THE CHRONICLE
of Higher Education

SPECIAL REPORTS

Want Breakthroughs That Last? Consider Your Business Model

Colleges often plunge into innovation without thinking about the cost

By Rick Staisloff | OCTOBER 23, 2016

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If a college truly wants to be innovative, it could start by educating its own leaders about its business model. Sadly, the business model is typically the last issue to be raised when new projects are proposed, if it is raised at all.

What level of investment will be necessary to ensure a successful launch? How do changes in student retention and average credit loads contribute positively to the bottom line? At what point (if ever) would the innovation cover its costs or provide a financial return? These kinds of questions, critical for a successful business model, cannot be separated from the passion that colleges bring to delivering high-quality instruction and student success. In fact, the only way to deliver that quality and success today is to ensure that investments in innovation lead to sustainable business models.

The lack of attention to business models often results in underinvestment in innovation, unrealistic expectations as to what the innovation will produce, and a failure to create the holistic cultural change needed for new ideas to take root. This dynamic has been evident across many inventive changes in higher education, from online education to more recent competency-based education programs. Given these risks of failure, why do colleges rarely focus on the business model behind new projects? There are three reasons:

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Nervousness over the economy and questions about the value of a college degree have contributed to growing expectations that colleges must make career services a priority. This special report on innovation examines some of the career-counseling efforts underway — by colleges, start-ups, and collaborations between the two. **See the entire issue here.**

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First, colleges too often fail to provide their leaders with training about how the business model works. Many college leaders — including presidents, department heads, deans, and program directors — have not had the training or experience necessary to create a business model that supports both their mission and the need for financial sustainability. Without these skills, leaders are unable to determine the next best investment. When confronted with multiple opportunities for innovation, how will they know where to put the next dollar or move that vacant faculty line? Once an investment is made, leaders must also set clear targets for the expected return on investment, in order to demonstrate their own accountability. Colleges need to assess these kinds of business skills when selecting their leaders and to invest in training that helps them build on those skills. Understanding the business model is now a fundamental component of leadership success in higher education.

A word on "return on investment": In applying a business-model lens, colleges must consider return on investment not only in terms of dollars and net revenue but also in terms of student success. Not every investment or innovation will generate additional revenue for a college. However, a college must establish, before investments are made, what the results should be — both financially and in terms of student results.

A second reason that colleges often fail to focus on the business model behind new initiatives is that many do not have good institutional data or the ability to analyze that data. They are unable to engage in good storytelling — to share a compelling narrative about the elements that contribute to financial sustainability — because they cannot show what the numbers mean and why they are important.

Finally, there is a general lack of understanding in higher education about how college business models work. If we don’t understand current models, how can we create new ones that will support new ideas? This issue is crucial as we consider how our innovations will be financed. In a recent survey, almost 60 percent of college chief financial officers predicted that investment in their institutions would need to come from reallocation of existing resources rather than an increase in net revenue. That means that long-term, sustainable investment in innovation would have to come from changes in a college’s existing business model and by structuring innovations to eventually support themselves.

Discussions about innovation often appear to support the idea that colleges can jump to new business models at will, simply by choosing to become innovative. The reality is that most institutions must first do the heavy work of understanding their current model and restructuring it to better support their mission and financial sustainability. The most successful colleges focus on maintaining quality and generating more net revenue from their current business models while also driving toward invention.

How does this work happen? At the most basic level, a college would introduce faculty and staff members to new business models and create an urgency for change. It would then use data and metrics to determine its current financial performance, establish clear performance targets, and track progress in meeting those targets. This step produces good opportunities for institutions to move away from spreadsheets and engage in storytelling. The institution would then examine its academic portfolio and administrative services to determine how best to meet academic and financial goals, and how it might restructure services to maintain quality at lower cost.

Once an institution has identified its economic engines (the programs and services that make the largest contribution to financial sustainability), it can direct resources toward them and to its strategic academic and financial goals. The college should be in a position eventually to harvest resources for reinvestment in new strategies, thus moving dollars, people, and time away from simply maintaining the current model, and toward an investment in the college's future.

The importance of tying invention to a college's business model is readily apparent in the movement toward competency-based education programs. Such programs offer an opportunity to bend the higher-education cost curve by lowering the cost of academic delivery and creating potentially faster pathways to degree completion. However, my company's recent research suggests that too many of the institutions now interested in competency-based programs have failed to consider the business models behind them, placing the sustainability of their efforts at risk.

For example, many colleges establish tuition rates before developing a business model. Low tuition rates may support critical goals like diversifying a class and getting more students to graduate, but they reduce an institution's flexibility around revenue generation. As a result, institutions are forced to reach very high levels of efficiency and economies of scale to break even. Furthermore, colleges often fail to understand the significant up-front financial investment required to start a competency-based education program, which limits their ability to offer the program on a large scale. Finally, many colleges mistakenly believe that competency-based education can be a quick moneymaker. In fact, such programs will most likely require "patient capital," since it can take five years or more before annual revenues equal operating expenses.

Innovation cannot happen on command. Rather, the movement toward inventive new business models requires significant institutional research and investments in training college and faculty leaders. Only then can colleges ensure that their innovations are not only new and exciting but sustainable as well.

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A version of this article appeared in the October 28, 2016 issue.