PROOF OF ECONOMIC VIABILITY OF BLENDED LEARNING BUSINESS MODELS

Carsten Druhmann\textsuperscript{1} and Gregor Hohenberg\textsuperscript{2}
\textsuperscript{1}Zurich University of Applied Sciences, Department N, Institute of Facility Management
Grüentalstrasse 14, CH-8820 Wädenswil, Switzerland
\textsuperscript{2}University of Applied Sciences Hamm-Lippstadt, Professor of IT-, Media- and Knowledge Management
Marker Allee 76-78, D-59063 Hamm, Germany

ABSTRACT
The discussion on economically sustainable business models with respect to information technology is lacking in many aspects of proven approaches. In the following contribution the economic viability is valued based on a procedural model for design and evaluation of e-learning business models in the form of a case study. As a case study object a blended learning continuing education course is used. It is provided by a small technology-based education service provider, a typical representative of small and medium-sized companies (SMEs) in the German education market. The focus of the results discussion is the entrepreneurial attractiveness of such business models and recommendations for further studies.

KEYWORDS
Continuing education; business model; profitability analysis; blended learning; visualization of financial implications

1. INTRODUCTION
With the commencement of commercial use of the Internet there is an ongoing search for suitable business models and approaches according to their well-founded derivation. This is the theme of "business model" discussed quite controversial even in business computer science (e.g. Hess, 2012, p. 2). A fitting for this post definition of the business model concept, which emphasizes the tool character, provide Weiner, Renner and Kett (2010). Thus, a business model (elements and their relationships to each other) should contain in its conception the perspective of the customer/market, the service provision as well as economic relations with taken into account (Weiner, Renner & Kett, 2010, p.23). An overview of the state of the business model research can be found ibid. (2010, pp.49), simultaneously the same is practiced at the current situation review: "business model research happens to be very strong on paper." (Weiner, Renner & Kett, p. 106). Case studies are an adequate research method as it is presented in this paper for the step in the direction of applied research. An interesting case study for business objects for business model analysis is that of technology-based training providers. An industry that is in publications on business model research very rarely in focus. For example, the activities of the E-Learning/Blended learning in highly cited science-based classification of business model types, according to Laudon and Trever (2011) are not explicitly classified. It is to be noted that in Germany the market of continuing education, as measured by the gross domestic product (approximately € 27 billion in 2003), long ago acquired a greater significance than the market of agricultural, forestry and fisheries (Dt. Bildungsserver, 2011 and DESTATIS, 2004).

The heterogeneous supply structure in the continuing education sector is dominated by small and medium sized enterprises (SMEs), with the majority of vendors micro enterprises (up to 25 employees) as stated by Dietrich and Schade (2008), of the estimated 12 to 15 thousand providers in Germany (e.g. DIE, 2008 and Lüpendonk, 2008). Just this small private training providers are facing enormous challenges with change processes described below in the teaching-learning culture and the educational technologies.

The ubiquitous slogan of Lifelong Learning indicates that learning has become an ongoing task. This development on the one hand reflected in the demand for continuing education resist, exemplified by the following figures: "Distance learning or distance studying is for more and more people in Germany the method of their choice, if they continue their education in addition to work and family. [. . . ] About 387,000
people thus occupied last year, a state-approved correspondence course or a distance learning course at a remote high school. These are 2.0 percent more than last year. Since 2005, the “number of participation” figures are even increased by 25 percent.” (Forum-Distance-Learning, 2010, p. 1). On the other hand, in the wake of increasing demand for part-time training opportunities, the demands grow on the design of appropriate teaching-learning scenarios. A long time are the so called “new media” no new media anymore, the use of the Internet and multimedia elements is steadily increasing in the context of continuing education courses in Germany, from 2,821 in 2011 to 5,664 in 2013 (Dt. Bildungsserver, 2011a). To summarize it, this is the way get to the point: "E-learning - or more generally, the use of new media in education - is not only the continuation of the usual formation of new funds, but will lead to restructuring, which are difficult to predict today. The educational institutions will have to set up that they become permanent “construction areas”.” (Sesink, 2006, quoted in Appelt, 2010, p. 151).

The reaction and the implementation of the answers to the challenges outlined in the continuing education market should ever prove to be feasible in the economic wattle for SME educational institutions with their own self-understanding and financial funding (Kraft, 2010, p. 419). This means, that the (re)-modeling of entrepreneurial activity has to be measured by economic criteria. A possible process model is explained in the following section and in section 4 the results of its application in the analysis of the economic aspects are presented.

2. THE ECONOMIC EVALUATION OF BLENDED LEARNING BUSINESS MODELS

As a promising approach with practical benefits, the process model for the design and evaluation of blended learning business models developed by Brocke, Buddendick, Gaiser and Haug (2007) is used as a template for the evaluation of the case study. This process model should help to subject the design of business models and the results of such design to continuous economic evaluation (in an iterative cycle). The core consideration of profit maximisation should be achieved by the triad of a market, activity and capital model (Brocke et al., 2007, p 10). Figure 1 outlines the process model: the three sub-models are evaluated using quantitative and/or qualitative methods. The focus of the assessment in this article is on the capital model.

The market model is used to describe the structure of the e-learning market as well as the different stakeholders and their roles (Grob, vom Brocke & Bensberg, 2004), with the purpose of creating an innovative product (product portfolio) which gains market acceptance to the extent that it allows long-term business success. This includes customer segmentation, the delineation of strategic business fields, an assessment of market attractiveness, and an industry structure and competitor analysis which enables providers to classify themselves as quality or cost leaders, or as niche providers (Brocke et al., 2007). A quantitative assessment is undertaken by means of a deposit page that includes estimates of opportunities and threats.

In the activity model (e-learning) activities (see figure 1) are described which a (training) provider carries out in the course of their business activity (Grob et al., 2004). The reconciliation of their core competencies with the planned e-learning business model is the basis for qualitative assessment of the activity model (Brocke et al., 2007). The calculation or forecast of the withdrawal page (resource consumption) is the core step towards quantitative assessment of the activity model (for example by means of event-driven process chains or process cost accounting (e.g. according to Gutbrod & Fischer, 2004). In the capital model, the organisational or legal form and the financing are defined for the e-learning business model. The legal framework is considered, the capital requirements are determined and the available or planned lending and investment options in the capital market are investigated. Qualitative assessment of the capital model for the planning period is carried out in a scenario analysis. Methods of investment appraisal, e.g. Visualization of Financial Implications – VoFi, are used for quantitative evaluation.

The payments over several periods associated with the e-learning business model are compressed to target values and evaluated, and can be used to compare different business model alternatives as required.
The additional comments focus on the capital model. They are operationalised for practical application and are used to carry out a quantitative evaluation (profitability assessment) of the subject of the case study.

3. TECHNOLOGY-ORIENTED TRAINING SERVICE PROVIDER – A CASE STUDY APPROACH

The subject of the case study is a typical participant in the training market. Scientific Learning Systems (SLS, www.sls-saar.de) is an SME and niche provider. Its business objective provides for a three-year training course leading to a qualification as a state-certified radiology assistant (MTRA). The SLS itself is a spin-off of the Saarland University Clinics. The goal was to create a modern, customised computer-based training scenario. The blended learning approach was selected for the training course. To meet the requirements and the professional and living conditions of those interested in the training, the MTRA blended learning course combines attendance periods (every six to eight weeks for two to three days) sequentially with self-learning phases, which are supported by multimedia elements and Internet-based communication tools.

In this way, the drawbacks of traditional distance learning courses and pure e-learning scenarios should be compensated, and there should be clear advantages over the attendance-based training from which the course was developed. The development of blended learning training began in 2002. In 2003 the first year started with 20 participants (the number of participants is limited to 25 per year). A learning management system (LMS) was developed for the blended learning scenario. The learning scripts are distributed on this LMS. These scripts are enriched with visualization elements such as interactive graphics, animation and simulations. Numerous instructional videos were produced for a variety of subjects, such as recording technology, and linked into the course texts. A particular focus of this teaching-learning scenario is on learner support during the self-learning phases. For this purpose, a so-called multimedia response system is used, involving a very short response time by the lecturers. Trainees receive elaborate (e.g. Narciss, 2006) audio-visual feedback to their questions by e-mail; for example, if they have problems while solving a physics task. This intensive exchange between students and lecturers during the self-learning phases enables an individual learning path to be developed for each learner. If components of this type are absent from a modern teaching-learning scenario, or if they are inadequately designed, the learners may become dissatisfied due to a lack of support and inadequate individual feedback or delays in providing it (Ojstersek, 2007, p. 196).

Minocha, Schroeder and Schneider (2010) even propose a clear expectation of lecturers that they should assume the role of providers of feedback, particularly when e-learning components and social software are used. However, these components cause a considerable financial outlay on the part of the training provider.
Despite a sort of consolidation phase for e-learning based training options that can be currently seen, the development costs of computer-based training (CBT) and web-based training are still very high (Meister & Kamin, 2010). Likewise, learner support during the self-learning/online-phase has proven to be very costly overall (Bremer, 2004, p. 51).

So far, the MTRA blended learning training course has been fully booked since it started (recommendation rate of participants is over 90 percent; Druhmann, 2013), so that the deposit page has shown the maximum volume, in terms of the market model. Nevertheless, this business model has not been imitated by other MTRA training providers (or by those offering courses for related professions such as pharmaceutical technical assistants - PTA). One reason could be lack of assessment or evidence of the cost-effectiveness of such training opportunities, and hence that of the underlying business sector. Moreover, established procedures are lacking. In the following a possible approach and the results of the case study outlined above are described.

4. PROCESS AND INSTRUMENTS OF ECONOMIC ASSESSMENT

Firstly, a cost structure was developed which is specially tailored to the MTRA blended learning training programme. This was necessary, as so far no standard cost structure has been developed on the basis of the various approaches in the literature. Cost-generating activities were initially identified on the basis of the teaching-learning processes, and the associated cost types defined – structured according to the phases of design, use and development of the MTRA blended learning training measures (see Figure 2).

![Figure 2. Pragmatic cost model for determining the payment-related expenses for production, operation and development of the MTRA training course. Cash-effective costs of a blended learning course (own compilation based on SEIBT, 2005, p 43; RUMBLE in comparison with 2001 cit. at GUTBROD & FISCHER, 2004, p 3)](image-url)

The withdrawal page in the case study consists of investment and current expenses (operating costs and cost of maintenance, care and development), each containing fixed and variable costs.

The investment costs include the initial production costs, which are comparable to those which arise in the establishment of a conventional teaching-learning scenario. Work must be carried out on the rough and
fine planning of the training course on a project basis (initialisation, organisation and team building, project management and time and budget controls, etc.). This includes, for example, the creation of a suitable teaching and learning concept and design of the associated processes. The one-off design costs are determined mainly by personnel costs (salaries). The costs of preparing the learning scripts were halved, as they are also used in the attendance variant.

The non-recurring technology costs include expenses for the selection, acquisition/creation, production and implementation of the self-developed LMS. Further cost considerations are the desired functionality (e.g. with or without a virtual classroom) and the degree of integration of digital media. Licence fees in the higher education environment are usually moderate, thanks to discounts from manufacturers or the use of open source software (e.g. Moodle). The purchase of appropriate hardware plays a minor role in the initial costs.

The running costs can be broken down into operating costs and service, maintenance and further development costs. The operating costs are reported per calendar year. Personnel costs incurred in the provision of teaching make up about 60 percent of total operating costs. They include attendance events, support during the self-learning phases, interdisciplinary coaching and examination costs. The number of students and teachers who use the LMS, the nature of the technical infrastructure and software systems, and organisational responsibilities determine the operating costs of the LMS. A maximum of 75 students and 14 lecturers have access to the self-developed LMS of the MTRA training course; a 20-percent position for a multimedia technician is added for technical support.

The proportion of organisational administration by the technical support for the LMS is not insignificant: it includes user and rights management, technical support with regards to login, browser and codec problems and misplaced passwords. The operation of the institute’s own server and associated network also leads to proportional personnel and hardware costs. Other operating expenses consist primarily of a lump sum for the use of space at the University Hospital. In 2011 greater efforts were made to modernise the teaching-learning scenario (teaching and learning methods, extending the functionality of the LMS, new learning videos, embedding a virtual classroom).

The investment and running costs can be summarised as follows:

<table>
<thead>
<tr>
<th>Costs</th>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment costs</td>
<td>2002/2003</td>
<td>€ 248,712,-</td>
</tr>
<tr>
<td>Operating costs</td>
<td>2009</td>
<td>€ 71,147,-</td>
</tr>
<tr>
<td>Costs of service, maintenance and further development</td>
<td>2009</td>
<td>€ 11,067,-</td>
</tr>
<tr>
<td>“Modernisation investment”</td>
<td>2011</td>
<td>€ 82,172,-</td>
</tr>
</tbody>
</table>

For the Visualization of Financial Implications (VoFi) calculation the investment costs are pragmatically divided into proportions of two thirds for the first year and one third for the second (development) year, since implementation activities and the launch of the training course incurred higher costs in the first year.

The market model is not referred to in detail at this point (see Sections 1 and 3), because the customer target group is defined and deposits are generated in the case study solely from the course fees collected (€ 149, - / participant and month; max. 25 participants/year). The MTRA blended learning training course has operated at full capacity since its launch.

The imputed connections of the complex deposit and withdrawal structure of a training course are shown below in the capital model. The VoFi was chosen as a suitable model for investment accounting. The concept of complete financial plans differs from the “classical” methods of investment accounting mainly in the fact that all payments caused by the investment are shown explicitly. This allows a relatively accurate and transparent assessment of the relevant series of payments, a differentiation of the financing side (equity/debt, e.g. short-and long-term forward-interest rates, repayment terms, etc.) and the resulting financial consequences. In the investment time $t = 0$, the initial net investment is financed through the use of own capital and possibly an initial loan. During the observation period, $n$ years, of the investment, payment surpluses (including the liquidation surplus in $t = n$) are set as original payments. Taking into account transfers, deposits and tax payments, interim financing arrangements (temporary financing) and reinvestments (temporary investments) need to be made which lead to annual financial balances of zero.
lending/net borrowing of each period is thus by definition zero and is derived from the gap between all incoming and outgoing payments in consideration of the initial stock of cash. The balance of assets and loans (inventory balance) shows the evolution of the target value over time. Of particular importance is the target or final wealth at the end of the useful life or at the end of the planning horizon. The result of the VoFi represents the final wealth of the investor achieved by making the investment as an absolute number. Particularly significant for the evaluation of business models in blended learning is the VoFi total return on assets, which expresses the return on investment (ROI) based on a dynamic number base.

The VoFi total return on assets shows the interest paid on capital employed over the useful life, which can be compared to a calculated basis for an investment decision using the average cost of capital. The VoFi return on total capital $g_{GK}$ is calculated according to the equation below (figure 3):

$$g_{GK} = \sqrt{\frac{EW^M + FK_g + Z^g}{EK + FK_0} - 1 \text{ für } EW^M + FK_g + Z^g \geq 0}$$

Figure 3. VoFi return on total capital $g_{GK}$ (Grob, vom Brocke & Bensberg, 2004, p 8)

In order to use this equation to assess the absolute and relative benefits of the project, not only the final value of the investment alternative, but also the final value of the default alternative must be determined (e.g. using a risk-free financial asset; see Grob, 1989, pp. 73). As additional assessment information, the VoFi the pay-off period can be determined: this specifies the time it will take for the net initial investment to pay for itself, taking into account imputed interest on equity (Grob, 1989, p 92).

In order to make a meaningful calculation for the case study, the deposits and withdrawals incurred by the business model of the case study were recorded over a longer period (2002 to 2011) and adopted into the VoFi as elements of the payment sequence (all payments in arrears at the end of each year).

For the running costs (operating costs and service, maintenance and development) real data were available until 2011; for the following years an annual cost and price increase of four percent is assumed. On the revenue side a one-time ten percent increase in participant fees was calculated for 2011. The observation period for the VoFi calculation was set to 2016 (13 student cohorts); no end of the training courses, nor a sale with a fictitious, incalculable, return are assumed for this calculation. The observation period selected is long enough to ensure that the initialisation costs are not disproportionately weighted. A result, the revenue side is taken into account using the total real number of students in each cohort, considered several times, and also a sufficiently long observation of the outlay side, including a significant overhaul of the teaching-learning scenario.

The final value calculation is made in accordance with the VoFi model on the last date of the period: for any previous period a payment surplus (receipt surplus) is offset by interim financing (reinvestment). The VoFi pay-off period can be specified as an additional, time-critical figure: this indicates the period in which the net initial investment will pay for itself, taking into account an imputed interest rate of 4.4 percent on equity. The VoFi total return calculation for the case study is made for the case of 100% own financing (from existing cash funds). Thus, the VoFi total return is equal to the VoFi return on equity. The result is a VoFi own or overall profitability of 5.10 percent (see table 2). The VoFi pay-off period is outside the period under consideration. A payback of the capital invested is therefore not to be expected within 13 years.
The imputed nominal and credit interest rates were defined as follows:

- Long-term interest on debit balance: 6.5% (range of promotional loans for SMEs: 2.45–9.1%; www.genobank.de),
- Long-term interest on credit balance: 4.4% (average return on 10-year government bonds 2003–2011; www.bundesbank.de),
- Short-term interest on debit balance: 8.5% (assumption, as dependent inter alia on creditworthiness, credit rating, existing liabilities etc.);
- Short-term interest on credit balance: 2.5% (average money market rate interest rate 2003–2011; www.bundesbank.de)

The calculated VoFi return is positive and can thus seem advantageous for the project, in terms of financial criteria. However, the absolute figure of 5.1 percent should be compared to the returns from alternative investment opportunities. Thus, the absolute size of the return is slightly above the average yield on 10-year government bonds (4.4 percent), which considering the difference to this very low-risk investment alternative represents a very small premium when the risk and profit for the training provider are taken into account. The VoFi Pay-off-Period of over thirteen years, calculated using the opportunity interest rate, also seems uninviting from a business perspective. Direct comparison with other schools or providers of MTRA training with national accreditation is not available, as none of the other MTRA training service providers nationwide have so far implemented a blended learning concept. An extension of the “peer group” for a comparison of returns also affords no meaningful comparisons, due to the fact that the relevant financial data have not been published. In addition, an analysis would need the same framework conditions for the comparative case studies as for the case study in this article. For example, the withdrawal page would have to be created using the same cost structure, and the same accounting procedures would have to be used to calculate the measured values (e.g. VoFi).
5. CONCLUSION AND OUTLOOK

Training service provision is an industry that has been faced with profound and necessary changes in its activities for several years. Due to “modern” teaching-learning scenarios, marked by time- and location-independent learning and a high degree of multimedia and ICT use, providers are confronted by significant challenges to their business models, despite a growing market. In particular, economic viability is essential for training providers, so that the result for this case study (in the form of equity or total return) is all the more disappointing. Due to the full student numbers for the MTRA training course (so far), the search for economic optimisation can concentrate on the activity model. An area for analysis is the use of multimedia and blended learning elements, because this is responsible for the majority of the initialisation costs in the training scenario (about two thirds). Individual attention during the self-learning phases accounts for 25-30 percent of the total ongoing costs during the provision of training: these are mainly personnel costs for teachers. Thus changes in the training scenario need to be justified from an economic, but also from an educational perspective. For this purpose it will be necessary to carry out more interdisciplinary education-economic cost-benefit analyses within larger samples. This is because the assessment of the economic viability of this blended learning business model was performed using a customised cost model and an as yet infrequently used investment calculation method (VoFi). Both instruments could be used in further studies.

On the one hand this could increase the frequency of use of the application itself, so that the number of results achieved in the same way would be increased, which in turn would allow comparisons between business models. On the other hand, the cost model and the complete financial plan could be further tested and developed regarding their suitability for economic assessment. In addition, the approach used for this work could be combined with current approaches to cost-benefit analysis in further education (e.g. Schlicht, 2012; Zangemeister, 2000), in order to systematically and comprehensively determine the cost-effectiveness of teaching and learning with digital media.

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