



Next-Generation “Hybrid” School Models

A CSGF Fund II Investment Strategy

Charter School Growth Fund was the first venture philanthropist to recognize that Rocketship's hybrid schools, a radical innovation in education, were an opportunity rather than a threat.

John Danner, CEO, Rocketship Education

CSGF believes there is an emerging opportunity to create a new set of powerful school models in the K-12 sector that will catalyze greater transformative change. These “next generation” school models will combine new advances in adaptive learning technology with the key tenets of successful bricks-and-mortar CMOs to deliver outstanding academic achievement, meaningful operational efficiency and significant scale. The recent advances in learning technology over the last few years are fueling this new and promising category. Given our experience and investment approach, CSGF can play a critical catalytic role in identifying and investing in the most promising models at an early stage. CSGF will target approximately 15-20% of Fund II (~\$25-30M of the Total \$155M in Fund II) towards developing next-generation “hybrid” school model operators.

Next Generation Example - The Hybrid School Model

CSGF will invest in next generation “hybrid” operators developing new high-quality schools that mix outstanding in-person instruction with a much greater emphasis on using individualized learning technology. Currently, there are only a handful of schools in the country that are pursuing this approach, although we believe that there is an opportunity to create a new wave of very high-performing schools and operators who are pursuing this model.

Hybrid school operators leverage learning technology deeply in their operating and academic model to: 1) have students spend more time learning content on individual computers and software; 2) offer greater individualization of learning, enabling both struggling students and fast-advancing students to learn at their own pace; and 3) allow them to operate with fewer teachers, thus achieving productivity gains and leveraging their best teachers more effectively.

An example of a hybrid school operator from CSGF’s current portfolio is Rocketship Education, based in San Jose, California. Founded in 2006, Rocketship currently operates two elementary schools that serve a student population that is about 90% free and reduced lunch (“FRL”), and according to the 2009 Academic Performance Index (“API”) Rocketship’s first school ranks in the top 1% of all elementary schools serving low income students in California.



Rocketship's K-5th grade school operating model incorporates the following elements:

- Innovative Academic Model
 - 75% of learning time is with a teacher
 - 25% of learning time is in a “Learning Lab” which is focused on building skills at a student’s individual pace
 - Significant after school focus to enable the bottom performers to catch up within the school year
- Fewer teachers in the school – for each grade with four sections, there are three full-time teachers (25% fewer full-time teachers)
- Significant **cost savings** – Rocketship saves up about \$0.5M per year through this model due to lower overall salary and benefits costs
- Improved scalability: Human Capital – Potential for greater leverage of the most effective teachers – can both pay them more due to attractive economics and have them reach more students
- Improved scalability: Financial – Rocketship’s schools open on a break-even basis, enabling them to operate without significant philanthropy and provide positive school cash flow from day one

CSGF invested in Rocketship Education in 2008 at an early stage (one school open with one year of academic data) and we believe that its academic and operating model shows tremendous promise. From a scaling perspective, Rocketship’s model allows it to reach financial breakeven in one-year, impressive given California’s extremely challenging funding environment and with the fact that Rocketship paid to develop its own real estate facilities.

Although it is still early, we believe that there is a significant opportunity for the development of several new operators pursuing similar model ideas as Rocketship. If these new groups are able to deliver on the promise of great results, we think that these models are extremely scalable. Moreover, the labor-capital trade-off allows these operators to better utilize talent at a reduced cost, facilitating a fundamental change in the economics of schooling and the potential to pay the very best educators at significantly higher rates than is currently possible.

Fund II Next-Generation “Hybrid” Investments

As part of Fund II, CSGF is seeking to invest in the creation and scale-up of 6-10 new operators across the K-12 grade level spectrum that are creating next generation school models that meet the following criteria:

- Leverage adaptive learning technology to better individualize instruction and learning;
- Demonstrate deep commitment and ability to deliver outstanding academic outcomes;
- Engage students to help them more effectively drive their own learning;
- Commit to serving effectively a student population that is largely low-income and/or students of color;
- Generate meaningful operational efficiencies in terms of the deployment of human capital;
- Operate on a sustainable basis on public revenues; and
- Create a replicable model with the ability to scale effectively.



Through its investment approach, we believe that CSGF can help create the space and resources for more innovative and successful models to emerge over the next five years. Given the early stage of the market, CSGF will relax its requirement that applicants have three years of proven academic results (though applicants will need to demonstrate the capacity to excel academically), while focusing due diligence on the quality of the leadership, the design and potential impact of the applicant's model.

Why New Operators?

We believe that new operators will need to develop the first innovations on creating these new models. We do not think that school districts will be able to be on the leading edge of innovation here, even if they demonstrate interest. We believe that these models will require a fundamentally different approach from the traditional “one teacher, one classroom” mindset that dominates K-12 education currently. Most school districts will have a difficult time dramatically changing the existing teaching and learning paradigm, especially given their difficulty in (1) changing conditions and practices with existing labor contracts; and (2) building a spirit of risk-taking and an unwavering commitment to success that will be required to develop these new models. We believe that a significant portion of this initial work must take place in the high-quality charter space in order to provide the commitment to excellence, autonomy and freedom to innovate and the discipline to be held accountable for results.

We do not believe that many of the existing and proven CMOs in CSGF's portfolio who are delivering great results for students will be the first to create these new models. Each of these CMOs have spent the last several years developing models that work, and they are now consistently delivering outstanding results for students in a powerful way. We do not believe that initially these groups (e.g., KIPP, YES, IDEA, Uncommon, etc.) will (or should) completely abandon their academic and operating models in order to try this new approach. However, we do believe that they will watch these developments closely and may also “test” some of the elements of newer, next generation models in their summer and other supplemental programs. We also believe that these organizations will be “fast followers” once the efficacy of particular operating models and approaches are proven out. These organizations have a deep commitment to excellence and have the flexibility to make changes to enable better performance and to capture any labor savings from increases in productivity.

We believe that it is critical that this work serves the large percentage of population that is low-income in our country. Many of the current online-only providers are not able to effectively serve a significant (or majority) low income population. Many are targeting the home-school market (now estimated at up to 1 million children) and these students generally come from more affluent backgrounds. Our investing in this area will be focused on emerging organizations that have models that are designed effectively to serve students from low income and other poorly served populations. We think that the performance of many of the top CMOs (and of Rocketship) is informative on this point. We envision solutions that will combine the culture and college-going ethos of the best of the “no excuses” schools along with an embrace of using different teaching and learning models that deeply integrate technology to enable very different models of scalable schools.



CSGF Approach

As the market for these models is at a very early stage, CSGF seeks to create the right conditions for new operators to emerge. We believe that there will be individuals who have helped develop some of the nation's best performing charter schools, CMOs and other innovative public schools who will be attracted to this idea. We plan to use the targeted capital from Fund II to provide the early stage support to enable those new entrepreneurs and models to emerge.

We envision a tailored and staged investment approach based on the unique circumstances of each new operator or entrepreneur. For example, with the most promising new entrepreneurs with a proven record, we might make a very small up front "Entrepreneur in Residence" commitment to enable the creation of a new plan and model. Much like a venture capital model, if we believed in the entrepreneur, plan and model, we might provide an early stage investment to help launch the initial schools. Based on positive preliminary results, we would then make a longer-term, larger investment commitment.

CSGF Team

Over the past five years, CSGF has invested in over 20 organizations that are scaling up as the best school operators in the country. Most of the groups in which CSGF has invested came into our portfolio having operated only a single school, and our team has a deep understanding of what it takes to be successful at an early stage. We are comfortable and have expertise working closely with early stage teams as they are developing their plans and school operating model.

Conclusion

The work of creating and scaling up a new set of high-performing CMOs with dramatically different models is a unique opportunity. We see a generation of new entrepreneurs emerging that is seeking to utilize new technologies to invent better ways to individual instruction, leverage the best teachers and enable students to realize their potential at lower costs. We believe that in the next decade there will be tremendous pressure on states' fiscal situations, and it is likely that there will be very limited growth in real per pupil revenue.

We think that this situation offers the chance to "disrupt" the trajectory of K-12 education in our country and that the rise of new models with high-performing school operators can change the underlying economics of schooling in the country. We believe it is critical that these disruptors are dedicated to fundamentally ensuring that demography is not destiny for our nation's children and thus revitalizing the American Dream for many more students no matter where they reside. We are excited by this potential and seek a small set of investment partners to support us as we work to realize that vision.