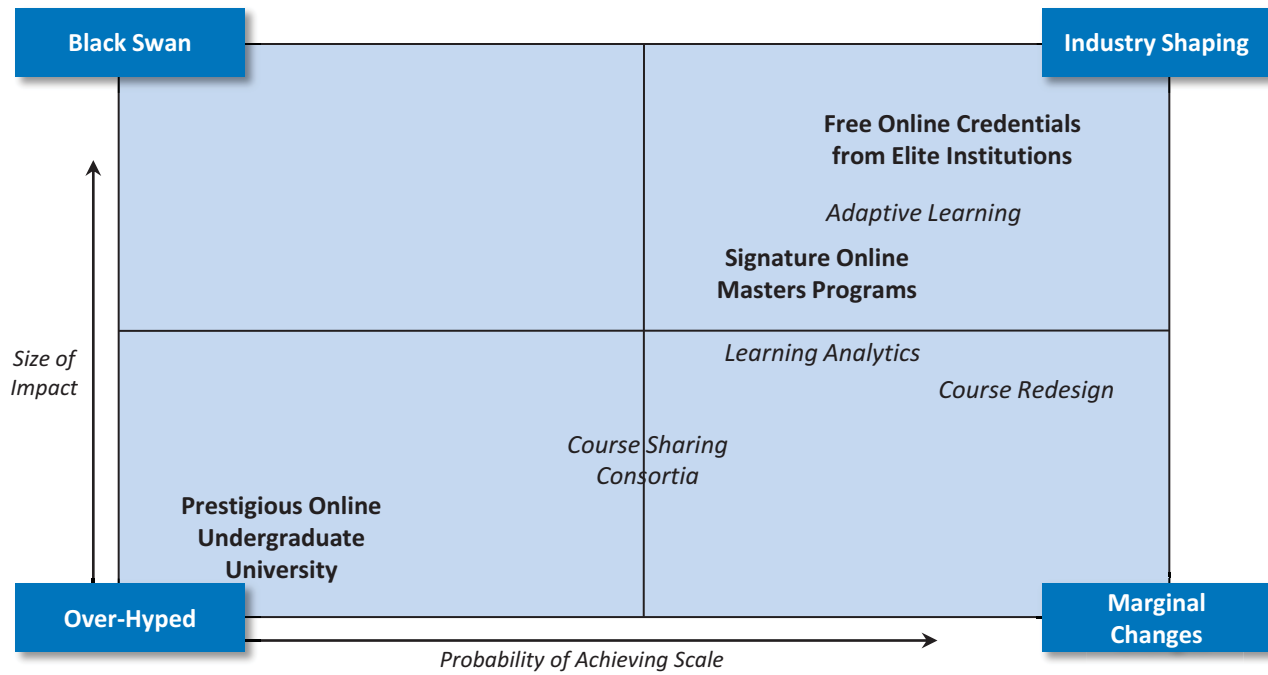
- Courses broadcast via teleconference; remote students participate in real-time
- Declining viability of language departments a key catalyst



Notes:

# Quality at Scale

## Disruptive Competitors and Traditional University Responses



**Bold = Disruptor**

*Italics = University Response*

© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

Source: Education Advisory Board interviews and analysis.

## Risks and Implications for the Membership

### Handful of Top Global Brands Dominate Graduate and Professional Education through Prestigious Open Courses and Nationally Marketed Online Degree Programs

Selective institutions fund and popularize massive online course and degree formats, potentially diverting graduate and professional educational revenues badly needed by middle-tier institutions to subsidize core mission.

### “Flipped Classroom” Models Quickly Gain Legitimacy in Undergraduate Education

Accelerated by the growth and perceived quality of top university open courses, course formats featuring section sizes in the hundreds, self-paced content modules, automated assessment, and peer-sourced tutoring will go mainstream. Good news for universities hoping to break capacity-cost-quality trade-offs, but requiring significant investment in instructional design support, faculty pedagogical training, and standardized learning outcomes definition.

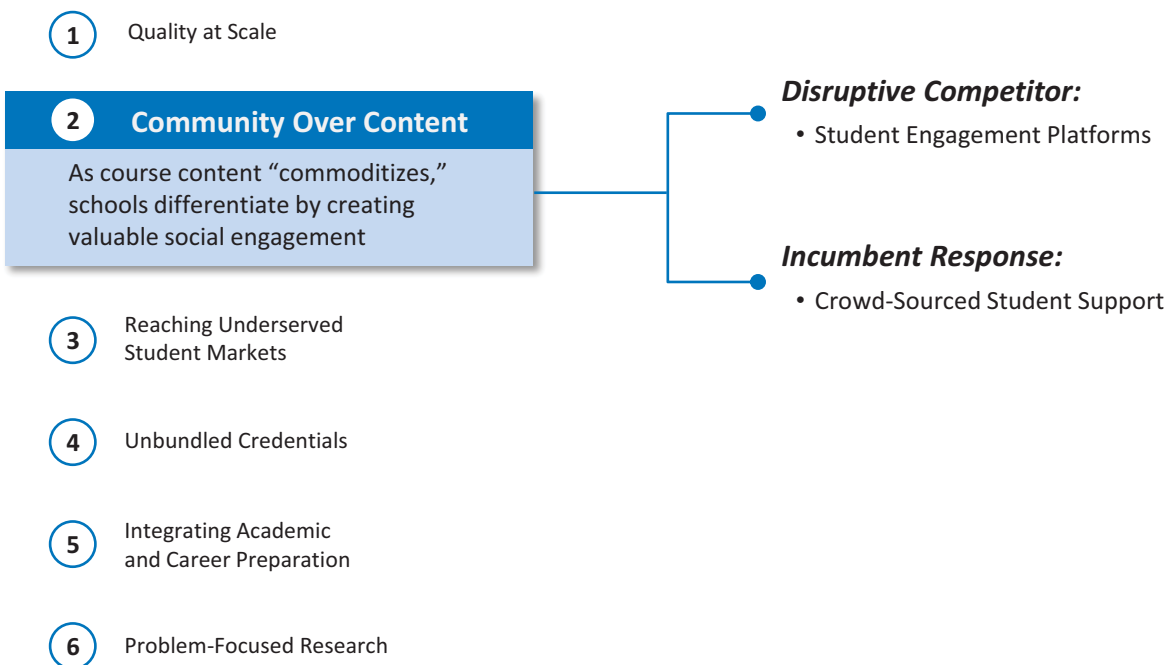
### Universities Must Determine “Build vs Buy” Tolerance for Online Course Infrastructure

Those institutions that lack the financial capital and expertise to build a world-class proprietary infrastructure and catalog for scalable online courses internally must select a culturally compatible “sourcing strategy”: partnering with third-party turnkey vendors, reusing the growing number of free, open-source course templates built to common API standards, or participating in a course-sharing consortium with other traditional institutions.



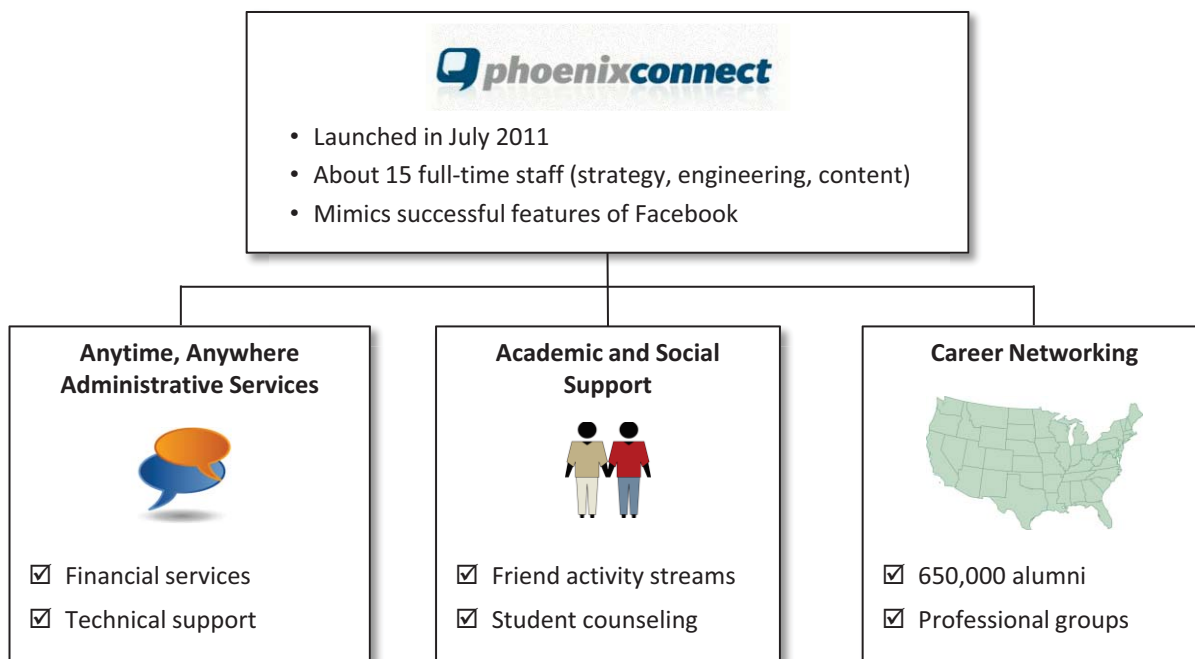
# Disruptive Competition and Incumbent Innovation

## Pressures on the Traditional Higher Education Business Model



# For-Profits Setting New Standard?

## Social Media Part of University of Phoenix’s Retention Strategy



**Phoenix Connect users spend 25% more time on student site than average student**

# Becoming “Mayor” of Your Course

Incentivizing Heads of the Class to Help Others in a Class of 160,000+

## Stanford Open Source AI Class Discussion Board

**1** Peers Vote Both Questions and Answers “Up” or “Down” Based on Usefulness

**15** **Can someone recommend prerequisite materials to read before the start of the class?**

**13** **A: Try the Khan Academy lectures.**  
Answered by [AISuperFan](#)


**-4** **A : Look it up on Wikipedia.**  
Answered by [WalesJ](#)

**2** Reward Badges Motivate Quality Contributions

- Good Question: Question voted up 25 times
- Great Question: Question voted up 100 times
- Pundit: User has left 10 comments

**3** Real-Time Dashboard Provokes Progress Over Time, Daily Activity

Asked by [JWilson](#)



**Great Question**



**Good Question**

**Pundit**

**1,527 Karma**

Karma History

Recent Activity Feed

# A Homegrown “Build” with Impressive Results



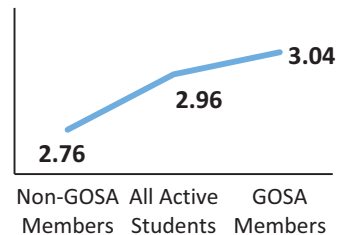
## Gator Online Student Association



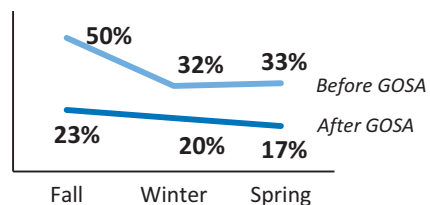
- “Facebook” for online undergrad business program
- Built and managed by volunteer students and alumni using open source programs
- Peer-to-peer academic, social, and job-search support
- Advisor’s Corner for staff to answer questions and receive private messages

## Improving Grades and Persistence

### Average GPA

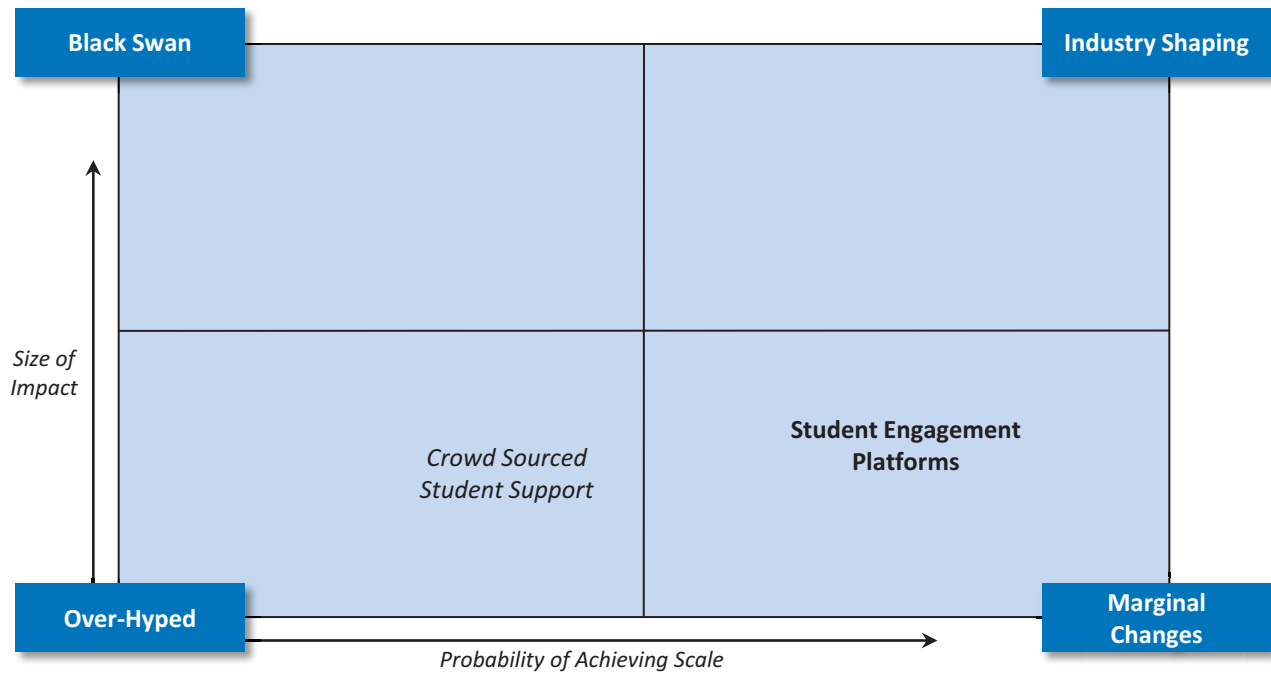


### Difficult Course Drop Rates



# Community Over Content

## Disruptive Competitors and Traditional University Responses



**Bold = Disruptor**

*Italics = University Response*

© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

Source: Education Advisory Board interviews and analysis.

## Risks and Implications for the Membership

### Student Engagement a More Important Differentiator Than Hard-to-Prove Quality

Institutions will increasingly brand themselves around the quality of student interactions outside the classroom, advantaging those able to facilitate structured, but student-led communities focused on discrete factors underlying academic success.

### Social Media Platforms and Contributor Incentives a Critical Factor in Student Retention

For-profits raising investment bar with social media platforms combining “one-click” administrative services, LMS, and peer support services focused on “task” (who else is working on the same thing) and “place” (who else near me, whatever they are doing). Traditional universities will be challenged to fund comparable platforms, and create incentives or requirements for students to actively participate in peer communities to capture full social and academic success benefits.

# Disruptive Competition and Incumbent Innovation

## *Pressures on the Traditional Higher Education Business Model*

1 Quality at Scale

2 Community Over Content

3 **Reaching Underserved Student Markets**

Lower cost options, more convenient delivery modes, and targeted marketing attract students who would not otherwise have enrolled

### ***Disruptive Competitor:***

- Affinity Population Marketing

### ***Incumbent Response:***

- Latino-Focused Programs

4 Unbundled Credentials

5 Integrating Academic and Career Preparation

6 Problem-Focused Research

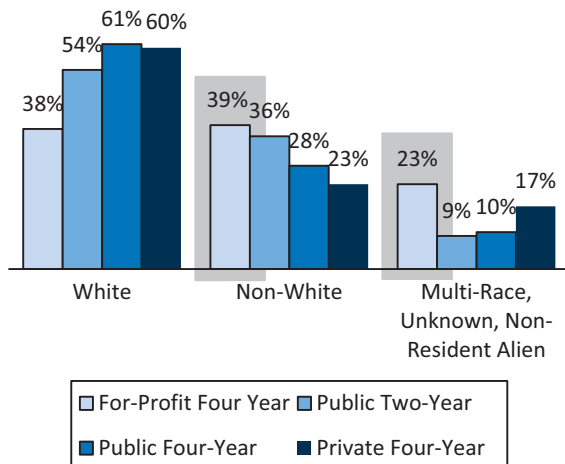
*Notes:*

# Targeting the Nonconsumers

## For-Profit Universities Serve Traditionally Non-College-Going Populations

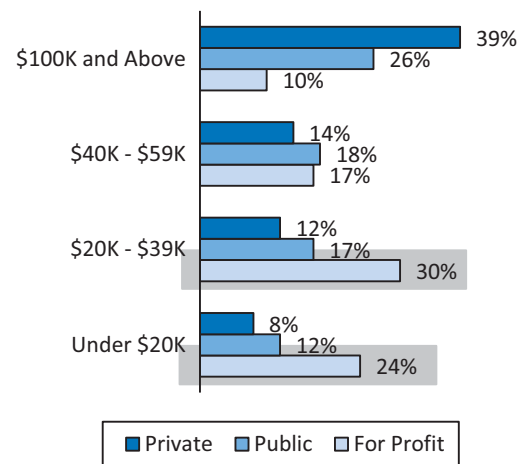
### Attracting More Diverse Students

Race/Ethnicity of Student Population



### Serving Families with Lower Incomes

Family Income for Dependent Students



### Winning on Flexibility

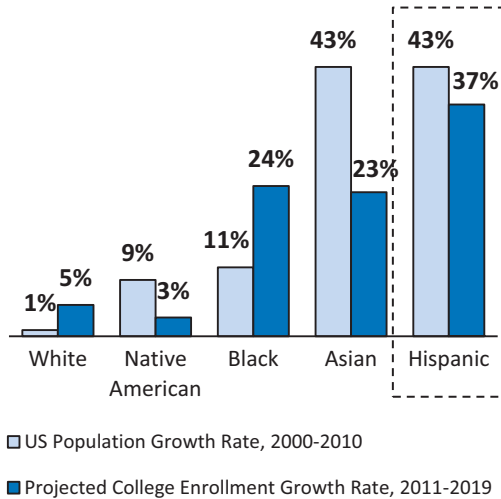
“[For-profit institutions] play a critical role in the future of education by providing access to students who previously have been left behind by or excluded from the traditional higher education system in the U.S... We do this by providing flexible scheduling, a choice of online or campus-based classrooms, small class sizes, degree programs relevant to today’s workforce, faculty who have professional experience in their field of instruction, and high levels of student support to help students succeed.”

*The Apollo Group  
“Higher Education at a Crossroads”*

# Targeting a Growing, But Underserved Demographic

## *Institutions New and Old Investing in Support for Hispanic Students*

**Hispanic Population and Enrollment Growing Rapidly**



### Maximizing Campus Support

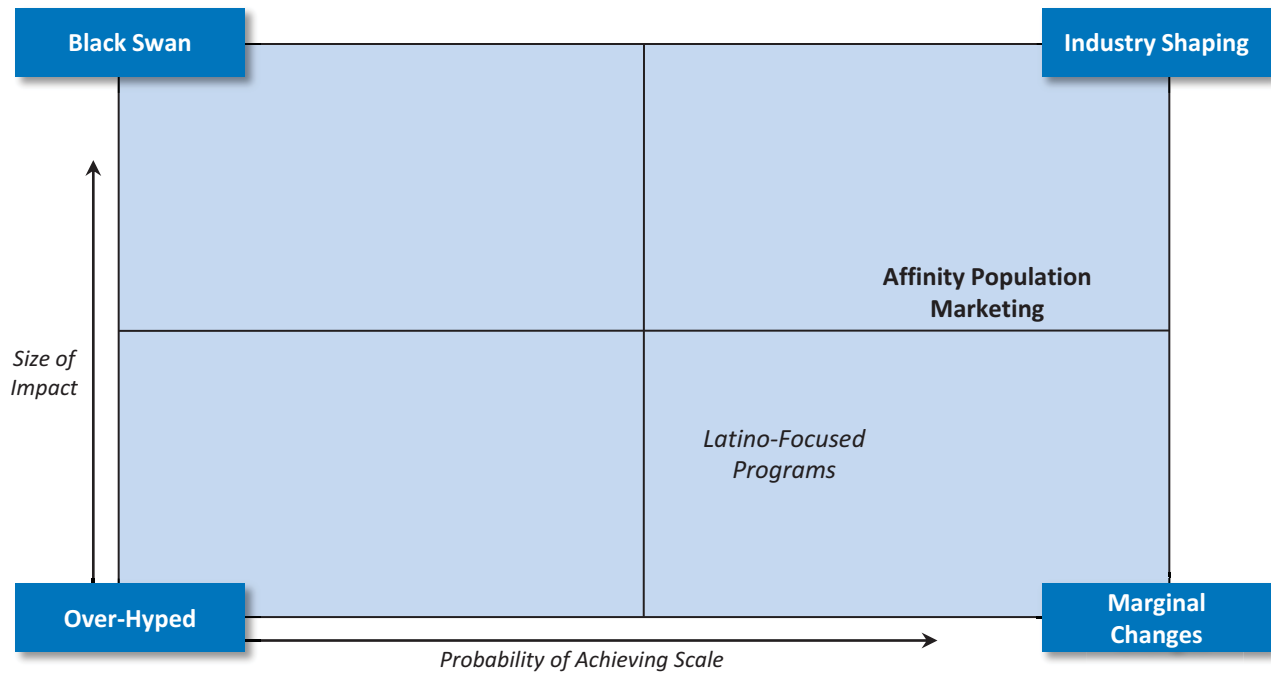
- **Beyond Marketing** – *Hispanic Outreach & Leadership at Armstrong (HOLA)* combines admission, advising, financial aid, event, and community support services
- **Building Community** – New Latino leadership program, fraternities, sororities, and dance team
- **Ensuring Access** – Special scholarships help overcome new financial barriers for undocumented students
- **Proven Results** – Hispanic enrollment up 200% over last decade; retention and graduation rates higher among Hispanics than non-Hispanics
- **Soon to Expand** – Received Lumina grant to lead local Latino college attendance drive

Source: 2010 Census, "Forecast for Growth on Campuses: More Women, Minorities," *The Chronicle of Higher Education*, Aug. 21, 2011; Jennifer Gonzalez, "Swimming Against the Political Tide, a Public University in Georgia Reaches Out to Hispanics," *The Chronicle of Higher Education*, Jan. 22, 2012.

Notes:

# Reaching Underserved Student Markets

## Disruptive Competitors and Traditional University Responses



**Bold = Disruptor**

*Italics = University Response*

© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

Source: Education Advisory Board interviews and analysis.

## Risks and Implications for the Membership

### **For-Profits Will Win Major Share of First-Generation Populations by Competing on Convenience and Cost, Crowding Out Traditional Institutions from Growth Opportunities from Increased Higher Education Participation**

With aggressive marketing budgets, streamlined financial aid applications, and career-focused degree programs that can be completed while working, for-profit universities attract large numbers of students who did not previously see higher education as an option. Traditional institutions will struggle to convince underserved populations of the value of a four-year, residential, liberal arts education.

### **Traditional Institutions Will Compete on Specialized Student Language and Support Services for the Fast-Growing Latino Segment**

Traditional institutions cater to special populations (e.g., first generation students, Latino students, veterans) who value a campus experience but require tailored marketing outreach and customized student support services to ensure their success once enrolled. Diversity on campus will increase but student services will be strained under the new demands.

# Disruptive Competition and Incumbent Innovation

## *Pressures on the Traditional Higher Education Business Model*

1 Quality at Scale

2 Community Over Content

3 Reaching Underserved Student Markets

### 4 Unbundled Credentials

Students reduce the cost of a degree by combining credits from lower-cost institutions

5 Integrating Academic and Career Preparation

6 Problem-Focused Research

#### **Disruptive Competitors:**

- Competency-Based Placement
- Pay-by-the-Course Subscriptions
- No Frills Charter Universities

#### **Incumbent Responses:**

- Flexible Articulation
- On-Time Graduation Guarantees
- 2+2 Models
- 3+2 and 4+1 Masters Programs

*Notes:*



## Faster Than You

### *Impatient With Incumbent Throughput, Stakeholders Invite Competition*

“Online. Accelerated. Affordable. Accredited.”



WESTERN GOVERNORS  
UNIVERSITY

#### A Radically New Instructional Model

- No “courses” or “credits,” just competency exams
- 800+ faculty a mix of assessment designers, subject matter experts, and student mentors
- Special accreditation by *Inter-Regional Accrediting Committee*

#### Everything a Governor Could Ask For

- Founded by 19 governors in 1997
- Tuition: \$5,780 per year; hasn’t been increased since 2007
- Requires no startup costs, facilities, or state support
- Online, self-paced instruction expands access to non-traditional students

“Indiana’s 8<sup>th</sup> State University”

- Governor Mitch Daniels commissioned *Western Governors University – Indiana* in 2010
- No state allocation; initial funding from Gates & Lumina Foundations
- WGU students are eligible for state aid
- Critical in meeting completion goals

## Competing on Price With High-Demand Courses

### *An Experiment in Outsourced General Education*



#### StraighterLine – At a Glance

##### Business Model

- Most affordable provider of online general education courses
- 30-50 courses account for 1/3 of all higher ed

##### Pricing

- \$99 a month + \$39 course registration fee
- \$999 a year for 10 courses

##### Enrollment

- 1000 students in 2010; 3000 students in 2011

##### Next Steps

- ETS iSkills and CLA assessments for a fee
- Amazon-like web interface allowing for customized course components

#### Few Official Partners...

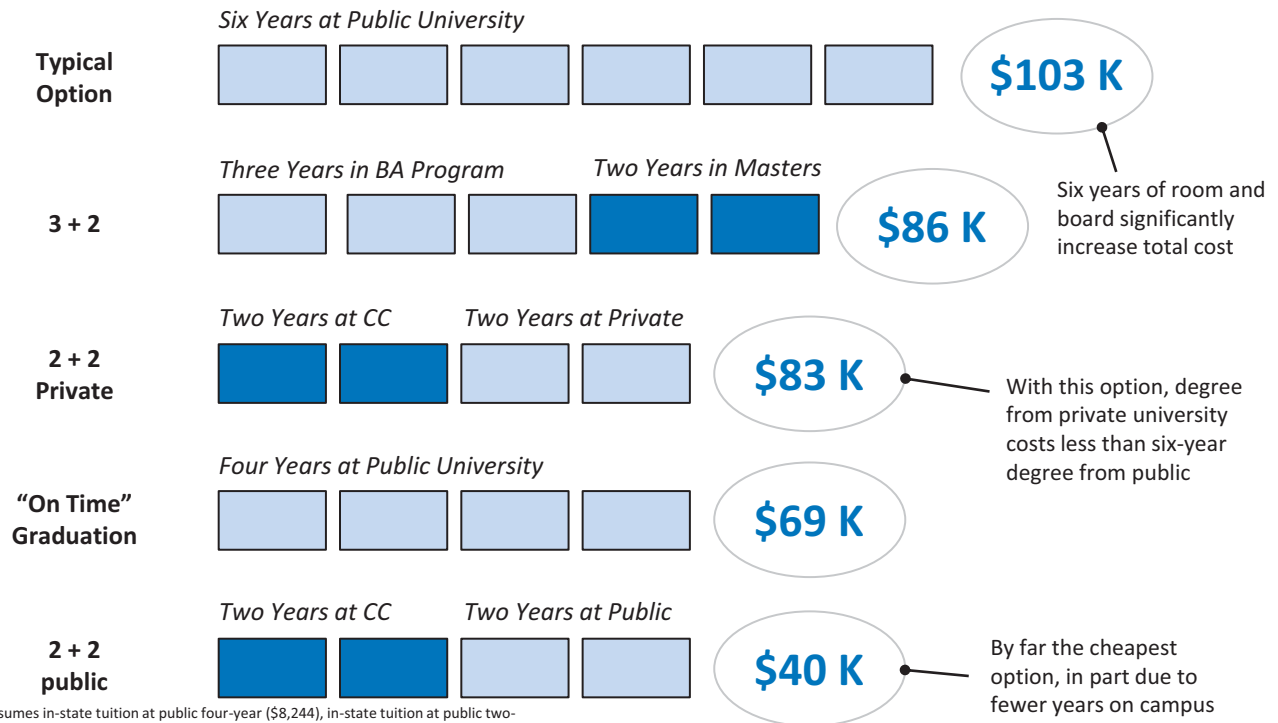


#### ...But 250+ Have Accepted Credits



# The Path Dependency of Total Cost

## Reducing Degree Costs Through Articulation and Faster Time-to-Completion



1 Assumes in-state tuition at public four-year (\$8,244), in-state tuition at public two-year (\$2,963), tuition at private university (\$28,500) and room and board while at the public four-year (\$8,887) and at the private four-year (\$10,089)  
 © 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

Source: College Board, Trends in College Pricing 2011.

### The Net Price Calculator Does Its Job

"We're definitely seeing students and parents looking more closely at retention rates, time-to-degree, and net price. They understand that these factors are important, and the data is now much easier to get your hands on."

*Enrollment Management Consultant*

# Targeting Today's Swirling Student

## "Credit Bank" Model Meets Demand for Low Cost, Flexible Degrees

**EXCELSIOR COLLEGE** *TRANSCRIPT*

- High School**
  - AP Credits
- Local Community College**
  - Foreign Language Requirement
- Former Employer**
  - Prior Learning Assessment
- Online For-Profit Course Provider**
  - General Education Requirements
- Ivy League University**
  - Open Course "Digital Badge"
- Online Certificate Program**
  - Competency Test Results
- Foreign University**
  - Semester Abroad

# Marketing an Articulation Advantage Over Strained Publics

## Enrollment Strategy Adapts as Student Demand Shifts to Completion

### California's Public Institutions Struggling to Accommodate Demand

<b>Major Cuts</b> \$9.2 B state system budget shortfall
<b>Tuition Hikes</b> CSU increases average tuition & fees by 25%
<b>Limited Capacity</b> Community colleges turn away 140 K students
<b>Occupy Protests</b> UC Davis incident spikes unrest

**Increased Risk**  
Higher costs, reduced resources, and wait lists make timely completion difficult

### A Small-Scale Private School Expands its Reach



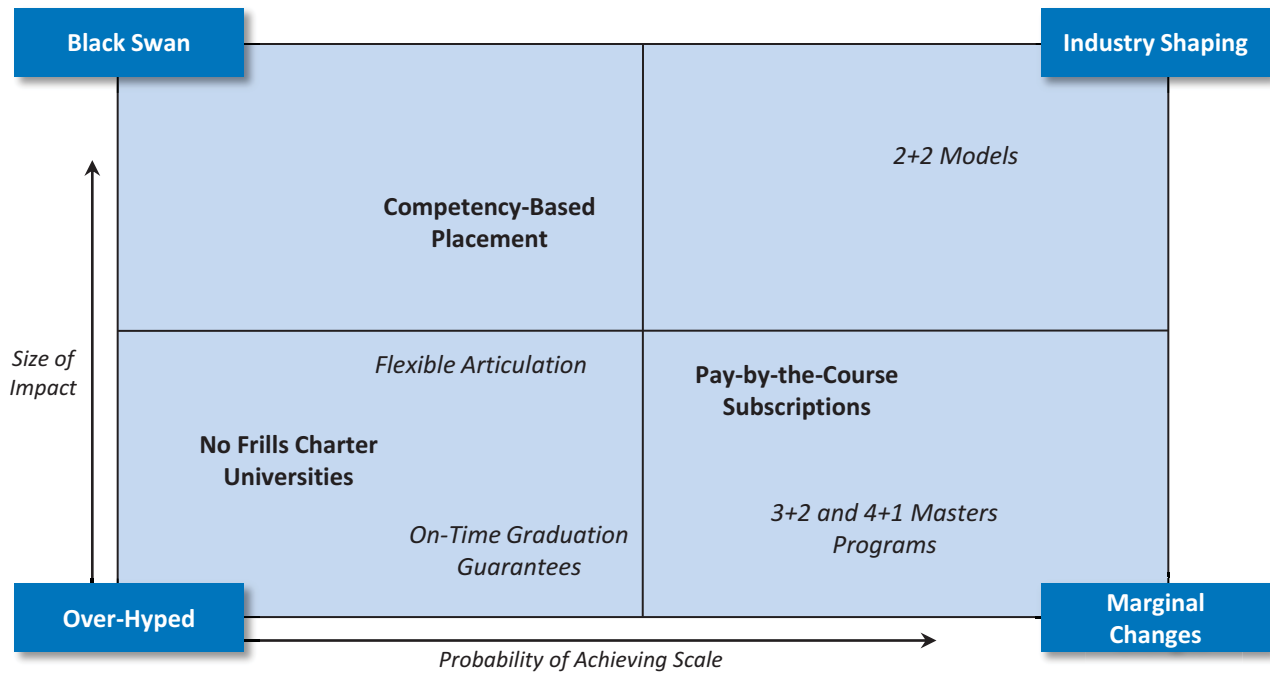
- Catholic university in Belmont, CA traditionally in competition with University of San Francisco increasingly accepting wait-listed San Francisco State University applicants

**"On-time completion is possible"**

- No associate's degree requirement for transfer
- Completion programs added with two local community colleges allow students to take NDNU courses on campus
- Transfers now make up 50% of each entering class
- Enrollment up 43% in 4 years
- Considering adding branch campuses

# Unbundled Credentials

## Disruptive Competitors and Traditional University Responses



**Bold = Disruptor**

*Italics = University Response*

© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

Source: Education Advisory Board interviews and analysis.

## Risks and Implications for the Membership

### Price-Sensitive Families Drive Expansion of 2+2 Models

Pushback on tuition prices will manifest most strongly in heightened demand for and acceptance of 2+2s, as more families calculate that all-in costs are less than half that of a “six-year” BA, but students still desire an (abbreviated) residential campus experience (and a degree from a recognized university).

### State Legislatures Create or Mandate “No Frills” Alternative

Frustrated at comprehensive schools’ inability to reduce tuition costs or quickly expand online offerings, more states will establish no-frills charter schools or mandate acceptance of credits from established online education providers like Western Governors University.

### Access-Focused Institutions Compete on “Transfer-Friendliness”

Four-year institutions will reduce direct and opportunity costs of attaining degrees by dramatically reworking articulation policies and providing students with transfer advising to maximize the value of prior coursework. Radical departures like credit banks and credit-by-examination models still remote, however.

### Tuition-Dependent Privates Begin Competing with Publics on Guaranteed On-Time Completion

Institutions unwilling to change articulation policies or cost will compete on risk – assuring students and families of timely graduation through sophisticated advising, course availability guarantees, and even tuition rebates.

## Disruptive Competition and Incumbent Innovation

### Pressures on the Traditional Higher Education Business Model

1 Quality at Scale

2 Community Over Content

3 Reaching Underserved Student Markets

4 Unbundled Credentials

5 **Integrating Academic and Career Preparation**

Schools compete on ability of students to land “job of choice” through employer-relevant curriculum, experiential learning, and comprehensive career advising services

6 Problem-Focused Research

#### Disruptive Competitors:

- Digital Badges
- Employer-Defined Stackable Credentials

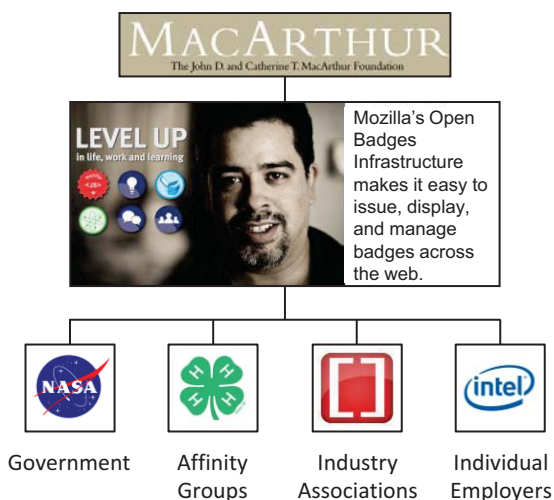
#### Incumbent Responses:

- Workforce Development Campuses
- Employer-Led Capstone Projects
- Next-Generation Career Advising Services

## Beginnings of a Marketplace for Digital Badges

### Will Micro-Certifications Replace the Symbolic Power of Diplomas?

#### What's a Digital Badge?



- Collectable, sharable certifications of specified competencies
- Acquired by examination, demonstration, proof-of-experience
- Help students find a job, collaborator, or social media followers

#### What's Needed for a Liquid Market?

- 1 **Proof-of-Concept Funding**  
MacArthur Foundation launches \$2M contest for badge design
- 2 **Open IT Standards**  
Mozilla developing interoperability specs for badge formats
- 3 **Credible Sponsors**  
Famed organizations designing and recognizing badges

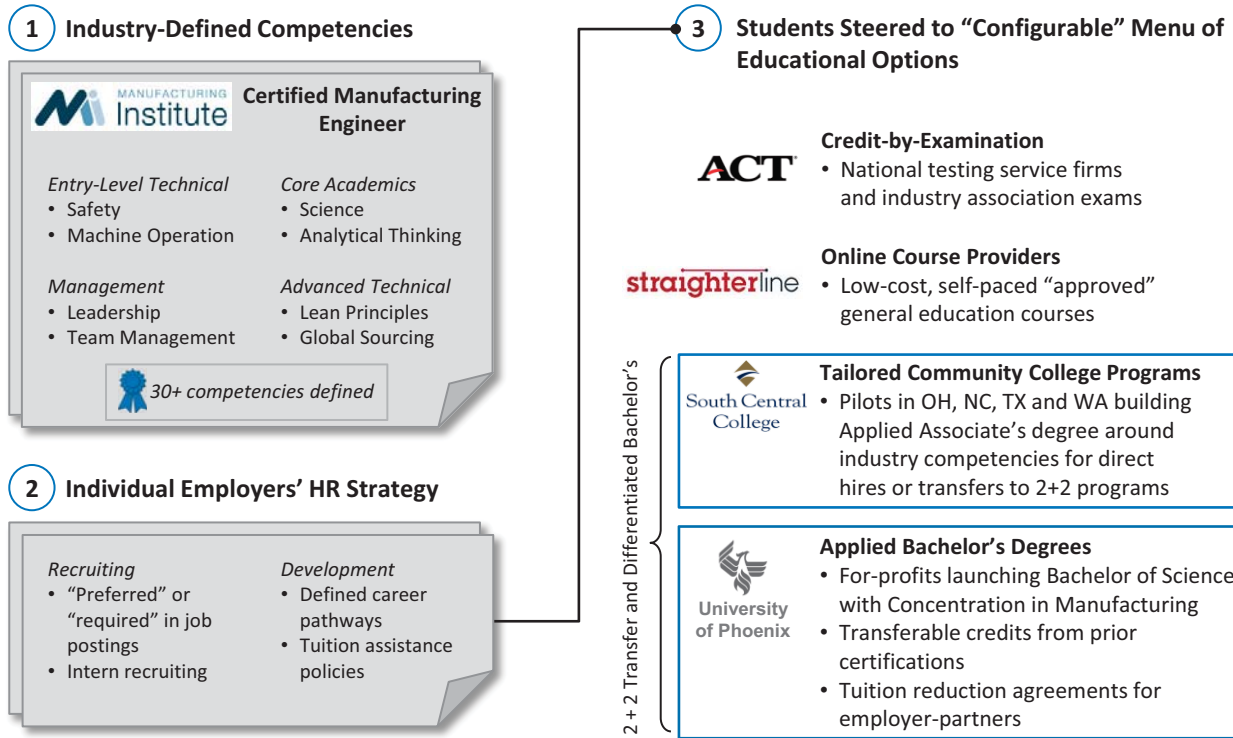
#### An Early Incumbent Adopter



Certifying competencies in Sustainable Agriculture Program with new badges

# Competency-Based Curriculum Moving Upmarket

## Employer-Defined Credentials Facilitate “Mixed Sourcing” of Higher Education



© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

Source: “ACT and the National Association of Manufacturers Collaborate on New Skills Certification Program,” *Activity*, Spring 2009.

### Ripe for a Tipping Point

“A lot of the foundation for competency-based education is in place now. Employer-identified competencies, a growing inventory of high-quality online courses, enough accredited two-year and four-year institutions so that working students can get degrees as well as skills. It will really take off when a prestigious employer or two features the credential - people may downplay online education, but would they if a Boeing or a John Deere were on board? If even one of those firms endorses the concept, it will get a lot of legitimacy quickly, and I think we'll see a big part of the 'applied' market split their education among traditional and non-traditional models.”

*Burck Smith  
CEO, StraighterLine*

## A Streamlined Pipeline for Local Industry

### Accelerated Degree Program Focuses on Workforce Development

**A new value proposition for parents and students**



- > Engaged learning
- > Reduced time to degree
- > Lowered student debt




#### Cohorts Begin Courses in Local High Schools

- Students explore potential careers, apply in 9<sup>th</sup> grade
- Successful applicants assigned an industry mentor
- Free college credit earned in 11<sup>th</sup> and 12<sup>th</sup> grades



#### 2-Year Campus Curriculum Focuses on "Real World" Skills

- Dual-counting / special general ed credits accelerate "core"
- Students intern with local employers, earn credit and financial assistance
- Results in BS in Systems Engineering Technology



#### Graduates Hit the Ground Running at Local Businesses

- Industry-focused curriculum mitigates cost of training new employees
- Developing stackable certificates for continued training
- Hope to attract new businesses in "research park" model

© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A Source: Missouri Innovation Campus White Paper: <http://www.ucmo.edu/about/mic/documents/micpaper.pdf>

## Not an Unfunded Mandate Anymore

# \$500 K

Block grant to support initial Innovation Campus initiatives

# \$10 M

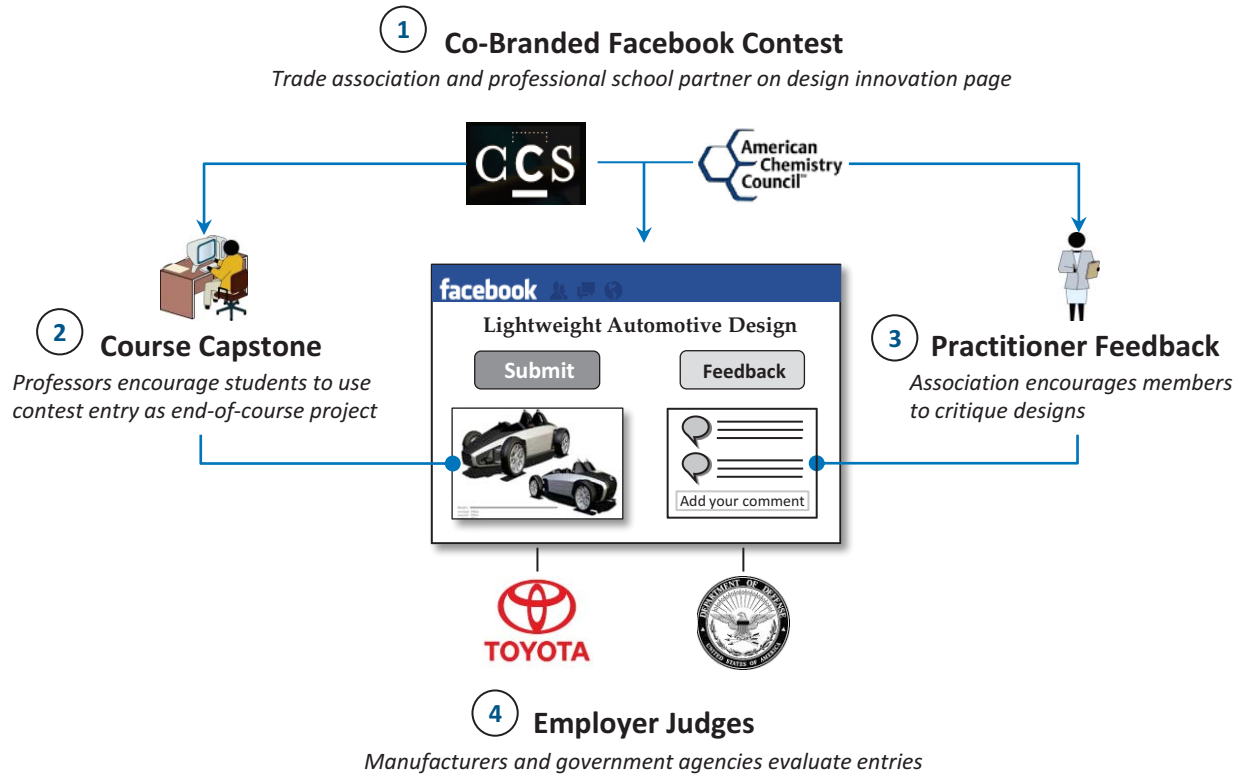
Competitive funding to adapt Innovation Campus model throughout Missouri



Governor Jay Nixon

"...[C]ompanies in high-growth sectors need a highly skilled workforce to grow, innovate and compete ... But the current business model for higher education is not keeping pace."

# Blurring Coursework, Community, and Career Advising



## A Win-Win-Win Strategy

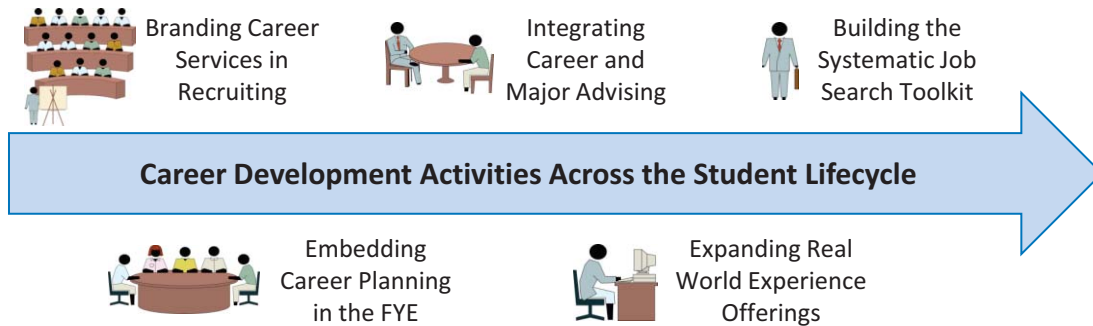
- |  |  |   |
|--|--|---|
| <p><b>1</b></p> <p><b>For Trade Association</b></p> <ul style="list-style-type: none"> <li>• Promotes awareness and commercial viability of emerging technology</li> </ul> | <p><b>2</b></p> <p><b>For Students</b></p> <ul style="list-style-type: none"> <li>• Coursework easily translates to resume and e-portfolio</li> <li>• Warm leads to potential employers</li> </ul> | <p><b>3</b></p> <p><b>For Institution</b></p> <ul style="list-style-type: none"> <li>• Provide students with expert industry practitioner access “on the cheap”</li> <li>• Program differentiation through practical application of theory</li> </ul> |
|--|--|---|



## This Season's Focus of Our Student Affairs Research

### *Engaging Students with Career Services from Orientation to Graduation*

#### 150+ Strategies to Connect Students with Career Development Earlier



© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

## Harmonizing Career and Academic Goals

### *Prestigious Schools Resourcing and Integrating Career Exploration Services*

#### University of Chicago

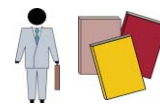
*Investing in Domain Specialists*



- 38 professional career advising staff, many with industry experience
- 8 distinct career advising teams organized according to industry and discipline
- 750 college-sponsored summer opportunities, such as internships and research positions

#### Wake Forest University

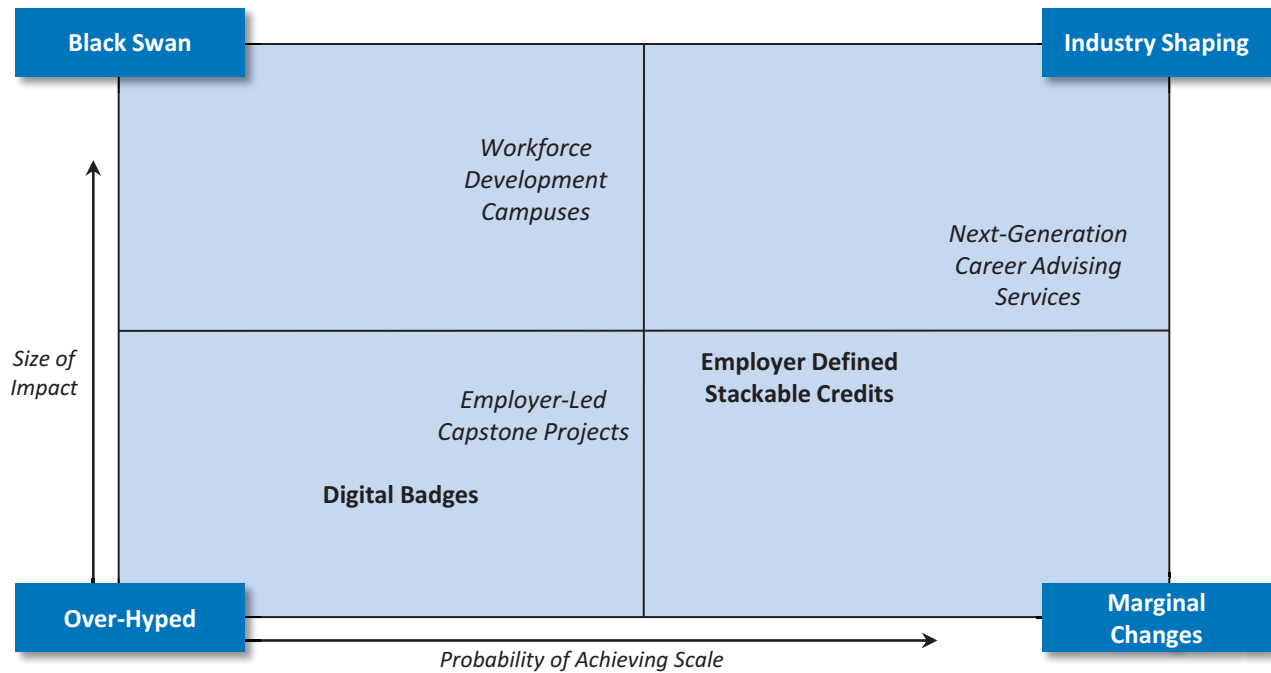
*Integrating Career and the Liberal Arts Curriculum*



- Career Development Division reports to the President and Provost
- Four key competency areas:
  - Career and professional development
  - Innovation, creativity, and entrepreneurship
  - Leadership and character formation
  - Mentoring
- Additional elements include:
  - Credit-bearing career development courses
  - Required introductory session for all freshmen
  - Faculty, advisors, and parents participate in the Wake Forest College-to-Career Community

# Integrating Academic and Career Preparation

## Disruptive Competitors and Traditional University Responses



**Bold = Disruptor**

*Italics = University Response*

© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

Source: Education Advisory Board interviews and analysis.

## Risks and Implications for the Membership

### **Employers and Affinity Groups (Slowly) Partner with Low-Cost Higher Education Institutions on Competency-Based Credentials**

Digital badges spread from computer science to other disciplines, and industry associations define competencies around which two- and four-year schools build stackable professional certificates and “applied” baccalaureates.

### **Regional Publics Integrate with Local Employers on “Workforce Development” Campuses**

Public institutions forward-integrate with high schools to set students on accelerated paths for degrees with concentrations in skills demanded by the regional economy, competing on unique work-study opportunities and the promise of guaranteed employment on graduation.

### **Selective Privates Begin Career Advising “Arms Race”**

Conspicuously marketed or even obligatory career advising services from before admissions to the entirety of an alumni’s career, brokered networking introductions to alumni mentors, and data-driven career planning tools showing the career destinations and earning potential of various majors emerge as the next high-value student amenity, justifying high tuition and increasing the perceived value of the degree.

# Disruptive Competition and Incumbent Innovation

## *Pressures on the Traditional Higher Education Business Model*

- 1 Quality at Scale
- 2 Community Over Content
- 3 Reaching Underserved Student Markets
- 4 Unbundled Credentials
- 5 Integrating Academic and Career Preparation

### 6 Problem-Focused Research

Philanthropy, corporate, and government funding concentrates on handful of universities with demonstrated capabilities to solve business, technical, and social problems

#### **Disruptive Competitor:**

- Venture Philanthropy Institutes

#### **Incumbent Response:**

- Incubator Campuses

*Notes:*

## Competing in the Age of Venture Philanthropy

*CDOs Hear Major Donors Critique Higher Education as Destination for Big Gifts*

### Stewardship

#### Can't Quantify Impact

"Big donors are now demanding business plans—we'll sustain funding after the initial gift is used up and report on progress against goals on a quarterly basis."

*CDO, Selective Private University*

#### Less Attractive the Closer We Look

"We did a survey of trustees trying to find out what drove their giving behavior. We were discouraged to learn that several were less inclined to give after becoming a trustee, because they saw up close the vision and efficiency challenges."

*CDO, Tuition-Dependent Private University*

### Academic Vision

#### Funding Transformations, Not Operations

"You won't get an eight-figure gift for financial aid or deferred maintenance. Venture philanthropists want to seed transformational ideas."

*CDO, Private Research University*

#### Organized around Disciplines, Not Problems

"Social entrepreneurs want to solve big problems that are inherently interdisciplinary, like public health or sustainable energy. It's a struggle to get all our disciplines synchronized, and we're starting to lose out to NGOs who have more integrated marketing pitches."

*CDO, Flagship Public University*

## Will Large-Scale Research Dollars Migrate to the Private Sector?



- \$500 M investment from Microsoft co-founder Paul Allen
- Attracting top faculty from elite institutions
- Marketing accountability, speed, and publicly-accessible results to funders

*"...[U]niversity- and government-financed labs cannot afford the personnel and equipment to perform the multidisciplinary work that Mr. Allen wishes to encourage"*

# Beyond a Research Park

## *The Race to Incubate the Next Silicon Valley*

### Cornell University NYC “Tech Campus”



### Massive Investment Supports High-Impact Commercial Development

- **Hot Topics:** Focus on tech-based startup incubation in health care, social media, and green energy
- **Global Partners:** Partnering with Technion-Israel Institute of Technology to offer masters in applied science
- **Generous Donors:** 99-year lease on land from NYC; \$350 M donor gift, and \$150 M revolving finance fund
- **Significant ROI:** Estimated \$23 B (nominal) economic benefit and \$1.4 B in tax revenue over 3 decades

#### Letting Industry Lead

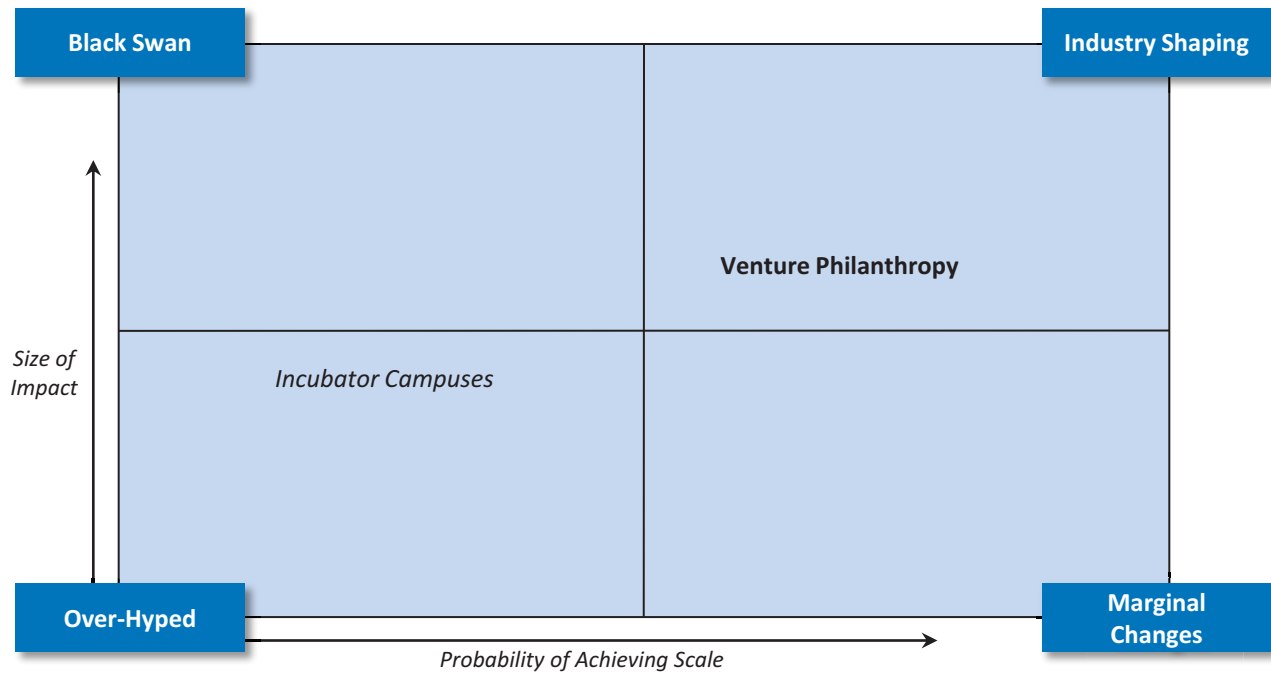
“The new campus will be organized around areas of interdisciplinary research which are also relevant to commercial impact, rather than traditional academic departments. This will facilitate more meaningful collaboration and better align the campus with Mayor Bloomberg’s vision for success.”

*David Skorton  
President, Cornell University*

Notes:

# Problem-Focused Research

## Disruptive Competitors and Traditional University Responses



**Bold = Disruptor**

*Italics = University Response*

© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

Source: Education Advisory Board interviews and analysis.

## Risks and Implications for the Membership

### **Venture Philanthropists Eschew Universities, Fund Institutes with Better Records of Multidisciplinarity and Social Impact**

Large donors looking to solve problems rather than support operating budgets direct funds to competing non-profits best able to coordinate talented researchers from across disciplines and sectors. Others create their own research institutes to avoid the distractions of academic politics.

### **Handful of Elite Universities with Global Partnerships and Government Sponsorship Crowd Out Rest as Research Funding Growth Clusters in Incubator Campuses**

As health care entitlements pressure traditional federal research funding, a new breed of private-sector-government-university partnerships emerge, chartered to marry basic research and entrepreneurship.

## Questions for Your Next Strategic Retreat

	<b><i>Threats to Existing Business Model</i></b>	<b><i>Opportunities to Improve Value Proposition</i></b>
<b>1 Quality at Scale</b>	<i>Will we lose students (or credit hours) to free online courses from respected universities?</i>	<i>Should we accept credits from open courses? Can we “outsource” some instruction to them?</i>
<b>2 Community Over Content</b>	<i>As students build more communities online, will on-campus communities wither?</i>	<i>Can we build communities strong enough to differentiate ourselves from competitors?</i>
<b>3 Reaching Underserved Student Markets</b>	<i>As the traditional student demographic declines, will we be able to replace them?</i>	<i>What can we do to make ourselves more attractive to non-traditional students?</i>
<b>4 Unbundled Credentials</b>	<i>Will we lose students to community colleges and low-cost providers?</i>	<i>Can we partner with other institutions to serve more students at a lower cost?</i>
<b>5 Integrating Academic and Career Preparation</b>	<i>How can we preserve the liberal arts when students are so focused on immediate career prospects?</i>	<i>Can we demonstrate to employers that our students are properly prepared for their needs?</i>
<b>6 Problem-Focused Research</b>	<i>How fast will federal, state, and foundation funding shift from disciplinary to applied problems?</i>	<i>Can we better integrate research, teaching, and outreach by organizing around grand challenges?</i>

© 2012 The Advisory Board Company • www.educationadvisoryboard.com • 24050A

*Notes:*



---

University Business Executive Roundtable • Education Advisory Board

2445 M Street, NW • Washington DC 20037

Telephone: 202-266-6400 • Facsimile: 202-266-5700 • [www.educationadvisoryboard.com](http://www.educationadvisoryboard.com)