



# Different Equations

*Universities certainly face significant fiscal challenges. While some say the business model for higher education is broken, a more interesting inquiry might be to examine how the business model is evolving.*

By Stephen G. Pelletier

**R**ecent headlines and symposia have posed this deliberately provocative question: Is the business model for higher education broken? Ask that question in AASCU circles, though, and you often get a decidedly muted response.

It's not that the question isn't germane or timely—given today's fiscal pressures, it is certainly highly relevant. Rather, one gets the impression that AASCU leaders have perhaps moved beyond that question. Or perhaps it's that their first priority is to pursue practices that will help them thrive today and tomorrow. That pressing work doesn't leave much time to reflect on the "is it broken?" inquiry.

Moreover, AASCU leaders will remind you, the business model for higher education is in a continuous process of rebirth. The Great Recession forced most institutions to rethink fundamental

business practices, but universities have been doing that for decades in the face of declining state support. Before that, they had to re-invent their business models when the doors of public universities first opened to the masses, during past boom and bust cycles, and during changes in federal support for student aid. The business model isn't a static entity, and honing it is an ongoing process.

## ***Debating the Question***

Still, the "is the model broken" question has been a focus of many esteemed experts. In 2010, for example, the University of Virginia's Miller Center sponsored a debate on the question. Prominent researcher David W. Breneman was asked to summarize arguments on both sides of that question in a pre-debate paper.

"From the narrow perspective of institutional survival, the business model of higher education is not broken,"

Breneman observed. "Few institutions, public or private, are likely to close in coming years, and the social need for higher education will increase, not diminish." On the other hand, he wrote that, "From the perspective of meeting the public purposes of access, opportunity, affordability, completion, and international competitiveness, however, one can make a strong case that our methods of financing and organizing higher education are not well aligned with our national needs. In that sense, the business model is definitely broken."

If they had but world enough and time, AASCU leaders might engage more directly in discussing such questions. But the reality is that more urgent issues command their immediate attention. The dynamics of the change that university leaders must address are all-too-familiar: Erosion of state support. The maxing out of tuition revenues. Changing student demographics. The rise of technology. The

rise of new competitors. And, of course, this list goes on and on.

Everyone's talking disruption because, well, the world of public higher education has gone more than a little topsy-turvy.

### **Complicated Factors**

"Current business models are not sustainable," says Susan C. Aldridge, a past president of the University of Maryland University College and a senior fellow at AASCU who was recently tapped to lead online learning at Drexel University (Pa.). "The increasing costs, the decreasing revenues from not only state legislatures but federal research dollars as well as donors, and the inability of families to continue to pay ever increasing tuition costs put universities in a position where they need to think of new and more creative business models."

"The reality is that there is less state support and institutions are more heavily dependent on tuition probably than at any time in their history. And this is complicated even more with growing concerns about student debt and affordability," says David L. Eisler, president of Ferris State University in Michigan. Balancing those complicated factors, he suggests, means thinking about "a different equation in terms of the funding for higher education in the public sector."

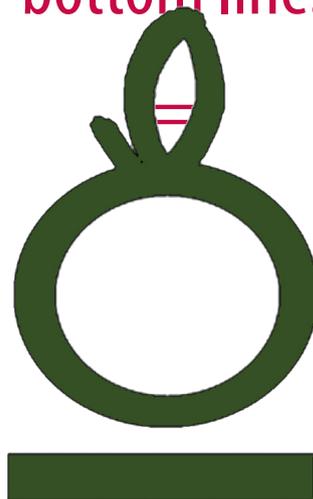
There are no single or easy fixes. New technologies alone won't address all the problems. Tuition increases cannot reap enough additional revenue to fill budget gaps. Adding or cutting programs alone won't put budgets in the black.

Against this sobering backdrop, though, a number of emerging trends suggest that public universities are finding new, creative ways to deliver their missions and balance the bottom line.

"I know that the popular view is that [state universities] are change-averse, rigid, stuck in the past, working from a

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model that is at least 100 years old," says Susan A. Cole, president of Montclair State University in New Jersey. She rejects that characterization categorically.

"I cannot believe that anyone who has spent any time at all considering

the monumental changes that have occurred in these institutions over past decades could possibly see us as rigid or unchanging," Cole says. "Just look at the enormous expansion and growth of populations served, at the creation of a myriad of new fields of study, at the engagement in research, at the services provided to communities, and, most recently, at the wholesale incorporation, almost overnight, of highly complex new technologies."

### **Evolving New Models**

Indeed, a picture is evolving that suggests that leaders of public universities are deeply engaged in developing different equations for many dimensions of managing their institutions. Evidence of that evolution can be seen across several recent trends.

#### **Diversifying revenue streams.**

Appropriations in some states have risen recently, but after years or decades of decline, the overall trend is clear: that source of income may never be as robust as it once was. In the face of this fiscal reality, public universities have been re-inventing their business model by finding different revenue streams. Many, for example, have created new programs, particularly graduate programs, where demand is strong. From corporate partnerships to squeezing more net revenue out of auxiliary enterprises, universities are avidly seeking new and expanded sources of income. Many, too, are pouring more energy into private fundraising.

#### **Embracing new modes of delivery.**

The increasing use of technology for teaching and learning can be seen as another element in the reinvention of the university business model. While this trend is in its early years, many institutions have found new markets of students through distance learning. Growing use of technology in the classroom—such as with hybrid

courses—is helping universities become more efficient in the delivery of education, particularly for entry-level courses.

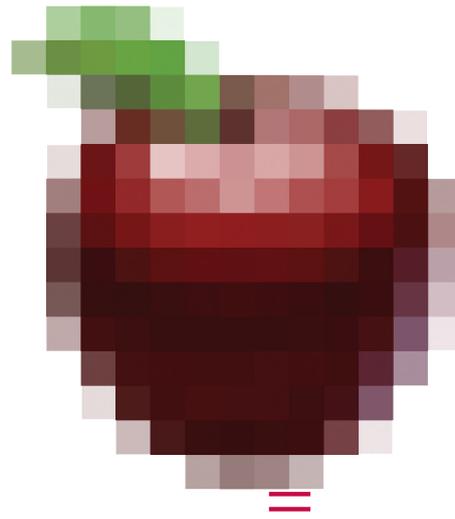
### Thinking anew about tuition.

Many institutions continue to rely on tuition increases to close revenue gaps (although there is increasing pushback to that strategy from students, parents and lawmakers). We are also seeing wider experimentations in differentiated tuition, with some institutions charging more for high-demand programs.

Emerging ideas about tuition reflect a sector eager to design new business models. This past July, for example, legislators in Oregon approved a concept called Pay It Forward, in which students would attend public universities tuition free. In exchange, they would pay 3 percent of their post-graduation income, for 24 years, into a fund that would pay for future students to attend college. And last April, the College of William & Mary (Va.) approved a plan under which new undergraduates would pay 20 percent more in tuition and fees than their counterparts from last year, but with a guarantee that they would not see their tuition increase by more than the rate of inflation through their graduation year.

**Recruiting more broadly.** To increase revenue, many institutions are routinely accepting larger freshman classes, and many are boosting efforts to recruit out-of-state and international students, who can presumably pay premium tuition levels. At the same time, we are seeing more outreach to adult learners, both to help them complete degrees and, through partnerships with employers, help them develop their professional skills.

Some universities face the challenge of wanting to recruit more students in a region where the traditional college-aged population is shrinking. To meet that challenge in Michigan, for example, Eisler and his colleagues at Ferris State have intentionally broadened the ways they serve students. University courses



## Public universities are avidly engaged in nothing short of evolving new business models.

are taught in 17 locations around the state, and at its home campus, Ferris State educates some 10,000 students who average 21 years old. But to provide bachelor degree completion for students who are place bound, it also partners with community colleges, where students average 33 years old. “We’re looking at two different markets in terms of the students we look to work with,” Eisler says.

### Partnering with corporations and

**communities.** Anecdotal evidence, at least, suggests that more universities are investing more energy in finding ways to partner with corporations. Apart from expanding research-focused projects and delivering programs to train corporate employees, we are seeing an expansion and greater sophistication around public/private partnerships in such areas as facilities development—one prominent example being Ohio State University’s decision to lease its parking system for 50 years for \$483 million.

At the same time, public universities are also engaging more directly with local, regional and state communities. Speaking to one dimension of this trend, Eisler says, “There is a greater expectation on the part of our legislature, governor, and political and business leaders that we have to be an active partner with them, looking to see where the needs are in our state and addressing them so that we have a skilled workforce that is inviting to business. There is an active partnership there that I think is different than it was 10 years ago.”

“Being an effective and respected community partner is very important in this new environment,” Eisler adds.

Universities are also developing more partnerships with other universities. Through the Washington University-University of Missouri-St. Louis Joint Undergraduate Engineering Program, for example, UMSL students study engineering in Washington University classrooms and labs, with Washington University faculty, in the late afternoon and evening. The program meets local workforce needs for engineering talent while also providing exceptional opportunities for UMSL students.

“We’re going to have to build relationships with other universities so that we can do things more economically,” says Kenneth W. Dobbins, president of Southeast Missouri State University (SEMO). “That may be one of the hardest things to do—building those relationships and not worrying about a dollar here or dollar there, but rather looking at what’s

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in the best interest of our students in our institutions overall.”

**Pursuing efficiency aggressively.**

Finally, public universities have, of course, become more determined and perhaps more strategic in making all of their operations more efficient. Many have made difficult programmatic and administrative cuts, and more may be in the offing.

Having seen its support from the state erode from some 85 percent of its revenues in the early 1980s to just 40 percent today, SEMO has cut programs and people. Like most institutions today, it is engaged in ongoing efforts to identify and implement cost savings across the university. Dobbins says that university leaders need to ask fundamental questions. “We have to scrutinize what we deliver and ask the questions, ‘What are we doing? How are we doing it? How can we do it better—and should we be doing it?’”

Increasingly, too, universities are searching for ways to deliver education more efficiently. Cole, for example, says that Montclair State “created a mathematics learning center where we teach some of the core, basic-level mathematics courses in a much more efficient and cost-effective way that we did before.”

**Quality and Effectiveness**

Underscoring these trends, of course, is a redoubled focus on educational quality, effectiveness, value and outcomes. Moreover, a case can be made that many public universities are discovering a new spirit of entrepreneurialism and creativity—perhaps engaging in the development of what Michael M. Crow, president of Arizona State University, has described as “institutional cultures of innovation.”

The evolving scenario is not, of course, perfectly rosy. Nor can we suggest that public universities have found a magic formula that will make their financial coffers overflow. Deep-set financial challenges persist. Revenue

shortfalls endure. Institutions have, for the most part, not cut overall expenditures significantly—operating budgets continue to expand, not contract. Many institutions are spending less money per student. The promise of technology also carries a high price tag that universities must absorb. Opting for equity in paring budgets across the campus, some institutions have not been as strategic as they might have been. Students and parents are struggling under expectations that they will shoulder an ever-larger portion of the cost of college. Some critics maintain that slashed programs and the embrace of technology undermine institutional missions. And we could, of course, cite other downsides of the new fiscal realities.

Nonetheless, as reflected in glimmers of brightness in the budget picture, we can suggest that public universities are avidly engaged in nothing short of the business of evolving new business models.

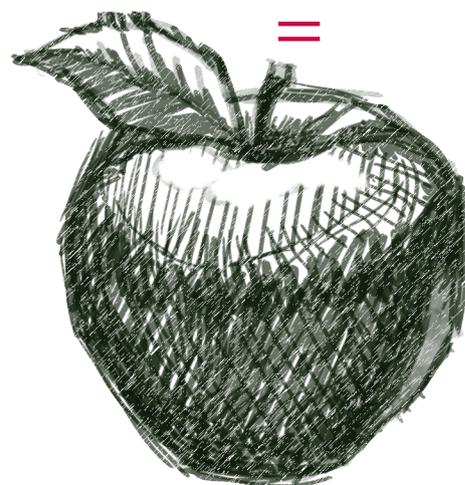
How might university leaders capitalize on these opportunities? “First, know your core mission, and make every budgetary decision, small and large, in accordance with the requirements of that mission,” Cole says. “Second, manage, manage, manage. No institution manages itself. Every institution becomes sloppy and wasteful unless there is a culture of rigorous, demanding management and accountability at every level all the time. One never achieves perfect efficiency and effectiveness. It is a continuous endeavor.”

“We can’t be all things to all people,” Eisler says, “We have to find the places where we have the ability to make a difference for our citizens and our state.”

As for the question of whether the business model is broken, Cole says that needs to be put in perspective. She observes that in the past higher education has changed substantively to meet societal needs and changing fiscal conditions. “I think we are doing exactly that now,” she says.

“I don’t actually think the sky is falling,” Cole explains. “I think that the traditional university model is here to stay. We are going to change enormously,

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as we have done in the past. But I think the fundamental character of the university as a place where scholars and students gather to explore the edges of knowledge is going to remain.” **P**

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