CHAPTER 4
STRATEGIES AND BUSINESS MODELS FOR HIGHER EDUCATION INSTITUTIONS

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4.1 Introduction to Higher Education Industry

The society's fear of terming Higher education anything but public good arises from basic features, it was supplied on a national basis catering to demands of the local students, it was highly government regulated and public funded, it was available to the elite classes of the society, the role of private funding, competition and profits were almost unknown concepts, the state decided on what was to be taught and market and industry had no say on the courses to be offered.

Today that concept is changed. Higher education internationally is private funded and more than the public, the courses to be taught are market and industry determined, the colleges and universities are called on to expand and make higher education available to the masses. Technology, particularly ICT has changed the dynamics of higher education sector. Technology has "disrupted" and reshaped those and other manufacturing industries, it has turned its gaze to higher education, arguing that it faces peril if it does not change to meet the challenge. (1)

The three big trends, today in higher education ICT, internationalisation and competition have not just influenced it but, is integrated and they feed each other. The global Higher education is not just Global Industry, but one of the fastest growing. The Indian higher education industry too has become complex and diverse. On one hand it has a dominant public sector state universities and government aided colleges that educate a large number
of students; and on the other rapidly growing private sector which is the most dominate provider of professional and technical higher education. In the recent past there are some very striking trends in the higher education sector in India,

- The rapid increase in the number of privately owned deemed universities.
- The increasing number of Indian student mobility to other countries like the USA, UK, Australia, and New Zealand etc; for pursuing higher education resulting in import of educational services.
- The entry of the corporate sector in to higher education like, NIIT a listed company offering degree programmes in partnership with IGNOU.
- The increasing role of GATS and Globalization of Higher education.

Higher education today is a highly competitive Industry across the globe and Indian higher education sector is not too far behind the global trends. The HEI are today influenced by forces of competition. This chapter will cover competition and industrial analysis of Higher education and analysis the various models which can be applied for creating value for HEI in competitive global environment.

4.2 Industrial Analysis of Higher Education Institution

The business environment of the HEI consists of all the external influences that affect its decisions and performance. The prerequisite for effective environmental analysis is to distinguish the vital from the merely important. The first principles, for the institute to make Surplus it must create value for customers (Students). Hence, it must understand its customers. Second, in creating value, the Institute acquires goods and services from suppliers (Faculty and Trainers). Hence, it must understand its suppliers and how to form
business relationships with them. Third, the ability to generate profitability from value-creating activity depends on the intensity of competition among Institutions that vie for the same value-creating opportunities. Hence, the Institution must understand competition. Thus, the core of the institute’s business environment is formed by its relationships with three sets of players Students (customers), Faculty and Trainers (suppliers), Industry and Job Markets and all which are influenced by Government Regulations. This is the Higher education industry environment.

**Figure No. 4.1 The Core Players in the Higher Education Industry Environment**

![Diagram showing the core players and their interactions in the Higher Education Industry Environment.](image)

This is not to say that macro-level factors such as general economic trends, changes in demographic structure, or social and political trends and global trends are unimportant to
strategy analysis. These factors may be critical determinants of the threats and opportunities and institutions will face in the future. The key issue is how these more general environmental factors affect the Institute’s industry environment is show in Fig no.2

Figure No 4.2 From Environmental Analysis to Industry Analysis
4.3 Changing Dynamics of Higher Education Industrial Environment

Recent years have seen many changes to the landscape of global higher education industry.

- Decrease in government funding
- Increase in demand for higher education
- Changing demographics
- New models of higher education
- Economic development and growth
- Technological developments in ICT
- Globalization of Higher education
- Blending traditional education with modern demands
- Changing government policies and regulation in higher education

The change in Higher education environment created many opportunities, which attracted the privates sector to enter into the higher education industry, to exploit the opportunities created with increasing demand and decreasing public funding.

This incidentally is global phenomena and not restricted to few countries. As more and more new entrants came into the industry competition in the industry increased not only between the HEI but also between nations, effecting returns and demand for individual HEI.
4.4 Applying the Principles of Business to Higher Education

The objective of business is about the creation of value for the customer. Value is created when the price the customer is willing to pay for a product exceeds the costs incurred by the HEI. But value creation does not translate directly into profit. The surplus of value over cost is distributed between customers and producers by the forces of competition. The stronger is competition among producers, the more of the surplus is received by customers in consumer surplus (the difference between the price they actually pay and the maximum price they would have been willing to pay) and the less is the surplus received by producers (as producer surplus or economic rent). A single supplier can charge a price that fully exploits the consumers demand when there are many suppliers then, competition causes the price of the product to fall. The surplus earned by producers over and above the minimum costs of productions not entirely captured in profits. Where an industry has powerful suppliers.\(^2\)

The profits earned by the HEI in an industry are thus determined by three factors:

- The value of the product to customers.
- The intensity of competition.
- The bargaining power of the producers relative to their suppliers.

Industry analysis brings all three factors into a single analytic framework.
Fig No 4.3 Analysis of Industry Surplus and Competition.

- INCREASED DEMAND
  - PRICE OF PRODUCT
  - COST OF PRODUCT
  - SURPLUS VALUE CREATED
    - ATTRACTS NEW ENTRANTS TO INDUSTRY
    - INCREASES COMPETITION IN INDUSTRY
    - SURPLUS IS DISTRIBUTED
      - CONSUMERS
        - INCREASED SURPLUS VALUE
      - PRODUCERS
        - DECREASE IN PROFITS
  - HIGH COMPETITION IN THE INDUSTRY
The Higher education Industry currently creates value for all the players. The customers (students) benefits from higher education is far greater than the price (fees) paid by the student. The producers (HEI) enjoy surplus, as long as the benefits are not distributed between the forces of competition, this state will exist as long as demand exceeds supply. And the third key player is the supplier (faculty) is still not a dominate force does not enjoy the bargaining power as their power is not strong yet. But as more and more new HEI enter, the competition will increase and surplus will be distributed. The exciting HEI should develop strategies and models to sustain the growing future competition.

4.5 Need for Strategies and Business Models in Higher Education

The present state of higher education of fast increasing demand for higher education, decreasing government funding, with increased global competition, increasing cost of education, fast decreasing surplus, the traditional style of functioning, is not sustainable. Institutions of higher education that do not strategize and plan their future course of action and develop new business models will not be able survive in the highly competitive global higher education environment.

4.6 Evaluating Higher Education Industry Attractiveness and Competition Analysis

One of the best methods of analyzing an Industry’s “attractiveness” (profitability) is to view it through Michael Porter’s “5 forces” Model. The Model will provide a fairly accurate and holistic view of the industry’s attractiveness and the forces of competition. Understanding and being able to analyse the impact of the five underlying forces will be beneficial to a HEI to formulate various strategies.
Threat of New Entrants

New entrants are a challenge for existing competitors because new entrants will ultimately want to gain market share; which in turn results in pressure on prices, costs, and the investment needed to compete. The threat of new entrants will depend on whether or not the industry presents high or low barriers of entry. Due to the relatively loose governmental regulations in higher education sector. The sector is seeing an increase in the number of Private HEI and with increasing competition in the sector.

Fig No 4.4 Porter's Five Force Model

Bargaining Power of Customers

Customers (students) will typically have bargaining power if they have some sort of leverage over those who participate in that particular industry. A HEI which can differentiate and diversify themselves will likely find their operations to be more stable than those who do not. The services which are unique and provides a sustainable value to the students will add to the bargaining power to the students. The increasing number HEI, have provided the students wider options of not just selecting the courses of their choice but also the institutions they would like to study.

Bargaining Power of Suppliers

Suppliers (faculty and trainers) will have bargaining power if they possess large opportunities with increasing number of students and HEI, and for the HEI a shortage of quality faculty, can be challenge not just in recruiting but also in retaining.

Threat of Substitutes

Substitutes are products or services that meet the same need but by different means. The threat of substitutes is high if the substitute provides a cost-effective trade off compared to the original product. For the Higher education industry the most powerful and growing force is the threat from no of substitutes particularly from distance education and online programmes, which have increased and increasing in numbers and with ICT, the competition is a global one.
Rivalry among Existing Competitors

Rivalry among existing competitors results in lowered profits for the provider. Rivalry can be particularly damaging to profits if competitors decide to compete on price. Due to a high concentration of similar HEI, and a perceived incentive to compete on price, it is likely that HEI revenues will be reduced which are likely to create financial management challenges to the management of HEI in the future.

4.7 Strategic Planning and Analysis for HEI

HEI top management will face the same challenges as the top management of a business organisation. Administrators of HEI like corporate managers are responsible for the allocation and alignment of limited resources so that the HEI serves its mission and meets its objectives. The Management of HEI in order to counter the challenges have to plan, analyse and develop strategies that guides in resource allocation and alignment so that the institution positions itself to leverage its assets, minimize its risks, and satisfy the expectations of its varied stakeholders. Strategic planning is widely used in almost all the industries, the application of it in the higher education industry is a recent phenomenon. Maury Cotter (2007) in her study observed that adapting strategic planning process benefits higher education institutions in number of ways. According to Machado (2010), "Institutions of higher education need the clarity and focus of systematic and strategic planning initiatives in order to chart their direction in these evolving times".
4.8 Need for Strategic planning in HEI

Hunt et al. (1997)^6^ refer to several reasons why strategic planning should be considered for a higher education institution:

1. To improve performance toward meeting the mission statement;
2. To improve performance toward increasing the academic standing of the institution;
3. To increase accomplishments with the same or lower level of resources;
4. To clarify the future direction of the institution;
5. To meet the requirements of accreditation or of a government agency;
6. To solve major problems (threats) or address significant opportunities facing the institution;
7. To provide an opportunity for leadership such as the time of the appointment of a new president; and
8. To bring the university community together in a cooperative effort.

"Institutions of higher education that do not rethink their roles, responsibilities, and structures can expect a very difficult time in the next decade and the next generation. Some will not survive. Most will be expected to do much more with far less" opines Glassman & Rossy, n.d.^(7)^

4.9 Business Models for Higher Education

There is a relatively short history of scientific enquiry into business models. The term 'business model' (BM) gained currency in the business community during the 1990s at the time of the dot.com boom. Academic researchers have been slower to embrace the concept. Antonio Dottore and David Corkindale (2009),^(8)^ state, the current state of
research is fluid, still lacking universally accepted definitions and taxonomies of the BM.

One of the difficulties of employing the business model concept is that it is still in its infancy in academic usage. It owes its origins largely to pragmatic development and use in the business sector. Bruce Rasmussen\(^\text{9}\) observed, in a search of the Web which found 107,000 references to the term ‘business model’ in general use while a search of the academic literature (Econolit\(\text{1}\)) found only three references to the term.

### 4.10 Definition

The available definitions vary in structure and contents. Mutaz M Al-Debei and David Avison, 2010\(^{10}\) analysed various definitions of Business models.

- Linder and Cantrell, “the organisation’s core logic for creating value”.
- Magretta, “a story that explains how an enterprise works”.
- Bienstock et al. “the way we make money”.
- Timmers gives more structured definition “an architecture for the product, service and information flows, including the various business actors and their roles; a description of the potential benefits for the various business actors and a description of the sources of revenues”.
- Osterwalder et al, gives a very comprehensive definition, “A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing a company’s logic of earning money. It is a description of the value a company offers to one or several segments of customers and the architecture of the HEI and its network of partners for creating, marketing and delivering this value and relationship capital, in order to generate profitable and sustainable revenue streams”.

4.11 Business Model Frame Work

For developing a Business Model for any business there are four basic questions to be answered,

1. What does the Business offer?
2. To whom does the Business offer?
3. How does the Business offer?
4. Why does the Business offer?

Table No. 4.1 Applying the Basic Business Model Question to HEI

<table>
<thead>
<tr>
<th>No</th>
<th>Business Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>What does the HEI offer?</td>
<td>Academic products of Degrees, Diplomas, and Certificates.</td>
</tr>
<tr>
<td>2</td>
<td>To whom does it offer?</td>
<td>Directly to Students and indirectly of labour markets</td>
</tr>
<tr>
<td>3</td>
<td>How does it deliver the product?</td>
<td>Affiliations, approvals, recognitions partnerships, tie ups, and establishing and building the required infrastructure for delivery</td>
</tr>
<tr>
<td>4</td>
<td>Why does the Business offer</td>
<td>To achieve economic and social objective to individuals and the society at large</td>
</tr>
</tbody>
</table>

The concept of a business model facilitates analysis of the way in which a HEI derives economic value from changing customer preferences, developing technology, and forces of competition. Which are critical to the success of the HEI. The concept is concerned with how the HEI defines its competitive strategy through the design of the product or service it offers to its market, how it charges for it and what it costs to produce. How it differentiates itself from other HEI by the nature of its value proposition. It also describes how the HEI integrates its own value chain with that of other HEI in the industry’s value networks.
4.11 Four Pillars of Business Model

The Four pillars of a Business model identified by A. Osterwalder and Yves Pigneur(11) are

1. Customer Management
2. Product innovation
3. Infrastructure Management
4. Revenue Aspects

Figure No. 4.5 The four Pillars of a Business Model
Table No. 4.2 Four Pillars of Higher Education Business

<table>
<thead>
<tr>
<th>No</th>
<th>Pillars</th>
<th>Higher Education Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Product Innovation</td>
<td>Academic products of Degrees, Diplomas, and Certificates.</td>
</tr>
<tr>
<td>2</td>
<td>Customer Management</td>
<td>Student Segmentation, Establishing contact with students, Networking with students, Providing information.</td>
</tr>
<tr>
<td>3</td>
<td>Infrastructure Management</td>
<td>Core capabilities Branch of studies Key resource, Faculty, Research Labs, Value additional services.</td>
</tr>
<tr>
<td>4</td>
<td>Financial Aspects</td>
<td>Costs structure for the establishment of infrastructure, maintenance and operations. Revenue structure from collection of fees charged forms the various courses and programmes.</td>
</tr>
</tbody>
</table>

4.13 Key Elements of Business Models

A. Product

1. Value Proposition

This describes the value the HEI are delivering to its students (customers). The value proposition can be to give the students an improved and satisfied product which they desire to derive from the HEI.

B. Customer Management

2. Target Customer Segments

It defines the different groups of people the HEI products are aimed at. The HEI has to make sure to know specifically from whom the products are aimed and marketed at.

3. Channels

The channels cover the methods the HEI use in showing and delivering to the potential students the value in the product or service offered by the HEI, it includes the website the
HEI use to inform the students its courses and programmes, and also the various other social networking sites that the HEI can use to provide information about the Institution.

4. Customer Relationship

The HEI should constantly be engaged with its students, and plan to carry long term relationship with them. The HEI which offer more than one programme, will have to adopt different types of relationship style for each of the programmer, like for Management students industry interface will provide corporate exposure and students of Engineering and Science, exposure to wards research which will help strengthen their research skills.

C. Infrastructure Management

5. Key Resources

This describes the most important assets required to make a business model work and is key in the functioning of all other aspects of the model. Such resources are all the elements required to contribute to the HEI Value Proposition, including human resources and all physical assets required for delivery of the HEI products to the various market segments.

6. Core Competency

These are activities that are crucial in making the business model work. Like key resources, such activity is required to create and offer a strong Value Proposition, reach new markets, maintain existing customer relationships, and earn revenue.

7. Key Partner Network

It describes the network partners that exist to allow a HEI to function properly. It includes independent partners how provide out sourced services Such as IT Hardware and software providers. The Web Hosting and Internet service provider. They may be marketing support providers, resources and logistic support providers such transportation.
D. Financial Aspects.

8. Cost Structure

This defines how the HEI goes about paying for the things it use within the Business Model. Being clear on the cost structure is an important element of the business model because it will define where and when the HEI add or subtract costs.

9. Revenue Streams

This represents the money the HEI generates from one or more of its programmes. The HEI need to be crystal clear on, exactly how it intends to create revenue from its business. The HEI should also identify if any alternative revenue stream could be brought in, from corporate training, research, and hostel facilities etc, in the college campus.

4.12 Strategies and Business Models for Higher Education

Global Higher education system is constantly subject to external pressure in the current period of globalization. Higher education sector today is also in the business triangle that is constantly subject to external pressures, like competitive forces from the domestic as well as international education providers, from both public and private higher education institutions. The increased demographic and social change, technological change in ICT has influenced and created new modes of learning along with the traditional learning, changes in customer (student) opinion, changes in the government Policy and Regulations Worldwide and the application of the provisions of GATS on education sector as any other trade service as created global competition, Higher education institution like other business organisation have to develop Strategies and Business Models in order sustain and create values to the society in a highly competitive global environment.
REFERENCES


6. Hunt et al.,1997,Strategic planning for private higher education, as citied in, Ibid.


