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Feature Article

Let Disruption Fix Higher Education
The time has come for teaching-model universities

By Henry Eyring

Recently Professor Clayton Christensen has been exploring the application of his disruptive innovation theory to education. In a May-June 2008 article for *BizEd* he looked at business schools. In his latest book, *Disrupting Class* (the subject is K-12 education. This leads us to wonder — what does disruption look like when applied to higher education?

A quick snapshot of the state of higher education in the U.S. reveals some troubling trends. Students have been hit with the irony of skyrocketing tuition costs and decreased access to faculty. The federal government estimates that the average cost of a 4-year degree has grown by 76 percent over the past 10 years.

From the federal government's perspective, U.S. higher education is broken. Congress and a commission led by Secretary of Education Margaret Spellings have been searching for a fix. The Spellings Commission released its final report in 2006, calling for higher quality, increased affordability, and greater access for college students.

Congress passed a couple of acts in 2008 meant to decrease the cost of a college degree. A sign of their fiery resolve, one includes "lists designed to embarrass colleges that increase their tuition significantly."

Though well-intended, these attempts will likely flounder in a stark structural reality. What the federal government is really asking for is a disruptive innovation in higher education.

Fortunately, there is such as disruption going on, though it has been little noticed by the general public so far. Higher education has adhered to research since the first modern universities were founded, during the Renaissance. This model sucks money, faculty resources and attention away from students and towards research, publishing, and in some universities, major athletic programs.

What's needed is an alternate approach, based on teaching rather than on research. The teaching model, which is beginning to take hold in some U.S. universities, focuses money, faculty resources, and attention to preparing students for the workplace. Let's examine these two models more closely.

Research universities vs. teaching universities

The table below illustrates differences between the prevailing research model and the teaching model. The research-model university has two main “Products”: research and/or high-profile intercollegiate athletic programs.

	Research Model	**Teaching Model**
Structure	Lighter teaching loads; faculty emphasis on research and publishing; professionally coached intercollegiate sports teams; two semesters per year	Heavier teaching load; faculty emphasis on innovative course development and online learning; student-led intramural sports; three semesters per year
Product	Research; high-profile sports programs; preparation for research, academic, and athletic careers	Preparation for the workplace
Customer	Academy (faculty peer groups); government agencies and corporate research divisions; prospective employers of graduates; alumni; sports boosters and fans; professional sports teams (recruiting)	Students; prospective employers of graduates; government (from piqued interest in serving students); alumni

It should be noted that not every university with a high-profile athletic program has an equally high-profile research program, and vice versa. However, for the purposes of this analysis, the main issue is that these universities focus on activities other than educating students.

This becomes clear when looking at the “Customer” section of the table (customers are listed in order of importance). Note that the research university’s most important Customer group is the “Academy” — the university’s faculty and administration, as well as peer groups and refereed journals within the various academic disciplines.

The research university also serves alumni who see major research success as a source of pride and a reason to keep donating to the university. Government agencies and corporate research divisions also are customers of the research put out by research universities.

Universities with a high-profile focus on athletics could have an even more complicated customer base that would include alumni, sports fans, and the professional athletic organizations that some of their players are drafted into. College football alone is a huge business. According to an August *Forbes* cover story on University of Alabama head football coach Nick Saban and his nearly $5 million annual compensation package, Alabama's football program had $54 million in revenue in 2007 and an estimated $32 million profit.

This is not to say that the research university does not serve students. It is to say that for these universities, students are a small part of a large, interconnected web of customers that research universities serve. We would suggest that students are, in fact, perhaps the customers with the least importance in the eyes of the research university. And educating them is not the research university's highest priority.

In contrast is the teaching-model university. Here, the "products" are students who are well-prepared for the workplace. Students would be on top of this customer list for the teaching university. Government comes next, with its stake in making sure public universities are serving the public.

Alumni have a stake as well, especially since well-prepared graduates could also spur alumni giving and alumni recruiting of students. And also on the list of customers served by the teaching university would be businesses that employ these well-prepared graduates.

How do these two models differ in practice? The main difference lies in the way faculty are utilized and funds are allocated. Research university faculty have lighter teaching loads, with more of their time spent on research and publishing. Classes generally take place two semesters per year. Summer sessions are usually offered, but not required, and most faculty members would not teach in the summer.

At the teaching university, faculty members are focused on teaching and developing courses. Some such universities do not offer tenure at all, and those that do tend not to require publishing and research to qualify for tenure. Instead, brilliance at classroom teaching and course development is rewarded.

Most colleges that take a teaching-model approach also run on a three-semester schedule, offering better scheduling opportunities for students. For example, at BYU-Idaho the academic calendar is divided into three equal semesters: winter, summer, and fall. Students are admitted to one of three tracks: summer/fall, fall/winter, or winter/summer. Students are "off-track" for one semester each year, and they stay on the same track through graduation. Such a schedule allows more opportunities for students to attend and flexibility for students to pursue internships and jobs.

What makes the teaching model disruptive?

In prioritizing the needs of other customers before the needs of students, the research model misses the students' job-to-be done — to be well-prepared for the job market. The research model also presents barriers of cost and accessibility to a large number of current nonconsumers of higher education.

Therein lies the disruptive opportunity for teaching-model universities. These universities provide a good-enough performance for the students' job-to-be-done. Teaching-model universities also have an advantage in that their "product" is priced low enough and is accessible enough to appeal to prospective students who are shut out of research universities because of costs and an inability to succeed without more time and attention from faculty.

It's important to note that the top-tier research universities, public and private, are exempt from both this goal and this disruptive process. First, the job of many students at such schools is to prepare for a specific kind of job market, that of higher-level research, technology, academic, and even athletic careers.

Also, gigantic endowments insulate most top-tier research universities from the need to serve students. Thirty-one private colleges have endowments of at least $1 billion each, according to the National Association of Independent Colleges & Universities (NAICU).

The real danger is to the mid-tier private universities, which would be left in the dust by such a disruption. Comparatively, they'd be under-performing on research and teaching, although not necessarily on athletics. Perhaps they'd look down at the treadmill of inadequate funds and PhD talent on which they've been running, and recognize the futility of chasing schools such as Harvard and the University of Southern California, a powerhouse in college football for much of this decade.

If they were smart, they'd switch to the teaching model — where the potential lies. The result would be an efficient U.S. higher education system. U.S. graduates would be better prepared to compete with the surge in educated labor from China and India.

How to drive disruption in higher education

Congress and state governments could tag-team to change higher education in the U.S. by making the teaching model viable on a broader scale. For example, Congress holds some funding purse-strings for public universities. The federal government provides about a third of the funding for public universities and a fourth of the funding for private universities.

Congress could alter its appropriation of higher education funds to shift a higher percentage of funding to institutions that place their focus on teaching rather than research.

However, much of the work of reforming higher education will fall on state legislatures and boards of education, since they are responsible for setting policies that affect most public higher education.

These bodies could mandate a move to the teaching model in their public universities. This needs to be done strategically, by leaving one or two of their universities as flagship research and sports institutions to lead the state's brand.

In practice this concept has been highly problematic as the second-tier public universities perceive quite rightly that the only prizes worth pursuing are the titles of flagship research institution and/or sports powerhouse.

For example, in Texas there has already been a great deal of discussion about the Legislature's intent to "lift up" one of the public universities to national research prominence, such as University of Texas and Texas A&M already have, by selecting another public university for such emphasis and increased funding.

The end result, unfortunately, has been stalemate, with seven universities all currently classified as "emerging research universities" vying for this prize. None of these universities are vying to become the best place for students to learn — there's no funding mandate attached to that. If there were, perhaps this entire concept would play out differently.

Teaching and research models at the state level

Here's how this concept could work. In Utah, for instance, Dixie State College could be renamed "The University of Utah at Dixie." It could then move to the teaching model and avoid a drop in brand value by riding on the sports and research reputation of the University of Utah. The University of Utah could increase its performance in sports and research with the funds freed up by the end of copy-cat programs at smaller Utah schools.

As Dixie State rose along rankings suited to the teaching model, and the University of Utah became stronger along the research path, the Utah higher education brand would be built state-wide. This would end Utah's redundant investment in competing research and sports brands like Southern Utah University, Utah Valley University, and Dixie State.

Individual universities should be handled carefully during this transition. The University of Utah gets about three times the tax funds per student as Dixie State does. Their faculty should be presented with a trade-off: on the one hand, funds for research and the job security of tenure; on the other hand, fatter paychecks and the fulfillment of helping students.

Larger salaries could be sourced from the numerous economic boosts that come with the teaching model. For instance, online courses and a three-semester track are cost-efficient and reach out to traditional nonconsumers such as working adults. The 46 percent of working adults who participate in education are an often-ignored market.

Also, not just Congress, but states, could award a greater portion of tax funds to universities that embrace the teaching model.

The third boost in revenue could come from alumni gifts. If a university's graduates are better prepared for the workforce, they might feel a stronger tie to their alma mater and be in a better position to give. Revenue from all three of these sources could justly be passed on to the faculty working for it.

The fulfillment of helping students would come through increased teaching loads and teaching for a full three semesters each year. This needn't be a net increase in work, though, because the higher teaching load would replace research and publishing demands. Those demands would be lessened if tenure — job security — became based on teaching excellence and not on success at research, publishing, and sports.

Conclusion

This is only a snapshot of a large, complex issue. The threat of impending disruption can sometimes clear complexity and cause those in disruption's path to reconsider their strategies.

If the U.S. public higher education system is able to take advantage of the disruptive forces in its midst, the result could be an efficient system of higher education that would include a majority of universities that grow along the teaching model, and a few institutions that stick to research and/or athletics. This is not inconsistent with the Spellings Commission report, which asserts that value should be placed on "*research* that contributes to the growing fund of knowledge."

David Breneman, a professor of the Economics of Education at the University of Virginia, is ready for a new wave. Frustrated with the lack of response to the Spellings Commission Report, he asked, "Are governors and state legislatures… likely to seek ways to hit higher education with the proverbial two-by-four in order to get our attention?"

The answer seems to be yes, but if state governments and Congress take calculated swings, they can knock higher education in the direction of disruptive innovation. From there, the "invisible hand" of self-interest will take the reins. As Rep. George Miller (D-Calif.) stated, "We are redoubling our commitment to college students."

That's the will, and this is the disruptive way.

Henry Eyring is a student at BYU-Idaho, a teaching-model university. He worked as a summer analyst at Innosight. Renee Hopkins Callahan, editor of Strategy & Innovation*, contributed to this article.*

Innovator's Insight: When is Nonconsumption an Opportunity?

The new Peek handheld illustrates the necessity —and the pitfalls — of targeting nonconsumers

By Scott D. Anthony

You want to surprise people in your office? Ask them to estimate the percent of U.S. mobile phone subscribers who use email on their phones. Depending on who is doing the estimating, the figure ranges from seven to 13 percent .

A startup company called Peek looked at those figures and saw disruptive opportunity. After all, as described in Chapter 2 of *The Innovator's Guide to Growth*, one of the most powerful ways to create new growth is to expand markets by making consumption simpler, more affordable, or more convenient.

This week, Peek's first product appeared in Target stores. The simple device, designed by product design powerhouse IDEO, costs $99. It allows users to send and receive email using T-Mobile's wireless network for $20 a month. And that's it. No phone, no wireless Internet connectivity, no attachments. Just email.

Will Peek follow the Apple iPod or Pure Digital Flip video camera — both elegant devices that have grown markets through simplicity — on the road to disruptive success? Reviewers report it delivers on its promise of making mobile email simple. David Pogue from the *New York Times* wrote, "If you get lost on this machine, heaven help your encounters with an A.T.M."

The critical question is why so many people don't send email messages on their mobile phones. If they are truly scared off by complexity, hard-to-use keyboards, or overpriced data plans, Peek has a chance of success.

There's another explanation, however. Perhaps the need to send email away from the office or home actually isn't that important to the mainstream consumer. In other words, the reason why they aren't consuming is not because existing solutions don't get the job done; it is because the job simply isn't that important to them.

I conducted extensive market research by talking to the two people in my family who are avid email users on their personal computers but have never once sent email on their phones (a Palm Centro and a Blackberry Pearl).

"I already have one thing. I don't want to carry two, and I don't want to pay any more," one family member said. She said she'd figure out how to use her Centro before moving to the Peek.

The Blackberry owner (who receives email but doesn't send it) found the concept intriguing. "Would I have a less complicated phone if I also had this? Yes, if it was cheap enough, given that it would be another gadget to carry, another plan to manage." She did mention that a couple of the features that Peek doesn't have (such as the ability to view attachments) would be a deal-killer for her.

Going beyond my two-person sample, my hunch is that much of the nonconsumption in the market actually results from disinterest, inhibiting Peek's chances of success.

This discuss raises a natural question. Beyond talking to family members, how can a company actually figure out the "why" behind nonconsumption? Well-crafted market research is one answer. Our experience is that the most productive research probes problems facing consumers and barriers that inhibit their ability to solve those problems.

This approach contrasts with the natural tendency of most companies to test the concept itself, asking people questions along the lines of, "Would you buy this product?"

Focusing on product concepts can cause problems in two circumstances. First, a consumer who has a deeply seated problem might dislike a particular concept for myriad reasons. The consumer's negative reaction to the concept obscures the fact that the company is actually working in the right market space. Statisticians would call this kind of "false negative" a Type II error.

A consumer could also react positively to a concept because they find it novel, but when time comes for actual purchase, they realize that the problem the product addresses isn't important enough to actually part with their hard-earned cash. Statisticians would call this a Type I error; we call it a Pet Rock problem.

These limitations are why Procter & Gamble CEO A.G. Lafley so strongly believes in moving beyond traditional concept tests to more transaction-oriented learning, where people in essence "vote with their wallet." In the discussion I had with him at the Front End of Innovation conference in Boston in May, he noted that transaction-based learning "is really important because it's when you begin to understand who the prospect really is for this new product or service, will they purchase it and for how much, and then, once they purchase it, what's the usage cycle like, what prompts repurchase?"

The right kind of market research or transaction-oriented learning give greater insight into whether a barrier to consumption is a lack of skills or wealth (suggesting an opportunity) or disinterest (suggesting a lack of opportunity).

It's possible that Peek followed these kinds of approaches, and validated that there is in fact a huge pool of hungry nonconsumers. Even if that is the case, however, Peek might be in trouble. Peek is following a business model — device plus monthly subscription fees — that looks very familiar to mobile handset manufacturers and wireless operators. If Peek's handset were significantly cheaper or if Peek featured no monthly charges, the company would increase its chances of success.

Perhaps Peek is already working on a second-generation device encased in a truly disruptive business model. If not, even if Peek does pioneer a market, expect growth-hungry handset manufacturers and operators to figure out ways to mimic Peek's approach. While that would be a good result for consumers looking for simpler, cheaper devices, it would be bad news for Peek's chances of long-term prosperity — unless of course a market incumbent decides to pay a hefty premium to buy Peek!

Voices of Disruption – Jim Lurie, TVLowCostUSA

By Renee Hopkins Callahan

Jim Lurie, president of TVLowCost USA, has worked more than 20 years in marketing and advertising, on both the client and agency sides. He is one of the founders of the agency Owens, Kopilak, Klein, Lurie, LLC (o2kl). Lurie spoke with editor Renee Hopkins Callahan about TVLowCost USA's disruptive approach to television advertising.

Q. What is TVLowCost USA, and how did it start?

A. TVLowCost was started in France by John Paul Tréguer in 2004 after he sold his own advertising agency to EURO RSCG. He's always looking for better ways to do things and he developed a process to get brands on TV that could not afford it before. Now, for the first time, midsize and smaller brands could afford to advertise on TV.

Since then Tréguer has taken the model to 11 other countries. In each country the TVLowCost business is a partnership with a local owner and the various businesses function as a network. Internationally, TVLowCost has created advertising campaigns for such companies as Heinz, Wrangler, Bose, Bayer, Bristol-Myers Squibb, and Unilever.

We have a simple, far less expensive way of developing and running TV campaigns. We just focus on TV. We create the spot, shoot it, edit it, produce it, and place it. In the U.S., we provide a complete initial package with a two- to three- spot campaign and the first 150 Gross Ratings Points (GRPs) of media — which provides good impact — all for a low flat rate that's about one-third of what high-cost agencies charge. No surprises. Our flat-rate pricing model is very disruptive.

Essentially we've changed the traditional relationship ad agencies have with their clients. We don't work on a retainer basis; we work on a project basis. So we require a volume of spots to make this work. We get projects in and out quickly, taking clients from briefing to air in eight weeks. That's a lot less time than high-cost agencies that tend to charge their clients by the hour. This is how we are able to offer high-quality spots for one-third the cost.

We opened the doors of the U.S. business in August, and already we've had not just acceptance, but great interest even by the big name brands. In today's economy everyone is being squeezed, so TVLowCost makes a lot of sense for those who have to cut their marketing budgets. For secondary brands it's an opportunity to get the attention they deserve.

Q. How does TVLowCost USA work?

A. A traditional advertising agency will make an agreement with a company that will involve either a long-term retainer, or project compensation to develop and produce TV spots. Then the agency comes back to their client with concepts and budgets.

High-cost agencies often bring an "anything goes" mentality to creating spots, mistaking extravagant production for creativity and impact. So they'll often recommend far-away location shoots, untried production techniques, and A-list directors — all of which costs time and money. Plus these add uncertainty, because you never know how much the extras really cost until you get the last post-production bill.

In contrast, our model is to provide certainty for our clients. Our initial package price of $500,000 for a campaign includes everything — creative, production, editing, focus group research and the first 150 GRPs of media. Clients don't have to spend a penny more. It's up to us to figure out how to deliver on the price.

So we streamline the process in all sorts of ways. For example, we do not take the time and money to present storyboards during the concept phase. TVLowCost has produced hundreds of spots using concept statements and scripts. And you won't see us shoot a spot in Argentina or Australia when it is not needed to sell the product or service. This is the type of focus and clarity that is being asked for by every client.

Finally, a lot of clients tell us they suspect agencies push certain creative ideas on them, not out of a desire to sell the client's product, but rather, to make their creative reel look more creative and win awards. Awards look pretty in the showcase, but the main job of a spot is always to sell, sell, sell. We only make a profit after the client decides our spots are effective enough to run again. This really forces us to focus on creating ads that get results for our clients.

Q. What is the business model? Who is the customer? What makes it disruptive?

A. Unfortunately for most clients, their "high-cost" agencies are not feeling their pain and their budget constraints. The high-cost agencies don't feel the need to do more with less. They are not changing their business models to address this need. The reality is that they cannot change their business model. One cannot become "low-cost." You must be born "low-cost."

An example of this is Southwest Airlines, which created a disruptive business model and changed the airline business from the ground up. The travel experience is pretty much the same. You get to the same places, safely and securely, but you don't pay for all the "extras" you don't really want or need, such as bad airline food, overhead in the form of deluxe headquarters, out-of-date employee compensation structure, retiree benefits, etc .

On the other hand, United tried to launch Ted as a low-cost airline, but it could not change its culture. United is not low-cost and therefore United could not become a low-cost airline. It just shows that "low-cost" must be in your DNA.

Overall, the experience and the process will be different when low-cost is in your blood. However, the destination will be very similar to that served by the high-cost models. It's the way you look at money, the way you do business, your overhead costs.

We have very little overhead. Our offices are nice, but not beautiful. We manage cost expectations and processes. We can also keep our costs low because we've pre-negotiated with production facilities and editing facilities. And we've committed to certain placement volumes.

In terms of customers, our services are probably best-suited for certain kinds of brands:

- New-to-TV brands that sorely need TV, but previous cost appraisals have scared them away, so they've made do with print advertising and other lesser-impact media.
- Lapsed TV brands that have a previous TV ad heritage and strong residual brand values, but who have found themselves priced out of TV in recent years.
- Smaller brands in larger company portfolios, those brands that struggle in the shadow of priority brands that enjoy larger marketing budgets.

And in general, our customers are leaders. TVLowCost USA is not for everyone. It takes a person with a vision to see how this new process can benefit their company by expanding their resources and actionable marketing budgets. Our clients are not paralyzed by lack of confidence or a propensity to resist change for the better.

And frankly, our model is right for clients who want to try us without needing to commit to long-term change. Our process will be different—there will be fewer people involved on both sides and decision-makers will have a more active role. But the results will be there.

Q. What has the competitive response been?

A. We've had a number of calls from agencies wanting to find out more about what we do, because they can't figure out how we do it. Our processes were built from the ground up to deliver a low-cost solution, so our pricing structure and overall business model can't be replicated by traditional agencies without blowing themselves up and starting over.

However, we are not like SpotRunner or similar services. SpotRunner sells pre-shot spots on a generic topic like real estate and gives their clients limited personalization – their name and such. Then there are local cable companies that offer advertising services appropriate for, say, a local restaurant.

We do custom work. We have real shoots. We use real actors. And our customers are regional and national brands. So on a continuum of price and customization, there's SpotRunner and the locals – who can only provide very limited quality and media impact – then us, then big traditional agencies, who are our main competition.

Big traditional agencies do have their place – sometimes you want an extravagant campaign for getting attention on, say, the Super Bowl or the Olympics or you need to develop a big branding campaign.

But how many companies need to do that consistently? Why pay Hollywood budgets when you need to get a message across in order to sell your product? Our creative also tends to utilize calculated repetition and humor in order to quickly grab the viewer's attention. We have found these two attributes are critical in turning viewers into customers.

Q. What is your growth strategy going forward, and how do you plan to compete against the incumbents?

A. We've only been open for a few weeks, but my partners and I come from Madison Avenue agencies. We've done this before. Right now our task is to get the message out about our service and the value it brings. And as far this message, it is resonating with people who understand the advertising business. They see there is clearly a need.

We don't pitch business in the traditional way. What we charge clients for 150 GRPs on air is about what some traditional agencies might spend on developing the pitch and creating animatics that look like finished spots. If they win the pitch — typically a one in five chance — then they have to recoup the costs for that pitch, as well as the four others they lost. It's an incredible waste of resources.

Instead, we make it clear that we don't give away our services and, in the end, our clients come out ahead. For example, once we get an assignment, we efficiently over-deliver against the client's expectations. While a big agency might present just two to three concepts on expensive, hand-drawn storyboards, we come back with 10 to 12 ideas — but in script form. Then we put every single one into consumer testing to give clients a read on what works best before we shoot.

The task right now is to get the message across that there is a quality alternative to expensive, traditional TV advertising. And the initial interest is amazing. I think the industry may be a little surprised with the quality of brands that we will be working with. And if the experience of TVLowCost in other countries holds true, once clients see the value and results they get, they'll keep coming back.

Q. What do you say to people who feel that TV ads are on their way out, that they'll be replaced by other forms of advertising and marketing?

A. TV's not going away . . . it's the media that every brand aspires to. It's still the best way to get real marketplace impact and awareness. Try getting your name on people's tongues using the Internet — it's possible, but extremely expensive because Internet advertising is still more about inquiry fulfillment than awareness.

Of course, that doesn't make TV right for every product or service. But packaged goods, autos, food, services, non-profits, associations, financial services and even online services that want to increase traffic . . . those categories need to be advertising on TV. Being on TV gives those products a measurable spike in their sales. We have also helped increase retail distribution for a few clients by being on TV.

Just getting an additional product into retailers more than pays for the effort. And for brand managers who aren’t sure if TV works for their product, we give them a low-cost way to find out. We’re democratizing television advertising for everyone, and giving brands that aren’t on TV yet the opportunity to get in the big game.