

## **J. Michael Locke**

### **Musings**

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#### **#115: Musing** **February 27, 2021**

I am going to focus on the future of higher education today. As most of you know, that is where I spend the majority of my time.

Like other sectors of our economy, higher education is undergoing rapid digital transformation accelerated by the pandemic. Even the most traditional of schools are now online out of necessity. The interesting questions are where things will go post-Covid.

I am from the camp that the primary source of delivery will become “Hyflex” which is the industry term for offering a class simultaneously to people sitting in a classroom, others dialed in remotely and also recording it so others can take it later. (See my older musing on Peloton reprinted at bottom.) Like telehealth, the consumer likes the power that the online modality has given them and won’t go back to having to be in a set place at a set time dictated by the provider. Similar to the reduction of space needed for commercial offices, schools are going to need less classroom space and all classrooms should be set up to deliver Hyflex.

This move to a hybrid pedagogical model will be accompanied by a broader digitization of the whole campus. Students will demand that all services be available through an app or portal. That is simply the way they consume services now. Standing in line for the registrar is a thing of the past just like going to a travel agent to get physical plane tickets. Attached is an interesting article by Jeff Selingo on the “hybrid campus” along with a link to a longer report by Deloitte. Schools need to significantly increase their focus and investment in technology to be ready for the future.

With the ubiquity of online, some large scale providers serving the national market are emerging akin to the Amazon movement in retail. These “mega-universities” (Southern New Hampshire, Western Governors, Arizona State etc.) have over 70,000 students online each. Last fall, ASU grew 20% and Southern New Hampshire grew 18% while overall enrollments in higher ed were down 2.5%. They primarily serve “nontraditional” adult students (not 18-24 going full-time) which is the growth area of the market. I think they will use their scale and data to their price advantage and lower tuition which is stubbornly high. SNHU has already introduced a \$10k a year tuition for their campus students. Rasmussen University is “one-upping” them with a \$10K online MBA (the whole degree is \$10k not per year.) Deflation can’t come soon enough as the inefficient cost structures of higher ed have continually been passed onto students supported by a poorly designed federal student loan program.

We will see increasing differentiation between the various segments of higher education – large online adult-serving institutions, research institutions, community colleges, smaller private schools focused on traditional age students etc. Pricing, service models and delivery models will vary based upon the segment; however, I think they will all be more “digital first” in their approach.

Consumers are going to demand a better ROI because unfortunately these high tuition levels (and the corresponding debt many take on) have not necessarily translated into improved economic status especially with the pandemic. Too many 20yr old college graduates are living at home unemployed.

Colleges can still teach the liberal arts and the humanities. Students need communication and critical thinking. However, there must be an investment in STEM. I believe computer science should be a general education requirement in today's technology world. Similar to the hybrid modality delivery, the skills required for professionals of tomorrow are hybrid. See WSJ article attached. This may open up an opportunity for liberal arts to be delivered more at the post-baccalaureate level. I know one employer in Chicago who is offering classic humanities courses to employees as professional development.

The number of students enrolled in college is currently declining. Some of this is demographically based on birthing patterns decades ago but there is also a higher level of skepticism about getting a degree. The internet is delivering voluminous amounts of free educational content – youtube videos, MOOCs etc. Companies (especially large tech) are getting into the game directly with things like Google certificates in cloud computing or the Disney Institute. See [2025-google-u-vs-microsoft-u](#). Schools need to up their game on assessing the learning in these “non-school” programs and deciding whether to award credit. Peter Smith has written that “assessment will be the new pedagogy” as schools focus on assessing what students have learned from other sources and granting credit under Prior Learning Assessment (PLA) and less on what they are actually delivering themselves.

Higher education has to be more agile, cheaper, digital and user friendly like everything else in today's economy. Market share will move to those who get more tech-savvy, move quicker and have (or quickly develop) a good brand. My two cents.

Jml

*Reprint of older musing:*                      4/11 Musing #20: What We can Learn from Peloton

Let me start by saying we do not own a Peloton nor did I give Heather one for Christmas. Clearly, it has been an amazing success story. So what does Peloton say about human behavior and the future of consumption?

Peloton gives the consumer flexibility – you can ride live with a class taking place in the SoHo studio (or in London if you like the accents like Matt R.), you can ride synchronously with other individuals, you can ride with others asynchronously using a recorded ride, or you can just ride by yourself old style. Consumers want modality choice. They don't want a binary decision to be either online or in person. They want to be hybrid. They want to move between modalities on a daily basis. I want a bank that has branches and good online so I can do a mobile deposit and then go in for a cashier's check.

With respect to choice, I have to praise Netflix again with the creation of a “choose your own adventure” movie called *Black Mirror: Bandersnatch*. The viewer literally makes decisions using their remote control and the movie has been shot with the underlying decision tree so the next scene is based on the user's decision. In this way, the viewer is “writing” the movie.

Flexibility and choice give the consumer control. Society has moved from standardization for mass production (the Model T) to mass customization. Every consumer gets it exactly how s/he wants it. Chipotle's system is designed to efficiently let you create your custom burrito bowl. Starbucks has created options we didn't know we needed – was there an untapped demand for pumpkin lattes with coconut milk? DIY (do it yourself) is a growing category where consumers can get components from various providers and the consumer is the integrator.

Along with modality control and flexibility, Peloton has taught us about the value of “star” teachers. These instructors get their own followings and people want to ride with a specific person. The consumer gets to pick the style he or she likes – the personality and the music. The star teachers have become social media influencers (see Musing #15 on the Kardashians).

Finally, Peloton has taught us that innately most people want to compete. It doesn't have to be athletic, it can be *Jeopardy*, but we want to benchmark ourselves against others to know where we stand. Some folks in online education have been talking about “gamification” for a while. Are we going to see the “Pelotonization” of higher education post-Covid? Students have gotten more exposure to online (some good and some bad) during the crisis, and I predict they will want more good-quality online post the crisis as it gives them more flexibility and control.

From a straight business perspective, you have to like the Peloton business model. After you lay out a couple of thousand dollars for the bike (probably 50% gross margin), you get to pay \$60 a month for the subscription (probably 80%+ gross margin). Subscription revenue allows them to manage forward easier by providing greater visibility (yesterday's musing). That is a good business model and why the company is worth over \$7.5bn now. Great entrepreneurial story.

Be safe. Make sure your offering provides consumers modality choice, flexibility and control.

jml