BUILDING HIGHER EDUCATION'S FUTURE BUSINESS MODEL

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The higher education industry is at an inflection point. Public and private institutions alike are tracking, if not yet being impacted by, a tectonic shift in who they serve (and how they do it).

Overall enrollment has incrementally declined, forcing some colleges and universities to consider consolidation and closures. At the same time, higher education's target market is no longer limited to new high school graduates. The pool of potential applicants is diversifying across race and ethnicity, age and socioeconomic factors. This changing audience is challenging institutions with new expectations that traditional academic offerings may not be equipped to meet.

As higher education's audience evolves, questions about institutions' cost structures become more pressing. Tuition at public and private institutions rose more than 100 percent over the last two decades. With government appropriations shrinking, many colleges and universities are more reliant on tuition dollars than ever before—reinforcing the affordability barrier that prevents schools from attracting and retaining bright minds.

Demand for higher education is diminishing and the offerings institutions supply are losing shelf life, rendering current financial and operational structures unsustainable. To thrive for decades to come, higher education leaders, even those at institutions succeeding today, should prepare to fundamentally adapt their business models.

Laying the Groundwork for a Viable Future

Tactics such as tuition discounting are short-term fixes for higher education's long-term challenges. Higher education leadership teams need a bold vision for innovating their operations and offerings to ensure their institutions' longevity.

Four areas higher education leaders could explore when building future-proof business models include:

- **Academic portfolio optimization:** Academic offerings account for approximately half of institutions' total expenses, but few leadership teams have visibility into the efficacy of their programs. Similar to an investment portfolio, higher education executives should treat their academic offerings as a portfolio with balanced priorities (e.g., mission, prestige and profit), that has a regular cadence for review and reimagination.

  With a unified, data-driven approach to academic portfolio optimization, leadership teams can objectively measure each program's performance, financial viability and alignment with the institution's current and future strategy. Conducting this exercise on a constant cadence can reveal programs ripe for consolidation and areas worthy of additional investment.

- **Revenue-driving partnerships:** Another private sector trend with potential for the future of higher education is the pursuit of partnerships. The right alliance can infuse your institution with the expertise and resources necessary for successful reinvention. For example, U.S. universities have historically used joint ventures to expand their global footprints. More recently, it has become common for institutions to establish partnerships for online programs. Forging similar partnerships in other operating and academic areas could be a fast-track to cost reduction and scalability. Mergers and acquisitions should also be up for consideration. Beyond minimizing expenses, M&A can unlock growth opportunities. Purdue University's 2017 acquisition of Kaplan University, for instance, set the stage for the launch of Purdue Global, an online program with more than 100 offerings largely geared toward adult learners.

- **Education delivery innovation:** Leaders' most difficult step in building a new higher education business model is unlearning what you already know about your audience. Teams should commit to understanding the needs, challenges and goals of a new student body. With that detail, you can identify which capabilities you need—and those that are no longer relevant—to succeed. If your institution plans to increase the number of rural or working adult students, the main venue for learning may shift from the lecture hall to virtual platforms or more distributed microcampuses. For these emerging populations, two or four-year degrees may not be as feasible (or effective) as certificates, "stackable" credentials or interdisciplinary programs that can be enrolled in year-round.

- **Evolved pricing structures:** As education delivery and student demographics transform, institutional pricing should adapt accordingly. While undergraduate tuition discounting has steadily increased for the last decade, awarding more aid alone isn't a long-term solution to enrollment and budget challenges. Just as the healthcare industry is moving from fee-for-service to value-based payment models, higher education could benefit from more closely tying costs to student outcomes. For example, some institutions are implementing differential tuition where costs vary depending on an academic program's internal costs or graduates' earning potential. Online learning and stackable credentials also present opportunities to pilot new structures, such as subscription payments or program-specific pricing.

As the higher education environment continues to transform, maintaining the status quo is the riskiest move leaders can make. Positioning your institution for long-term financial and operational success starts with more than near-term tactics; it demands a new, strategic business model.

By developing a plan for tomorrow's changes today, higher education leaders can protect their institutions' relevance and competitive edge.

Key Takeaways

Building a future-proof business model for your institution requires higher education leaders to:

Think differently.

Take note of transformation strategies from industries outside of higher education that can guide your institution into its next chapter.

Plan differently.

Chart a course of action based not only on who you serve today, but the students you want and need to engage tomorrow.

Act differently.

Empower leaders to challenge tradition, develop bold visions and pursue creative partnerships that drive innovation across your institution.

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