In our first issue we mentioned two Harvard Business School professors, Jeffrey Rayport and John Sviokla, who coined the term "marketspace" to distinguish the virtual world of information from the physical world of the "marketplace." Their explication of this distinction contains many insights for those of us in higher education.

Academics, consultants and managers have commonly described the stages involved in the process of creating value in the physical world as links in a "value chain." The value chain, according to Rayport and Sviokla, is a model that describes a series of value-adding activities connecting a company's supply side (raw materials, inbound logistics and production processes) with its demand side (outbound logistics, marketing and sales). By analyzing the stages of a value chain, companies and institutions can redesign their processes to improve efficiency and effectiveness.

Colleges and universities often have difficulty in describing higher education's traditional value chain. The most frequent confusion that we have observed is to treat the student as the "raw material" that moves along the production line only to emerge, like Detroit's snazziest model, fully finished at the end. Colleges and universities supply knowledge to those who need it; a successful transaction between teachers and students is what we call learning. Heretofore, that transaction took place almost exclusively in the physical world of the campus, surrounded by a series of ancillary services that also add value for the customer (for example, credentialing).

Although the value chain of the marketspace can mirror that of the place (buyers and sellers can transfer funds over electronic networks just as they might exchange cash when face-to-face), the value-adding processes that organizations must employ in the information world are unique in that they are virtual. More importantly, the economic logic of the two chains is different. A conventional understanding of the economies of scale and scope does not apply to the virtual value chain as it does to the physical value chain. In many instances, products and services can be brought to market faster, better and cheaper in the marketspace. New competitors emerge who are viable because of the new economics of doing business in the world of the space.

One simple example of how these differences apply to higher education is to think about how easy it is to start a university in the world of the space. No need to build classrooms, libraries and dormitories; no need to convince faculty and staff to live in an undesirable location; no need to recruit a football team. Today we are witnessing the creation of entirely new online institutions in less time than it takes to develop a plan for a traditional campus. Whether today's versions of the virtual university succeed in the long run is irrelevant; if they do not, someone else will learn from their experiences and build a better mousetrap.

Rather than focus on the creation of whole new institutions, let's consider another characteristic of the virtual value chain: the ease with which its links can be disaggregated, or pulled apart. Unlike the physical value chain which exists as a linear sequence of activities with defined points of input and output, the virtual value chain is nonlinear, a matrix of potential inputs and outputs that can be accessed and distributed through a wide variety of channels.

The links in higher education's value chain include, among others, marketing (providing information to prospective students); admissions (qualifying and selecting students); enrollment services (registration, billing, financial aid); presentation of instructional material (lectures, books and other materials); student interaction and academic support (advising, tutoring, library); student services (placement, counseling, information technology help, athletics); evaluation and credentialing (grades, degrees, certificates, transcripts.) Even today, pieces of the physical value chain are being "outsourced" to others in an effort to improve efficiency and effectiveness. Enrollment management firms, textbook publishers, testing organizations, library and administrative software suppliers, and so on sell their products and services either to institutions or directly to student customers.

The world of the space escalates the opportunity to create value in new ways at each stage of the virtual value chain. Each extract from the flow of information can constitute a new product or service. The consequences for higher education are huge. Hundreds of new companies, each specializing in one link of the value chain, will emerge. These companies may supply products and services to institutions or they may decide to by-pass them and go directly to student consumers. Others may see as their customers the major aggregators of the demand for higher education, a.k.a. employers. Or they may do all three simultaneously by employing different branding.
strategies. In any event, institutions will be able to take advantage of these developments to increase and improve services for students at a lower cost.

Here's an example of what we mean. A significant area of student need—and one that institutions have difficulty meeting effectively—is for tutoring help in basic courses. SMARTHINKING is a new Internet company that will provide human, real-time, on-line academic support for core courses in higher education. Through chat technology, virtual whiteboards and personalized feedback, SMARTHINKING will offer students one-on-one tutoring and homework help, on-line writing labs and an extensive library of self-help resources. (Please see http://www.smarthinking.com/ for more information.)

Co-founded by two young entrepreneurs, Burck Smith and Christopher Gergen, and backed by venture capital, the company will launch a pilot program in math and writing during the spring 2000 semester. By drawing on a pool of teaching assistants larger than any single institution can attract, SMARTHINKING can insure the highest quality TA’s at affordable prices for client institutions. Whether students take classes on-site or at a distance, whether they need help at 2pm or 2am, qualified help will be only a click away.

Faster, better, cheaper—watchwords to adding value in the learning market space.

—CAT

********************************************************************************************************************

FIGHTING THE FUD FACTOR

Kudos to Steve Crowe, executive director of the North Central Association of Colleges and Schools, for his excellent piece, "Virtual Universities Can Meet High Standards," in the October 29th issue of the Chronicle of Higher Education.

Our colleagues from the AAUP, true masters of the FUD factor ("Totally online institutions raise the specter of a higher-education system that is nothing more than a collection of marketable commodities . . . .") advance the notion that quality in higher education can only be insured by the presence of three factors: a guarantee of academic freedom, a system of collegial governance and the presence of a “real” faculty engaged in research.

Steve responds by describing how on-line universities must meet the same NCA standards that are applied to traditional institutions, albeit in different ways.

As higher education continues to struggle with issues of accreditation in a networked world, the move to concentrate on outcomes rather than inputs will intensify as Bob discusses below. Until we can agree on how to do that effectively, virtual institutions must be treated fairly in regard to existing standards. NCA has led the way in helping our community understand these issues.

—CAT

********************************************************************************************************************

NEW WINE IN OLD SKINS

The nay sayers in the debate over distance learning have latched onto a new argument—accreditation. The argument goes that accrediting on-line institutions signals not only the decline of higher education but perhaps the collapse of civilization as we know it as well.

The proximate cause of this concern is the recent accreditation of Jones International University by the North Central Association of Colleges and Schools. Of course the folks at North Central disagree, arguing that they apply the same standards to on-line institutions that they apply to traditional institutions.

In truth, the entire accreditation apparatus has been in some disarray for several years, even sparking the criticism of the Congress. For many years the professions—medicine, business and engineering among them—have conducted their own accreditations, arguing that institutional accreditation was far too broad and coarse-grained to evaluate the professional schools within an institution appropriately. And, it hasn’t gone unnoticed that rankings of institutions of higher education by the national media appear much more useful to folks making a college or university choice than does the accreditation "seal of approval."

What institutional accreditation does, and does well, is to provide criteria for the government to decide which institutions are appropriate recipients of governmental subsidy, whether directly or by way of student subsidies. Institutional accreditation provides the vehicle to separate the appropriately funded, academically serious institutions from those we derogatorily call diploma mills. The side effect of institutional accreditation may be its greatest benefit—the forced opportunity for an institution to take stock of itself, refine and redeclare its strategic intentions and to chart a course for the next ten years.

But, does institutional accreditation say anything about the quality of instruction, or more importantly, the quality of learning? Not really, and few would argue that it does or is intended to do so. Traditional accreditation looks at a multitude of institutional inputs—revenue, volumes in the library, percentage of faculty with Ph.D’s, governance mechanisms, athletic programs, etc.—and based on the strength of suitability thereof decides to accredit fully, provisionally, or not at all. The presumption being that with appropriate inputs there will be appropriate outputs of learning by the student body.

As technology and the Net disaggregate learning experiences from the panoply of events and activities that
make up a traditional college, it will become increasingly important to develop a process of evaluating learning experiences. In a market economy, consumer choice (and advertising if you believe Madison Avenue) decides whether Merlot is preferred to Chardonnay. In fact, all sorts of wines exist in the marketplace—some cheaper, some more expensive, some sweeter, some with fewer calories. The consumer decides which offering best meets his or her taste, budget, dietary requirements, and so on. There isn’t a single “best” wine other than in the mind of an individual consumer for a particular occasion.

Community colleges are accredited as well as elite private institutions. Their inputs are generally less (as are their prices) but are none the less considered acceptable. The elite private institutions or the state land grant both commonly accept transfer credits for, say linear algebra, taken at a community college. Student experiences don’t indicate that learning linear algebra is improved as a consequence of more volumes in the library or a higher percentage of Ph.D’s on the faculty.

Most observers would likely agree that the campus offers an important and unique experience for the young high school graduate. The majority of students enrolled in higher education are not young high school graduates, but rather older, working adults for whom the “campus experience” may be an inconvenience and an expensive one at that.

As adults assume majority status in higher education, learning experiences, disaggregated from the traditional campus, will become the norm. The problem is not that they cannot be measured by yardstick applied to accrediting the traditional campus. The real problem is that we have so far been unable to devise a way to accredit learning experiences. In fact, the really important experiments in attempting to do so seem to be occurring at those places that have made a commitment to on-line learning.

Rather than pouring our new wine (on-line learning) into old skins (traditional institutional accreditation) we should be spending more effort on developing the new skins of accrediting learning experiences—whether online or within the traditional campus setting.

—RCH

DEMAND-SIDE ECONOMICS AND HIGHER EDUCATION PUBLIC POLICY

We continue to believe that one of the most significant aspects of the impact of information technology on higher education is in the realm of public policy, specifically in the way higher education is funded.

As Arthur Hauptman succinctly puts it, the way in which governments allocate taxpayer funds to institutions is the principal public policy vehicle for higher education around the world. Our colleague Jim Mingle elaborates this point. Federal and state governments are the dominant forces in shaping the mission and financial health of all of the 7,000 postsecondary institutions that offer accredited certificates and degrees. Whether through direct appropriations from states for public institutions, or tax exemption and federal grants for private institutions, or need-based aid for proprietaries, public subsidies are the life-blood of American higher education.

In our last issue, we noted how the proposal of a candidate for the Virginia legislature to shift funding from the provider to the consumer was greeted with great consternation. In our view, this proposal is not so much an outlier as a forerunner of things to come, driven by the dynamics of the marketspace.

In the world of the place, government allocations are made primarily to higher education’s suppliers. Computing and communications technologies, however, are changing the rules of both economics and politics. Writers about Internet economics talk about how the new economies of scale and scope in the world of information increasingly produce a shift from supply-side to demand-side thinking, the opportunity to sense and respond to customer’s desires rather than to make and sell products and services. The appeal of demand-side economics is obvious: are there any providers who would not want to be able to match their production to customer demand if it were possible to do so?

Current higher education public policy attempts to match supply to demand, but it does so imperfectly. In many states, demand far exceeds supply; in many institutions, supply far exceeds demand. The rising interest in virtual universities is indicative of the desire to utilize technology to correct those imbalances where possible. But these new virtual ventures inevitably introduce other contradictions in the way higher education is financed and, as in other arenas, drive us toward demand-side thinking.

The purpose of state funding of higher education is to provide educational opportunities to the citizens of the particular state. All states do this by devoting the lion’s share of higher education funding to support their public institutions. Two-year and four-year colleges and universities are located around the state in order to maximize the opportunity for citizens to attend. Tuition is kept as low as possible for the same purpose by subsidizing the cost of education through the providers. Economically disadvantaged citizens receive additional federal and state support in an attempt to even the playing field.

Despite this attempt to maximize educational access for as many students as possible, student demand for particular courses and degrees may not be met. The economies of scale and scope in the physical world of the campus limit opportunities for students.

Enter distance learning and the virtual university. Suddenly imbalances in supply and demand can begin to be addressed. Students in Oshkosh can take courses via the Net from the University in Madison. State-based virtual university efforts are being driven by this straightforward approach to a vexing problem. Widen the reach
of traditional institutions while keeping in place the same funding formulas. All is well. The same rules apply.

In its support for virtual university initiatives, the state has essentially concluded the debate about the quality of distance vs. campus-based learning. Suddenly our student in Oshkosh realizes that she can take courses from public and private institutions anywhere in the English speaking world. Indeed, her particular academic or professional interests may be better served by one or more of those institutions. But there's still a problem. Out-of-state institutions almost always charge more than those in state do. The cost barrier may prohibit her from taking advantage of new opportunities. If only the state would give me the dollars they give our public institutions to educate me, she thinks. I would use them to pay out-of-state tuition, and I could study what I need when I need it. I think write a letter to my legislator.

The simple argument change funding policies to match student demand to supply, regardless of its source, is a powerful one. But another contradiction arises in the world of the space that pushes policy makers even further toward demand-side thinking.

Rather than resisting the distance learning phenomenon, the majority of public institutions in the U.S. are now actively engaged in it. Ninety percent of institutions with more than 10,000 students offer distance courses as do 85 percent of those with 3,000 - 10,000 students. Increasingly, the target population for those courses is outside the institution's home state. Participants in the Western Governors University or the Southern Regional Electronic Campus serve out-of-state students. The land-grant institutions have suggested that their service areas should not be confined to the United States. A group of leading community colleges have banded together to market their courses nationwide. The California Virtual University talked about selling the "Cal brand" around the world. Even Cape Cod Community College, according to the latest Chronicle, is taking the first steps in "globalizing" its courses by offering them outside their traditional service area. And the beat goes on.

Meanwhile, back at the legislature, the same person who is mulling over how to respond to our student consumer in Oshkosh is reading about these developments. Wait a minute, he says. We're spending state dollars to support our institutions to educate citizens from other states and other countries! At the same time, a student (a voter) in Oshkosh who wants to educate herself to become a productive member of the workforce can't receive state support to do so. Why not give her the money to pay tuition at State U or wherever she can receive the service? Let State U recover its costs from those it serves.

Will dollars follow the student rather than the institution as the world of the space increasingly influences the debate? Defenders of the status quo say, no way. "It's political," they assert.

We agree. It's political.

—CAT

********************************************************************************************************************

UPCOMING LEADERSHIP FORUM EVENTS

The Learning Marketplace: New Resources for Teaching and Learning
November 11, 1999
Atlanta, Georgia
Moderators: Bob Heterick and Carol Twigg

Featuring mediated discussions with:
* Blackboard Inc.
* eCollege.com
* eduprise.com
* KPMG
* SCT
* WebCT

More and more companies are entering the higher education market, providing new and different approaches to supporting your teaching/learning efforts. This workshop provides a rare opportunity for you to compare and contrast commercial offerings in an impartial environment.

- Learn in one day what would take you many to find out on your own.
- Identify potential partners for developing new learning environments.
- Meet your colleagues who are wrestling with the same set of issues.

If you are involved in decisions regarding expenditure of funds for teaching/learning services and products, you can't afford to miss this workshop!

********************************************************************************************************************

SUBSCRIPTIONS, ARCHIVES, RE-POSTING

To subscribe to The Learning MarketSpace, click here.

Archives of The Learning MarketSpace, written by Bob Heterick and Carol Twigg and published from July 1999 – February 2003, are available here.