Building the Online Enterprise:
Lessons Learned from the Formation of USC’s Palmetto College

ACHE South Presentation
April 19, 2016
Starting Question: What should our online enterprise accomplish?

Better Question: What are the goals for our university and how does an online enterprise help us get there?

- Marketing & Brand
- Extend Reach of Delivery
- Boost Enrollments & Revenues
- Enhance Retention
- Lower Costs
Outline for Today’s Presentation

- **Goals** for the Online Enterprise = The Goals for the University
- Timeline for Development of USC Palmetto College
- A **Centralized Approach**? or Every School for Itself?
- Goals Dictate Architecture of Online Enterprise
  - But Should we Outsource?
- Assumption: Let’s Build Something Together – What are the Issues?
  - Governance
  - Revenue Sharing – How Should we Split Revenues & Costs
  - Accreditation & Authorization
  - Other Programs, Integration with Traditional Education
  - Student Retention
  - Admissions, Financial Aid, Registrar, Bursar
  - Economies of Scale: Course Development & Marketing
  - Strategy & Market Research
  - Final Lessons Learned
**Timeline of Events: USC’s Online Enterprise**

USC-Columbia and its four regional campuses begin offering online degree-completion through Palmetto Programs; many of the courses are taught via synchronized classrooms.

USC President Harris Pastides begins planning process for Palmetto College, seeking to expand delivery of online education, increase enrollment, and deliver a low-cost degree to South Carolina residents. A consulting project creates the initial architecture for Palmetto College, for Board review and approval.

USC’s Board approves Palmetto College and USC pushes for state funding to launch the enterprise.

USC’s University Chancellors, Dr. Elkins, and the Provost agree to a final revenue sharing agreement that splits tuition revenue between the 8 participating institutions.

USC’s Board approves Palmetto College and USC pushes for state funding to launch the enterprise.

Dr. Susan Elkins appointed first Chancellor of Palmetto College.

Palmetto College formally launches with 7 programs, including 5 new programs in Criminal Justice, Education, Nursing, Human Behavior, and Business.

The SC legislature approves a $5M state appropriation to fund the creation of Palmetto College.

Palmetto College finishes its first full year with 64 courses and over 1600 students enrolled.

Palmetto College finishes its second full year with a 35%+ increase in students and a 35%+ increase in course consumption, leading to a doubling of tuition revenues generated.

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**2007**

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**February, 2012**

The SC legislature approves a $5M state appropriation to fund the creation of Palmetto College.

**Summer, 2012**

USC’s Board approves Palmetto College and USC pushes for state funding to launch the enterprise.

**October, 2012**

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**Fall, 2013**

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**June, 2014**

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Palmetto College finishes its first full year with 64 courses and over 1600 students enrolled.

**June, 2015**

Palmetto College finishes its second full year with a 35%+ increase in students and a 35%+ increase in course consumption, leading to a doubling of tuition revenues generated.
Designing an Online Enterprise? Start with Your Goals.

USC – Palmetto College started with a vision for what it wanted in 2011 and gained Board approval for both its vision and the corresponding architecture for Palmetto College in 2012.

2012 USC Board Presentation

Stated Goals:

- Extend USC’s reach beyond its physical campuses and aid degree completion, in South Carolina
- Create affordable degrees
- Increase net revenue – important, but secondary
- Utilize existing infrastructure and programs to jump-start the launch of Palmetto College

The Need for Palmetto College

By establishing Palmetto College, the University of South Carolina achieves its fundamental goals and plays a significant role in improving economic stability in the State.

- South Carolina ranks 46th in the nation in number of adults holding a bachelor’s degree at only approximately 25%. The level of educational attainment relates directly to the number of jobs available in the state.
- An increase in bachelor’s attainment is determined to be “critical” or “most critical” for a majority of counties in most projected economic demands.

Quality of Life Improvements for Bachelor’s Degree Holders

- Individuals holding a bachelor’s degree in South Carolina earn $1.2 million more over a lifetime than those with just a high school diploma.
- Research continues to indicate that holding a college degree elevates individuals with increased social and cultural capital that is passed on to future generations. Educated citizens are rewarded with higher paying jobs and higher status in society.

Expanding Job Market Demand for Bachelor’s Degree Holders

- By 2018, 630,000 new jobs and job vacancies that require a bachelor’s degree will exist in South Carolina with strong growth in the fields of health sciences, business administration, education, and criminal justice.
- Based on projected degree completion rates, South Carolina must increase bachelor’s degree attainment by a rate of 3.5% yearly to meet job market needs.

Fulfills Mission of the University

- Palmetto College will hit on the core principles of the new funding model: degree attainment, job placement and opportunities for low income and minority students.
- With increased bachelor’s degree attainment and access to underserved students in the State, USC’s impact on economic development will be vast by making South Carolina more attractive to potential employers and providing access to higher paying jobs for its citizens.

Review of Palmetto College

As Palmetto College develops, these guiding principles will shape the final product.

- Adult students who may be geographically-bound
  - Upper Division courses only
  - Vast majority of courses on-line via asynchronous delivery methods

Courses

- University non-completes and Associate’s Degree holders
  - Vocationally oriented
  - Fields with proven job market demand
  - Accredited through the senior campus degree programs
  - Positioned to compete with for-profit institutions

Programs

- Both in-state and out-of-state residents
  - Leverages the regional campuses
    - Organized as one college within the system
    - Overseen by a new Chancellor with a direct reporting relationship to the President
    - Centralization of many services

Structure

Based on its market position, brand integrity, existing infrastructure, and strong market demand, Palmetto College is poised for success.

Sources: Georgetown Center on Education and the Workforce & The Lumina Foundation Education Needs Index

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Goals Dictate the Architecture of Online

Based on USC’s experience, we believe that the ultimate goal for the University should dictate how the online enterprise is constructed.

**Example University Goals**

- Enhance University Brand
- Quick New Revenues, Low Investment
- Extend University Delivery, Increase Long-Run Revenues

**Examples of Corresponding Architecture**

- MOOC/Not-for-Credit
- Outsource to Online Program Management
- Build Internally on Top of Existing Structures
**For USC, Building on Something Established**

An online extension wasn’t new for USC, which had 2 programs of study built on its four regional campuses that offered 2-year degrees. Palmetto College expanded programs and resources while creating a cohesive entity dedicated to growing enrollments and new programs.

### 2012 USC Board Presentation

**Selecting Programs For Palmetto**

Palmetto College’s initial programs will be selected on the mission, goals, market demands, and capabilities of the University of South Carolina System.

**Programming Goals**
1. Offer classes best suited to build enrollment
2. Offer enough online programs at once to create economies of scale in advertising and administration
3. Serve the citizens of South Carolina

<table>
<thead>
<tr>
<th>Degree Programs</th>
<th>Metrics</th>
<th>Proven for-profit market?</th>
<th>Established USC catalog of distance education classes applicable to a bachelor degree?</th>
<th>Projected South Carolina Job Opportunities in 2018</th>
<th>Fit with USC Mission/Strategic Plan</th>
<th>Overall Score</th>
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**Legend**

- ![Icon] = None
- ![Icon] = Low
- ![Icon] = Solid
- ![Icon] = Strong
- ![Icon] = Exceptional

*Program Exists

**USC’s “Palmetto Programs”** had offered online programs for years. Palmetto College added additional offerings to create scale and promised additional support for marketing and recruiting.

Source: Georgetown Center on Education and the Workforce, USC Department of Distributed Learning
Can a Decentralized Online Enterprise Work?

Perhaps, but only when your goals focus on speed and creativity. Eventually, scale matters.

**Advantages of an Organic, Decentralized Approach**

- Faster start-up
- Promotes creative approaches
- Reduced bureaucracy in decision-making
- Eliminates some issues of revenue sharing and governance
- Less arm-twisting to find participants

**Erie Canal Example**

Erie canal construction started (1807) as a decentralized process with canal construction divided into 3 segments.

- Canal managers learned new techniques, not biased by a master plan of how to build canals
- Eventually consolidated best practices to finish remaining parts of the canal building

**Advantages:** (Sometimes) faster, more creative solutions

**Disadvantages:** Still requires “central” services such as bursar, registrar, admissions, financial aid; higher operational costs on per-student basis
Palmetto College: Early Outsourcing; Later, In-House

USC Partnered with Academic Partnerships (AP) on a fee-for-service basis (no revenue sharing) for almost two years; the relationship was discontinued in 2014 for USC’s undergraduate offerings.

AP: Provided a Quick Start; Fee-for-Service

- AP built initial websites, developed many (but not all) of the courses, and staffed a call center for 1+ years

Model Not Sustainable for USC or AP

- The fee-for-service structure was not a part of AP’s typical model (typically receives 40% to 60% of revenues)
- AP and USC could not reach an agreement on future work for Palmetto College
- USC now does all work formerly done by AP in-house for its undergrad programs

Based on current costs for USC versus AP’s desired contract terms, moving to a fully in-house model saved USC at least $1.5M in FY2015. Savings in 2016 are projected to exceed $2M.
## A Checklist of Outsourcing Options

Every aspect of operating the online enterprise can be outsourced, but some areas make more sense than others based on your current competencies and the cyclicality of the work in that area.

<table>
<thead>
<tr>
<th>Service</th>
<th>Is it a Current Core Competency?</th>
<th>Is it a One-Time or Cyclical Event?</th>
<th>Should we Outsource It?</th>
<th>When to Outsource?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local/Regional Marketing</td>
<td>●</td>
<td>o</td>
<td>o</td>
<td>• When regional recruiting is poor</td>
</tr>
<tr>
<td>Recruiting Online/Call Center</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>• When faster start-up is needed or fewer operational costs/risks</td>
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<td>Course Development</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>• When creation of digital classes will be limited and sporadic</td>
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<tr>
<td>Website Development</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>• When few university resources exist</td>
</tr>
<tr>
<td>Retention Services/Coaching</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>• When speed is critical or when retention services for online are separate from on-ground</td>
</tr>
<tr>
<td>Partnership Development with Business, Other Entities</td>
<td>●</td>
<td>o</td>
<td>o</td>
<td>• When seeking business/partnership development in geographically disparate areas</td>
</tr>
<tr>
<td>Marketing/Recruiting to Int’l Markets</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>• When university has few/no resources internationally</td>
</tr>
<tr>
<td>Marketing/Recruiting to National Markets</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>• When university has few/no resources outside of home region</td>
</tr>
<tr>
<td>Market Research &amp; Strategy</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>• When data is hard to get or politics gets in the way of clear strategic planning</td>
</tr>
</tbody>
</table>

● = Yes  ○ = Partial  ○ = No
When Does Outsourcing Make Financial Sense?

Outsourcing to an Online Program Management company can be a good way to get off the ground quickly using experienced recruiters, website developers, and course developers. But it comes with a potentially hefty long-term cost. The right contract terms are critical.

Comparison of Net Revenues: OPM vs. In-house Approach
Sample Analysis, 2016-2025

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<tbody>
<tr>
<td>Revenues (000s)</td>
<td>$0.3M</td>
<td>$1.4M</td>
<td>$1.4M</td>
<td>$2.0M</td>
<td>$2.6M</td>
<td>$3.2M</td>
<td>$4.1M</td>
<td>$5.2M</td>
<td>$6.6M</td>
</tr>
<tr>
<td>OPM Costs (50% Revenue Share)</td>
<td>$0.7M</td>
<td>$0.6M</td>
<td>$0.7M</td>
<td>$0.7M</td>
<td>$0.8M</td>
<td>$0.9M</td>
<td>$1.0M</td>
<td>$1.1M</td>
<td>$1.2M</td>
</tr>
<tr>
<td>Projected In-House Approach Costs</td>
<td>$1.5M</td>
<td>$2.1M</td>
<td>$3.0M</td>
<td>$4.0M</td>
<td>$5.0M</td>
<td>$6.0M</td>
<td>$7.0M</td>
<td>$8.0M</td>
<td>$9.0M</td>
</tr>
<tr>
<td>Difference - OPM and In-House Net Revenues</td>
<td>-$0.7M</td>
<td>-$0.7M</td>
<td>-$0.7M</td>
<td>-$0.7M</td>
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Example
At 2,500 total students and $300/credit hour (projected 2025 levels), a “typical” OPM revenue sharing agreement would pin OPM-related costs at ~$8.4M/year, plus include the institution’s internal expenses, cutting net revenues by roughly $8M per year by 2025.

In this example, an OPM would have to outperform the in-house/DIY recruiting output by roughly 75% to match the net revenue output for the sample institution under an in-house approach.

*Model assumes that costs for admissions, financial aid, faculty, and course development are the same under both models and that these costs are borne by by the institution.
Building the In-House Enterprise: Major Decisions

With a DIY-approach to building the online enterprise, universities must decide how all of the related components will work together, be governed, and share the revenues and costs.

<table>
<thead>
<tr>
<th>Online Enterprise</th>
<th>Governance</th>
<th>Revenue Sharing</th>
<th>Accreditation &amp; State Authorization</th>
<th>Role in Brick-and-Mortar</th>
<th>Types of Programs</th>
<th>Retention &amp; Student Services</th>
<th>Course Development</th>
<th>Marketing &amp; Recruiting</th>
<th>Data &amp; Decisions</th>
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<td>1</td>
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<td>Data &amp; Decisions</td>
</tr>
<tr>
<td>Governance</td>
<td>Who decides on new programs and program ownership? On other major changes?</td>
<td>How are tuition revenues shared? How are direct costs paid for?</td>
<td>How will various degree offerings be accredited? Who will seek authorization for serving students in new states?</td>
<td>How can/should the online enterprise be involved with the digital enhancement of on-ground courses?</td>
<td>Should the online enterprise include continuing education, graduate programs, certificates, and any other online offerings?</td>
<td>Does online use the University’s current advising/retention apparatus? How do admissions, financial aid, registrar, and bursar manage these students? How are those extra efforts paid for?</td>
<td>How do we leverage current digital courses? Build new ones? How do we use course developers from multiple areas?</td>
<td>Who manages? How does the brand stay consistent? Who runs call centers, online chats, etc.?</td>
<td>Who provides research and analysis on which new programs to build and how to recruit (and where)?</td>
</tr>
<tr>
<td>Strategic</td>
<td>Operational</td>
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12

2015 Kennedy & Company Education Strategies LLC
The largest strategic issues—like how the online enterprise should be governed—need to be decided before the enterprise is launched, ideally.

**Key Considerations**
- Palmetto College will require strong leadership at the very top which is communicated to the public to illustrate its overall importance.
- The role of the Palmetto College Chancellor must be empowered to make important decisions and have direct access to other decision makers.
- Upon the completion of the organization design, many existing roles may be redundant.

**Preliminary Recommendations**
- Appoint a chancellor with a direct reporting relationship to the President to oversee Palmetto College.
- Centralize services to eliminate redundancy. Many services, such as student services and financial aid can be melded together under one role.
- Reducing current staff levels across all institutions is not necessary as cost reductions will occur over time through attrition.
- Deans should take on increased responsibility at their respective campuses and assist across multiple departments.

**2012 USC Board Presentation – Governance Proposal**

1. **2012**: Recommended that USC create a Chancellor position, given that 8 different colleges/universities would be involved with Palmetto College.
2. **High-level governance well-established with USC President and new Chancellor**
3. **In retrospect, required more detail about who makes decision on launching new programs, and other decisions between and among divided interests**

Across years one and two, administrative costs are expected to rise, but are predicted to fall after year two.
**Revenue (and Cost) Sharing – How to Split?**

Similarly, revenue and cost sharing in a multi-school (or college) system should be agreed upon up-front. A neutral party (like the President, Provost, Online Chancellor, etc.) can be arbiter.

**2012 USC Board Presentation**

**A New Revenue-Sharing Model**

The new model will require a revamped revenue sharing system.

**Present**

Inconsistent Models of Revenue Sharing Across the System

- USC Upstate
- USC Columbia
- USC Sumter
- USC Salkehatchie (Allendale Campus)
- USC Salkehatchie (Walterboro Campus)

**Future**

Consistent Cost-Based Model of Revenue Sharing for all Campuses

- USC Upstate
- USC Columbia
- USC Sumter
- USC Aiken
- USC Salkehatchie (Allendale Campus)
- USC Salkehatchie (Walterboro Campus)

**Current Revenue Sharing Arrangement Examples**

- 75% USC-Upstate
- 25% USC-Sumter
- 50% USC-Aiken
- 50% USC-Salkehatchie

**The Plan: Pay the Costs, Split the Rest**

USC’s original cost sharing model, blessed by the Board, called for direct costs of running the enterprise to be paid up-front, with some indirect (overhead costs paid) using proxies for effort. The remaining dollars would be split between the online enterprise (central) and the schools.

**Create Consistency, Right Incentives**

This model acknowledged the several pre-existing revenue sharing agreement between schools/campuses and sought to override them for the sake of consistency and so that some campuses would not have incentives to promote one program of study over another.
Adapting Revenue Sharing to New Conditions

USC’s original plan for sharing revenue was a good start, but didn’t account for how to create incentives such that every school/campus recruited for every program.

USC implemented a tweak in 2014 to its original plan to account for cross-campus recruiting...

...which grew cross-campus recruiting from practically nothing to a substantial amount in 2015.

Design and implement a revenue-sharing model before you implement, but have the right governance in place to be able to change it as conditions change.
Understanding governance can help define the vision for how new programs get accredited and authorized, how they blend with the University’s on-ground offerings, and how they include and/or share resources with continuing education and graduate programs.

- Many programs can be accredited underneath current accreditation, which USC did.
- State-by-state authorization can take time; prioritize states where your brand matters.
- Digital courses and materials can be re-purposed for online/on-ground use, creating economies of scale.
- Requires coordination in course development and one “keeper” of all digital inventory.
- Depending on the offering, sharing resources/costs with grad and CE programs can lower overall costs.
- May be large advantages in marketing/ad spending to have a seamless catalog of classes, especially with non-traditional students.
# How Can (And Should) Online Help Retention?

Online classes can be a boon to retention efforts, when digital assets are re-purposed for supplemental instruction or when courses help smooth curricular bottlenecks. But they can also hurt students that may be challenged by an all-online environment.

## Classroom Environment

<table>
<thead>
<tr>
<th>Completely Online</th>
<th>On-Ground, With Online Resources</th>
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</thead>
<tbody>
<tr>
<td>• Online classes can overcome course bottlenecks, allow double-majors to finish on-time, etc.</td>
<td>• Few retention issues here, generally</td>
</tr>
<tr>
<td>• Can keep students from taking summer courses elsewhere and transferring them back-in</td>
<td>• Online assets can help students make up for classes missed due to illness, athletic travel, etc.</td>
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<tr>
<td>• May require more intensive advising or supplemental instruction; additional coaching, even for students that thrived in on-ground</td>
<td>• Risk of too many incentives to skip class</td>
</tr>
</tbody>
</table>

## Example: USC has seen some of its best on-ground two-year students struggle with completely asynchronous classes

- Online courses provide a major opportunity to supplement the on-the-ground experience.

- However, a totally online experience poses a retention risk for some students that require a more hands-on learning environment and/or a more connected advising experience.
Online’s Effect on Core Student Operations

Without major workarounds, outsourced, decentralized, or centralized online enterprises will all rely on some of the university’s core student services: admissions, financial aid, registrar, and bursar operations.

New/expanded online enterprises impose real costs on these functions, which should be acknowledged (and preferably paid for) via the revenue/cost sharing model.

Functions & technology that cannot be outsourced and shouldn’t be decentralized?
Marketing and course development can both be done more quickly, initially, in a decentralized or outsourced approach. However, getting the biggest bang for your buck in ad spending and course development costs requires centralization of efforts.

**Scaling Marketing & Advertising**

- Important to keep control of brand and message
- Should consolidate advertising buys across all programs, if possible (e.g., one banner ad, links to 20 programs)
- In many cases, important to associate online brand with on-ground offering for greater credibility

**Scaling Course Development**

- May not need a full-time course developer for one academic program, after initial catalog is built
- However, combining several programs under one roof creates enough need to keep design know-how, pedagogical principles in-house
Scale in Course Development Lowers Costs When Demand Varies

Illustrative Example: Expected Demand for Building Courses for 7 New Online Programs

1. If 2 FT course developers develop 20 course per year, the university seems to have enough work with all programs combined.

2. However, if assigned only to specific programs, no program needs a course developer in-house for more than one semester.

3. The university could outsource. In the first 3 semesters, outsourcing the development of 20 courses makes sense. In the long run, outsourcing all course development may prove more expensive and means the university lacks a vital core competency.

Maintenance and new course additions start in Spring of 2015
How to Launch the Right New Programs?

A combination of market research, resources, and good governance are necessary to build and deliver new programs so that your online enterprise can continue to grow.

Capabilities

What programs already have online resources? Which programs are best-known in our region? Which schools are most willing to jump into the online enterprise?

Students

Where are the prospective students? What is the demand for a four-year degree? Degree completion? Graduate programs? Continuing education? Where are the prospective students that will value our brand and reputation most? Where do our students take summer courses?

Competition

Where are the pre-existing online programs? What do they offer? Can our offering be better? Where is there a clear hole in the market?
Final Thoughts: Lessons Learned

Start with all of the university’s goals in mind and then make the online enterprise an enabler of those goals.

Construct several alternative scenarios in terms of outsourcing and decentralization, and understand the financial implications of each.

Draft a strategic plan that identifies governance and decision-making rights, splits revenues, and shares costs. Ensure your governance works and can make mid-course corrections quickly.
Appendix
### Enrollments (Seats Filled) in Palmetto College *Online Courses*

<table>
<thead>
<tr>
<th>Semester</th>
<th>Courses</th>
<th>Total Enrollments</th>
<th>Average Enrollments Per Course</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fall 2013</td>
<td>57</td>
<td>1649</td>
<td>29</td>
</tr>
<tr>
<td>Spring 2014</td>
<td>64</td>
<td>1668</td>
<td>26</td>
</tr>
<tr>
<td>Summer 2014</td>
<td>15</td>
<td>542</td>
<td>36</td>
</tr>
<tr>
<td>Fall 2014</td>
<td>73</td>
<td>2077</td>
<td>28</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>209</strong></td>
<td><strong>5936</strong></td>
<td><strong>28</strong></td>
</tr>
</tbody>
</table>
Estimated Average Lifetime Earnings by Education Level (2008)

South Carolina citizens who earn bachelor’s degrees are much more likely to achieve a higher socioeconomic status.
Critical Needs for Bachelor’s Degrees

The need for an increase in bachelor’s degrees to meet projected job market demands is considered “most critical” or “critical” across South Carolina.

Education Needs Index for South Carolina

The Education Needs Index is calculated by combining the educational capacity of a region’s adult population, the degree of economic challenges, and population growth issues and potential need for increased human capital. Each factor is converted to a Z Score with scores above 0 indicating critical education needs. Scores from 0 – 0.47 indicate critical need and above that indicate most critical. As a state, South Carolina scored 0.53 for an overall “most critical” rating.

Source: The Lumina Foundation Education Needs Index.
Marketing Principles

To effectively communicate in a way that appeals to potential students and differs with other available programs, attention must be given to specific principles.

External Message: Mission & Access
- Tying Palmetto College to the original missions of the regional campuses will bolster their purpose and strengthen their individual value to the system and State
- The President’s “three A’s” of Accessibility, Affordability and Accountability should be reinforced
- Each of the “A’s” serves to distinguish Palmetto College from for-profit institutions

Quality
- Marketing efforts must take into account the reflection on quality of Palmetto College and USC
- Techniques should be used to differentiate USC from the for-profit institutions that are heavily marketed
- A distinct focus on quality should play a central role

Control Brand & Message
- The marketing of Palmetto College will ultimately have an impact on the overall USC brand
- Palmetto College may be used as an opportunity to launch and promote the USC brand to new markets
- Care should be taken to avoid cheapening the brand

Package as Unique
- Distinguish Palmetto College from other entry points to the University such as “Back to Carolina”
- Micro-target efforts to specific potential Palmetto College students
- Avoid communications overlaps with other marketing efforts
### Five Year Projected Income Statement

#### Positive Scenario: High Enrollment, high marketing and overhead costs

<table>
<thead>
<tr>
<th></th>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Headcount</strong></td>
<td>250</td>
<td>300</td>
<td>350</td>
<td>400</td>
<td>450</td>
<td>500</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td>$2,390,500</td>
<td>$2,881,155</td>
<td>$3,393,761</td>
<td>$3,809,126</td>
<td>$4,368,083</td>
<td>$4,891,495</td>
</tr>
<tr>
<td><strong>Fixed Costs</strong></td>
<td>$1,466,385</td>
<td>$1,494,045</td>
<td>$1,522,396</td>
<td>$1,551,456</td>
<td>$1,491,242</td>
<td>$1,611,773</td>
</tr>
<tr>
<td><strong>Variable Costs</strong></td>
<td>$772,292</td>
<td>$777,375</td>
<td>$949,958</td>
<td>$1,004,417</td>
<td>$1,030,125</td>
<td>$1,069,583</td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td>$2,238,677</td>
<td>$2,271,420</td>
<td>$2,472,354</td>
<td>$2,555,872</td>
<td>$2,521,367</td>
<td>$2,681,356</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$151,823</td>
<td>$609,735</td>
<td>$921,407</td>
<td>$1,253,254</td>
<td>$1,846,716</td>
<td>$2,210,139</td>
</tr>
</tbody>
</table>

#### Assumptions

- **$367**: Price/ Credit hour
- **$500,000**: Additional Overhead
- **$360,000**: Development Costs
- **22**: Credit hours / student / year
- **$367**: Price/ Credit hour, equal to the student price for Palmetto Programs courses, which will further the mission of USC while still fostering a financially sustainable enterprise.