The Road to the Future of Higher Education

Terri-Lynn Thayer
Vice President, Analyst
February 2019
M&A Activity Is a Sign of Business Model Pressure

UMass Amherst closes deal on acquisition of Mount Ida College

For Profit Education

Purdue Gets Final Approval to Buy For-Profit Kaplan

By Emma Kerr | March 05, 2018

Topical Top Story

UW System | Two-Year, Four-Year Schools

UW System merger approved.

#Quick Takes

Boston University Reveals Layoffs in Wheelock Merger

By Rick Seltzer | March 21, 2018

2 Comments

Regents approve plan to consolidate community colleges in 2023

By Clarice Silber | June 21, 2018

Small Colleges Struggle with Declining Enrollment

By Jane S. Shaw

Decreasing enrollment at small colleges and universities is a growing matter of concern, college administrators report.

University of Phoenix Phasing Out Campuses; Current Students Not Affected, School Says

By Joseph Flaminia | September 25, 2017 | 3:09PM

Cambric
Not Just a U.S. Trend

University mergers in Europe (2000-2014)

EUA University Merger Tool

Source: European University Association, September 2017

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Some of the Root Causes

Reasons and Benefits

- Diversification/Focus
- Increase Pricing Power
- Synergy
- Eliminate Competition
- Growth
- Cost-Benefit Imbalance
- Student Population Shifts
- Workforce Demands
- Globalization
The Irony Is …

Most higher education institutions think they are unique

The reality is very limited diversity in business models
At Least Five Major Value Propositions

- Pursuit of Knowledge
- Focus on Research
- Education in Practical Fields
- Vocational Training
- Workforce Development
The “American Model” of the post-war university is a “multiversity” — an institution serving varied, even conflicting, interests and oriented to a range of purposes.

University of California, President Clark Kerr (1963)
A Business Model Describes How a Business Is Configured to Create Value

Value Proposition:
- Quality
- Service
- Cost
- Assets

Capabilities:
- Information
- Technology
- People and Culture
- Assets
- Capital Structure
- Ecosystem Stakeholders (e.g., Partners, Suppliers)

Customer:
- Customers
- Ecosystem Stakeholders (e.g., Partners, Suppliers)
- Channels
- Relationships
- Industry
- Segment

Financial Model:
- Pricing
- Revenue Model
- Key Performance Indicators
- Financial Statements
- Cash Conversion Model
We Supersized the Business Model!

- People, technology and physical assets leveraged across multiple BMs in nonstrategic and often unknown ways.

- Omniversity leads to brand dilution.
- Lack of clear and distinct value props.

- Many customers across many channels but not well-understood
- Untapped customers

- Revenue, cost and pricing out of balance
- KPIs not tracked or aligned
Let’s Look at Some Trends
Shadow Education Sector Is Growing

The model in most countries today

Traditional Tertiary Education

The direction we are heading

Shadow Education Sector

Low

Competition

High

Public Good

Knowledge

Private Good
Growth in Nonaccredited Space

- Publics: Inclusive, Some consolidation here
- Small Privates: Growth likely here
- Shadow Education Sector: Growth in emerging markets
- Employer-Based Education: Exclusive, Steady state in mature markets

- MOOCs: Transformation here
- Coding Boot Camps: Numbers will shrink
- Nonaccredited: Accredited

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Growth in Microcredentials and Work-Focused Education

- **Publics**: Consolidation and shrinkage
- **MOOCs**: Transformation here
- **Employer-Based Education**: A mixture of moderate growth and some shrinkage
- **Vocational/Tech**: Significant growth here
- **Coding Bootcamps**:
- **Elite Privates**
- **Small Privates**
- **Shadow Education Sector**
- **Certificate and Microcredentials**
- **Professional Schools**
- **Consolidation and shrinkage**
Long and Short of It … There Are Three Clear Trends

Shrinking number of institutions leading to a strengthening of those that remain

Growth in shadow education sector and employer-provided education

Marked increase in institutions and programs conferring smaller stackable credentials to an older population of serial learners
How Do You Traverse This Road to the Future?
Three Key Strategies for Competitive Advantage

**Cost Leadership**
- Provide reasonable value at a lower price.
- Achieved by improving operational efficiency.

**Differentiation**
- Deliver better benefits than your competition.
- Achieved by innovation, quality, or improved customer service.

**Focus**
- Understand and serve your target market better than anyone else.
- Usually achieved through a combination of cost leadership and differentiation that leads to superior customer service and a more personal experience.

### Industrywide
- **Cost**: Lowest cost across the industry
- **Differentiation**: Better product/service across the industry

### Focus
- **Cost**: Lowest cost within an industry segment
- **Differentiation**: Better product/service within an industry segment

- Where is your institution today?
- Can you clearly define your benefits, target market and competition?
The Road to the Future of Higher Education Is Paved With Technology
Use Technology to Change Your Capabilities

Digital University Ambition

- **Optimize** Improved Institutional Productivity and Products
- **Better** Student Experience
- **Transform** New Products and Services
- **New Business Models**

2018 Education Hype Cycle

From “Hype Cycle for Education, 2018,” 17 July 2018 (G00340209)
Institutions Optimizing and Transforming With Technology
Using AI to Optimize the Student Experience

- Amazon Echo devices in dormitories
Using Education Analytics to Improve Student Success

- Predictive analytics + new homegrown advising system
- Created a “network of care”
- Improved first-year retention rate
- Improved six-year graduation rate
- Unlocked $15M in performance-based funding

Optimize

Improved Institutional Productivity & Products

Better Student Experience

From “Hype Cycle for Education, 2018,” 17 July 2018 (G00340209)

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Using Exostructure Strategy to Transform Business Model

- Targeting “new” market
- First Ivy League degree on platform
- M.S. Computer Science
- $26,300 — 1/3 the cost of on campus

From “Hype Cycle for Education, 2018,” 17 July 2018 (G00340209)

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Using Blockchain to Disrupt the Business Model

Digital Education Platforms

Academic Publishing

Transform → New Business Models

From "Hype Cycle for Education, 2018," 17 July 2018 (G00340209)
Recommendations

✓ Use scenarios to advance planning and idea generation

✓ Identify and explore new value proposition opportunities:
  – Unserved or underserved customers in existing markets
  – New customers in adjacent or related markets

✓ Urge, implore and lead your institution to define a digital ambition:
  – Use Gartner Hype Cycle to identify technologies that can optimize and transform
“If you don't know where you are going, any road will get you there.”

— Lewis Carroll
The Workplace and Education
Being on a Collision Course Is a Really Good Thing

Terri-Lynn Thayer
February 2019
Worlds about to collide
Both Internal and External Forces of Change

- Increased Focus on Career
- Rising Costs
- STEM Focus
- Changing Nature of Work
- The Skills Gap
- Changing Demographics
Increased Career Focus of Students

Changing importance of career for students

<table>
<thead>
<tr>
<th>Year</th>
<th>Financial Well-Being</th>
<th>Philosophy of Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>50%</td>
<td>65%</td>
</tr>
<tr>
<td>2014</td>
<td>82%</td>
<td>45%</td>
</tr>
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</table>

The importance of the first job

Underemployment at Graduation
- Fully employed: 57%
- Underemployed after graduation: 43%

Underemployment After 10 Years
- Fully employed: 79%
- Underemployed: 21%

Adapted from https://repository.upenn.edu/dissertations/AAI10155551/
Adapted from https://www.burning-glass.com/research-project/underemployment/
# The Cost of College Is Increasing at Unsustainable Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Annual Income</th>
<th>As % of annual income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1970</strong></td>
<td>$6,186</td>
<td></td>
</tr>
<tr>
<td>Annual cost public 4-year institution</td>
<td>$358</td>
<td>6%</td>
</tr>
<tr>
<td>Annual cost community college</td>
<td>$178</td>
<td>3%</td>
</tr>
<tr>
<td>Annual cost private 4-year institution</td>
<td>$1,561</td>
<td>25%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Annual Income</th>
<th>As % of annual income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016</strong></td>
<td>$57,617</td>
<td></td>
</tr>
<tr>
<td>Annual cost public 4-year institution</td>
<td>$9,970</td>
<td>17%</td>
</tr>
<tr>
<td>Annual cost community college</td>
<td>$3,470</td>
<td>6%</td>
</tr>
<tr>
<td>Annual cost private 4-year institution</td>
<td>$24,820</td>
<td>42%</td>
</tr>
</tbody>
</table>

Source: "Department of Numbers", "Average Indexed Monthly Earnings", "Not Your Mother's College Affordability Crisis"
Increased Focus on STEM

Change in Humanities Majors

Under Performance Based Funding models, more than 15 states have financial incentives to increase STEM majors


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The Changing Nature of Work

Between now and the year 2030

1 in 3 workers will need to reskill

Source: "Jobs Lost, Jobs Gained: Workforce Transitions in a Time of Automation"

The human costs

75 to 375 Million people will need to change occupations

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The Skills Gap

Upcredentialing

Job Ad’s for Executive Secretaries

- 65% require a B.A. degree
- 19% of current job incumbents have a B.A. degree

Impact of the skills gap on the economy

- 400,000 unfilled positions
- 1.3 million people looking for work
- Cost to Ontario Economy: $2.34 billion

Adapted from https://www.burning-glass.com/wp-content/uploads/Moving_the_Goalposts.pdf

Changing Demographics

From 2008

10% Birth Rate

Plus shift in population from Northeast and Midwest to South and West

More Hispanic students

Fewer first-generation students

More adult students

Adapted from https://econofact.org/demographic-changes-pose-challenges-for-higher-education
From This Current Model of Learning

- Bootcamps
- MOOCs
- Continuing Ed.

- Isolates higher education
- Weakens higher ed. finances
- Mismatch in skills
- Costly
- Proliferation of uncertain credentials

But What Happens Here
The Shadow Education Sector

They Do Well

- Real world projects and collaboration
- Career
- Coaching, mentoring and alumni

MOOCs for Skills

Skills Training Institutes

Bootcamps

Alternate Universities

Microskills & Credentials

Corporate Universities
More to This Model
A New Education and Workplace Landscape Will Look Like

Authentic  Career  Alumni

Continuous learning landscape

Pure  Applied
Convergence of Traditional Higher Education and Workplace Learning

- Traditional Tertiary Education
- Shadow Education Sector
- Workplace Learning
What Are Our Biggest Fears of the Melding of Work and Higher Education

- Too Much Emphasis on STEM
- Students as Widgets
- Short-Term Skills
How These Changes Will Affect You as a CIO

- You’re going to need to support authentic learning environment tools often at scale and often at a distance. This will frequently be difficult and costly.
- Your data world which was already complicated just got more so. Here will be much more emphasis on postgraduation data and workforce engagement and success data.
- Supporting the career center will become a bigger and bigger part of your job.
- Many of your stakeholders won’t be students, or faculty or staff and you need to be able to support them.
Recommendations

✓ Get on that data governance issue. If you think it's complicated now it is only going to get more so. Start laying the groundwork and anticipating the challenges.

✓ Start planning for more complex ways of handling IAM and systems of record. Build scenarios for each of those based on how higher ed. will change. There are 3 aspects, policy, technology and practice. Address each of those.

✓ Explore the career support, alumni engagement and collaboration technology spaces. Start doing pilots and build a plan for each of these.

✓ Model new approaches in your own organization, for example, using your student employees.
“We need to prepare students for their future, not our past.”
— Ian Jukes
Recommended Gartner Research

- **Digital Business Platform Models in Higher Education**
  Terri-Lynn Thayer and Glenda Morgan (G00353415)

- **The Future of Work Will Demand Changes to Higher Education**
  Glenda Morgan and Terri-Lynn Thayer (G00349433)

- **Hype Cycle for Education, 2018**
  Kelly Calhoun Williams (G00340209)

- **Why Business Models Matter for CIOs**
  Irving Tyler, Dale Kutnick and Chet Geschickter (G00335979)

- **A CIO’s Guide to Gartner’s Digital Business Research**
  Don Scheibenreif and Chet Geschickter (G00350802)

For information, please contact your Gartner representative.
Recommended Gartner Research

- The Future of Work and Talent: Culture, Diversity, Technology
  Helen Poitevin (G00354454)

- Recruit, Renovate and Retrain to Gain the Skills Needed for the Digital Workplace
  Bryan Taylor (G00354977)

- The Future of Work Will Demand Changes to Higher Education
  Glenda Morgan and Terri-Lynn Thayer (G00349433)

- How We Will Work in 2028
  De’Onn Griffin and Mark Coleman (G00349777)