



KENNEDY & COMPANY

TRENDS IN ONLINE EDUCATION



*ASSOCIATION FOR CONTINUING HIGHER EDUCATION
NATIONAL MEETING*

Fall 2017

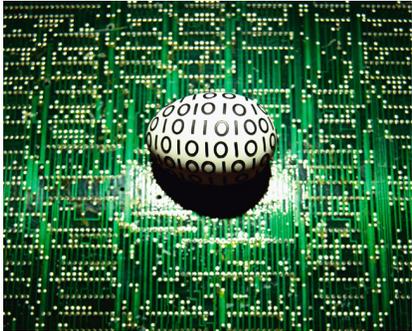
ABOUT KENNEDY & COMPANY

Kennedy & Company is a boutique consulting firm focusing exclusively on the unique challenges and opportunities of higher education institutions. From improving enrollment, student success, and financial sustainability to shaping online education and academic portfolio strategies, we forge true partnerships with our clients to understand their institutions and co-create real solutions.



Benjamin Kennedy is the founder and President of Kennedy & Co, the former leader of Huron Education Group's Enrollment and Retention practice, a former growth strategy consultant with Bain & Company, a former in-house strategic advisor at the University of South Carolina, and a former member of the Duke University Board of Trustees.

ONLINE EDUCATION & CONTINUING EDUCATION



- Typically where the existing online infrastructure started



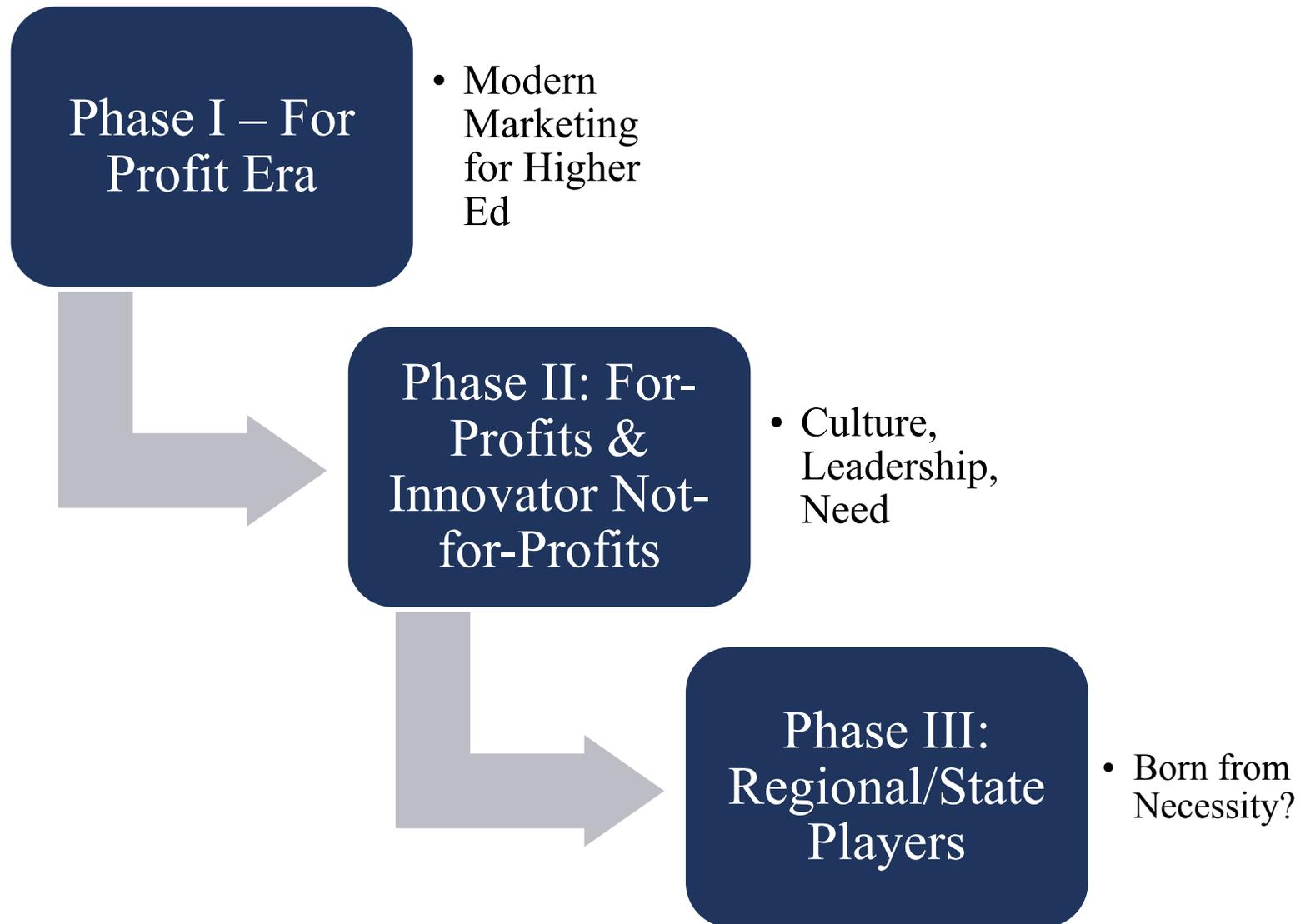
- Knowledge/how-to of accessing, recruiting, and enrolling adult/non-traditional students (where the students are)



- Can be the key to the next multi-million dollar tuition revenue line at the University (but they don't always know it)

WHERE DO WE SEE ONLINE EDUCATION GOING?

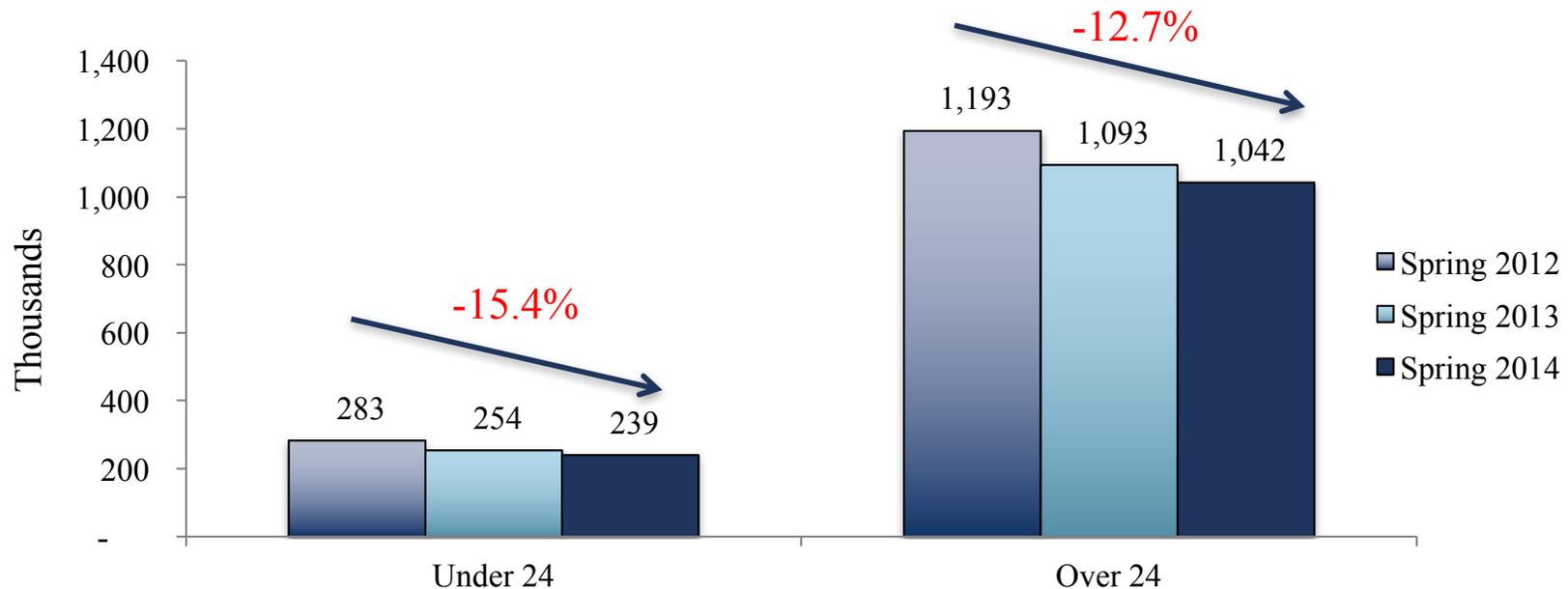
Are we moving to Phase 3?



FALL OF THE FOR-PROFITS

Enrollments in the for-profit sector have been steadily declining. High dropout rates, modest job placement, and dubious recruiting tactics have led for-profit institutions to come under increased scrutiny by online learners (both traditional and nontraditional), the higher education community, and the federal government.

National Enrollment in Four-Year For-Profits, by Age Group

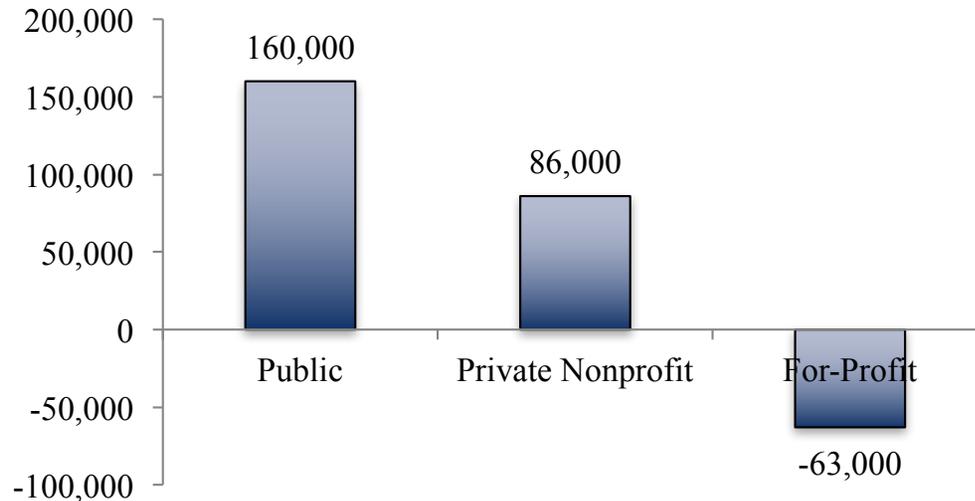


Several prominent for-profit institutions have been subject to federal inquiry. Among them, the institutions which have spearheaded enrollment declines have been Ashford University (Bridgepoint Education; Operating loss \$34.5M) and the University of Phoenix (Apollo Education Group; Operating loss \$54.5M).

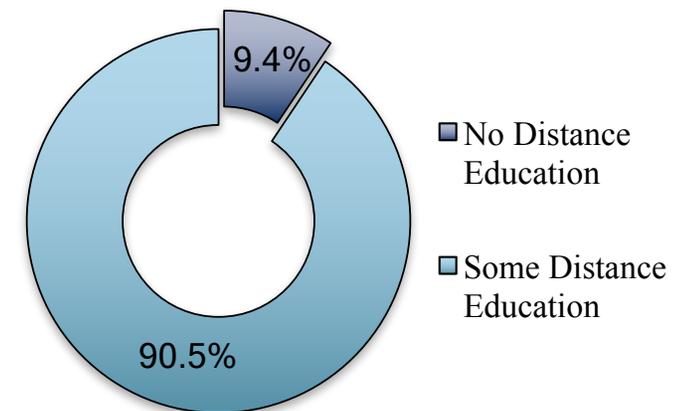
EXPANSION OF THE NONPROFIT ONLINE LANDSCAPE

Distance education delivered by nonprofit institutions has become the gold standard. While for-profits continue to lose revenue and students, nine in ten public four-year institutions now offer some form of distance learning. Between 2012 and 2013 alone, distance enrollments at public institutions grew by a rate of 4.6 percent, while for-profit distance enrollments decreased by nearly 8 percent.

Change in Distance Education Enrollments, 2012-2013



Percentage of Four-Year Institutions Offering Distance Education



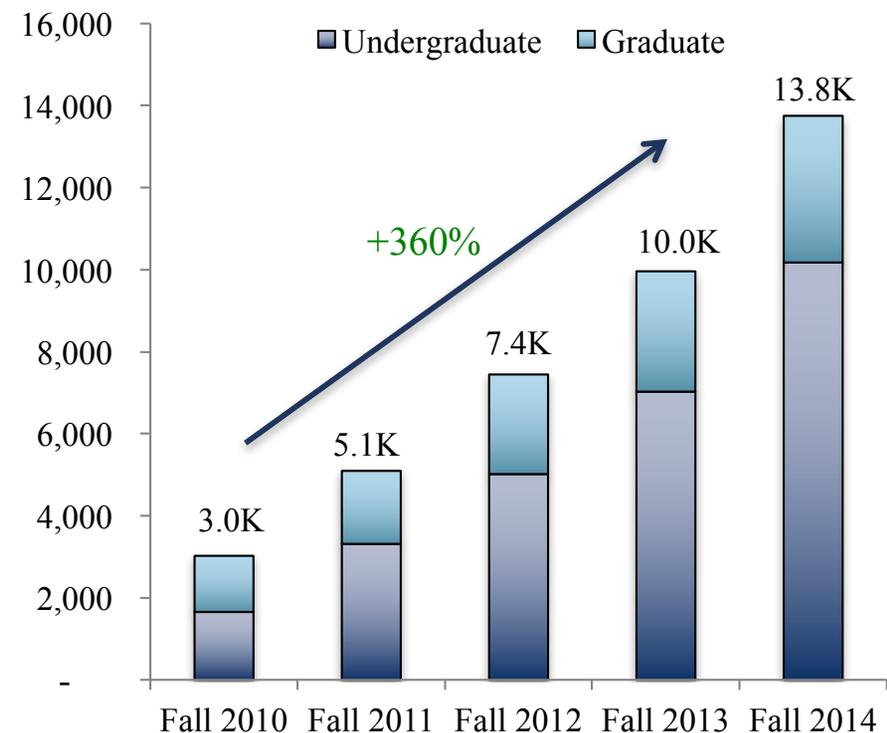
Increased scrutiny of the for-profit sector, combined with the increasing attractiveness of a fully-online nonprofit degree, has led students to reevaluate the online marketplace.

CASE STUDY: WHAT MAKES A SUCCESSFUL PROGRAM?

Arizona State University has earned high ranks for its online programming. Under one banner, the institution provides 40 BA/BS programs to its 13,000+ students. The institution has been particularly lauded for its innovative take on its online course delivery and specialized student support.

ASU Online Enrollment Trends

ASU Online Features	
Tuition	Undergraduate: \$490-\$553 per credit hour Graduate: \$492-852 per credit hour
Financial Aid	Seven in ten students receive some form of financial aid. Aid can be delivered through scholarships, grants, and loans.
Delivery	Fully online. Delivered by on-campus ASU faculty using learning tools such as Quality Matters, Zaption, and Google Apps
Student Support	Students are guided by Enrollment Counselors, Academic Advisors, and Success Coaches to encourage persistence until graduation.
Transfer Students	Students who have accumulated more than 24 credits are assured admission if they have completed an associate's degree or higher



ONLINE DELIVERY SYSTEMS VARY

Institutions moving away from outsourcing develop across a broad spectrum of centralized versus decentralized (and partially outsourced) operating models for delivering online higher education.



“Multiple Providers”



“Coordinated Marketing”



“One Business”

	University of South Carolina	Statewide Degree Completion Network	Penn State World Campus
Summary	OPM for Grad, In-House for Degree Completion, In-House for CE	2 universities partnering for online degree completion only; Building one front door for all state degree completers	“One Large Business” for large collection of PSU programs; focus on self-paced asynchronous courses; on-ground offered around 14+ campuses.
Program Offerings Breadth	Degree completion done in-house w/ 14 programs; grad degrees outsourced	Undergrad: 100+ from University 1, <10 from University 2	70+ programs. About 30 undergrad and 40 Master’s, plus certificates and 1 doctoral
Course Development	Depends on outsourcing by program; undergrad is all in-house	All done in-house at both campuses	71 person “Learning Design” function serves all PSU needs, as clients
Marketing & Recruiting	Undergrad and CE done in-house with some outsourced digital marketing; OPM does all Grad	School #1 does call-center, marketing& recruiting in-house; School #2 uses OPM for its grad programs and is building in-house capability for undergrad	PSU uses InsideTrack for personalized coaching for prospective students until week 4; large marketing team
Coaching/Retention	In-house for undergrad; OPM does Grad	In-house resources for advising, retention	In-house resources for advising, retention

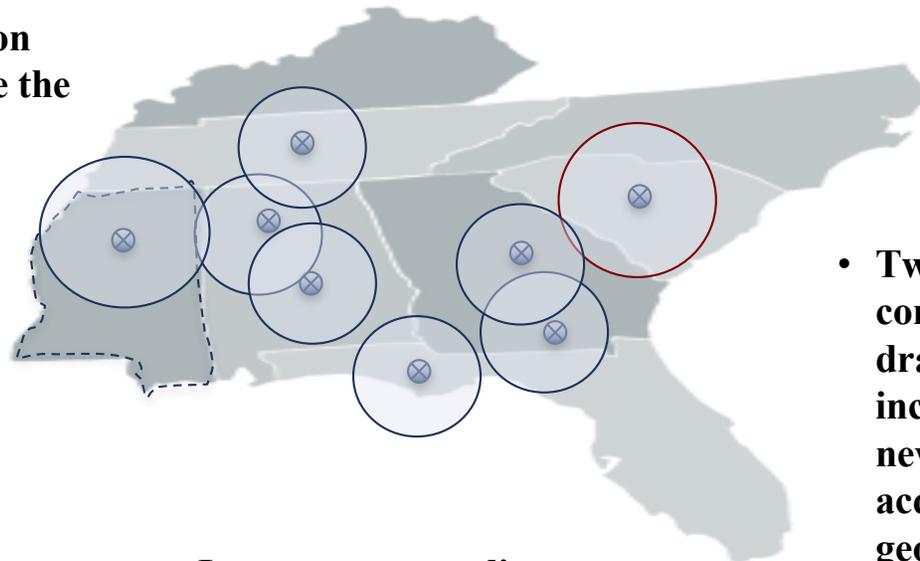
HOW DO WE PREDICT COMPETITION IN A REGIONAL ONLINE MARKET?

- Brand & Reputation - Selectivity, Football, etc.
- Marketing Spend – “Online students find Online programs Online”
 - Financing Matters
- Offerings & Selectivity
- Concentration of Competition and Natural Borders
- Pricing borders

ONLINE MARKETING EFFICACY FOLLOWS REPUTATION, BRAND

Despite the presence of national offerings (many) inquiries and enrollments still correlate highly with proximity and brand awareness.

- **Brand and reputation can improve/enlarge the circle size.**
- **Natural boundaries and pricing boundaries (in-state vs. out-of-state rates) matter**



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- **In some cases, online offerings do not overlap, or admissions barriers lessen competition.**

- **Two well-financed competitors can dramatically increase the cost of new student acquisition if geographies and offerings intersect.**

As data improves, we can start to better quantify competitive intensity in online offerings, though costs and cost increases for particular Google search terms serve as a good proxy now.

TYPICAL OPTIONS FOR ONLINE EDUCATION & ONLINE PROGRAM MANAGEMENT

Institutions typically choose one of three paths, based on what in-house competencies they have.

DIY

- Modify existing support functions in order to fully serve online students in-house
- This is considered the most **high-risk, high-reward** proposition due to the extremely short turnaround time needed to develop all of the competencies in-house

Hybrid

- In-source the functions most prepared to function on Day 1, while outsourcing functions not currently ready to substitute for OPM services
- This option is typically considered the **most favorable** because it provides the university with outside expertise to serve current/prospective students while allowing time to develop competencies in-house

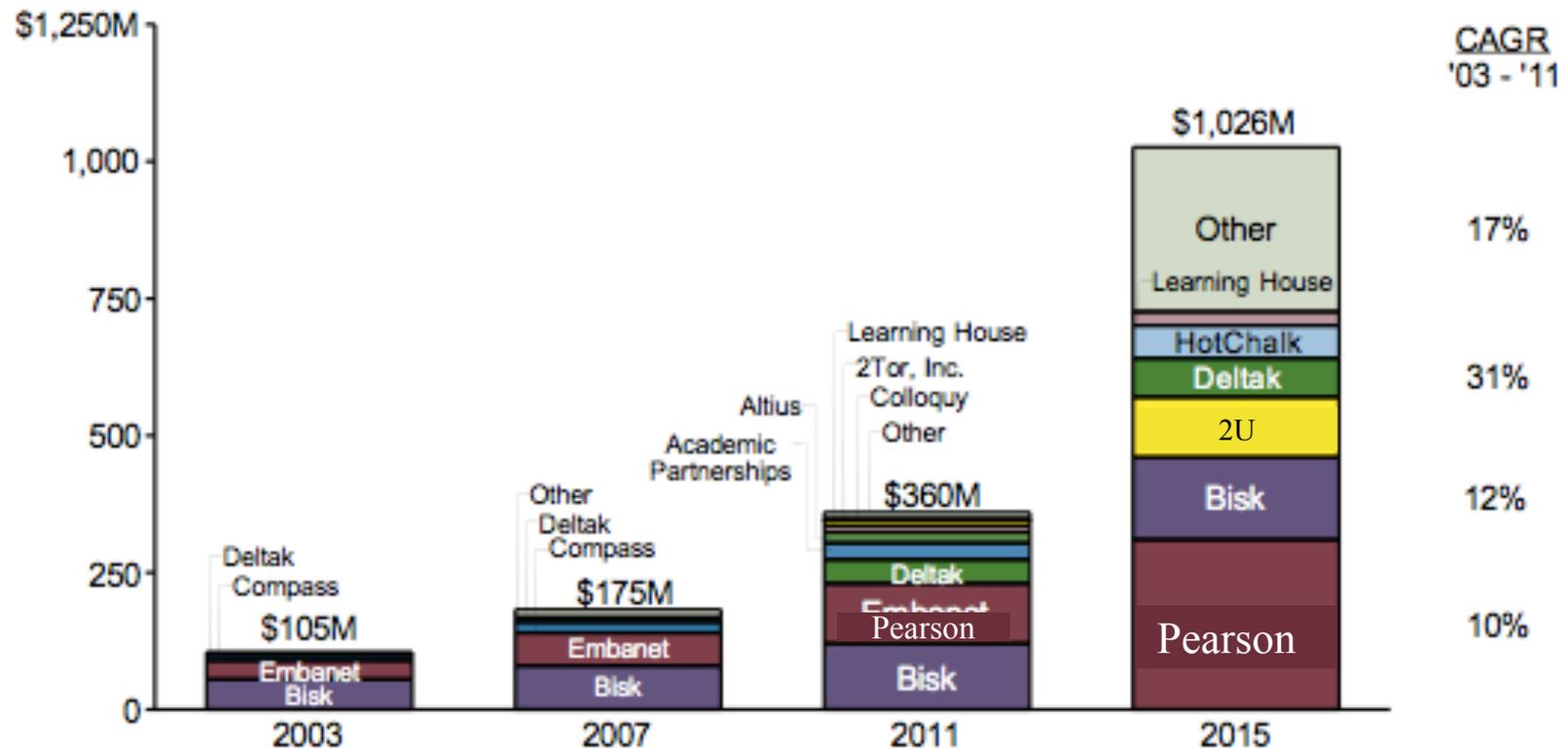
OPM Provider

- Some pursue new relationships with a new full-service provider (e.g., 2U, AP, Bisk) to ensure a seamless transition once the current contract expires without any drop-off in student services
- This is typically considered the **least risky** option because another provider is providing the up-front capital

MARKET OF OPMs IN HIGHER EDUCATION

2015 analysis concluded that the OPM market was roughly \$1 billion/year in revenue and had 4-5 players accounting for almost two-thirds of the industry.

Online Program Management Market, 2003-2015



According to some sources, industry revenues tripled over 4 years, indicating a wider acceptance of OPMs overall.

Source: Eduventures, as presented by Parthenon/Hogan Lovells, 2015 NACUBO Annual Meeting Presentation

SEGMENTATION OF OPM PROVIDERS

A recent publication segmented the OPM market into three groups of providers.

The Big Five	The Middle Market		The Niche Players
2U	All Campus	Greenwood Hall	Education Online
Academic Partnerships	Apollidon	Helix Education	GlobalHealth Education
Bisk	Blackboard	Hobsons	Higher Education Partners
Pearson Embanet	Capital Education	HotChalk	Orbis Education
Wiley Education Services (formerly Deltak)	Colloquy	Integrated Education Services	Significant Systems
	ComCourse	Joined	
	D2L Corporation	Laureate Partners	
	Educators Serving Educators	Learning House	
	Emerge Education	PlattForm	
	Everspring	Synergis Education	

Source: *Inside Higher Ed*: “Disrupting the Enablers” April 9, 2015

CAN A DECENTRALIZED (DIY) ONLINE ENTERPRISE WORK?

Yes, when your goals focus on speed and creativity. Eventually, scale matters.

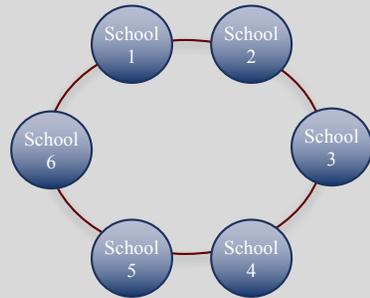
Erie Canal Example



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 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

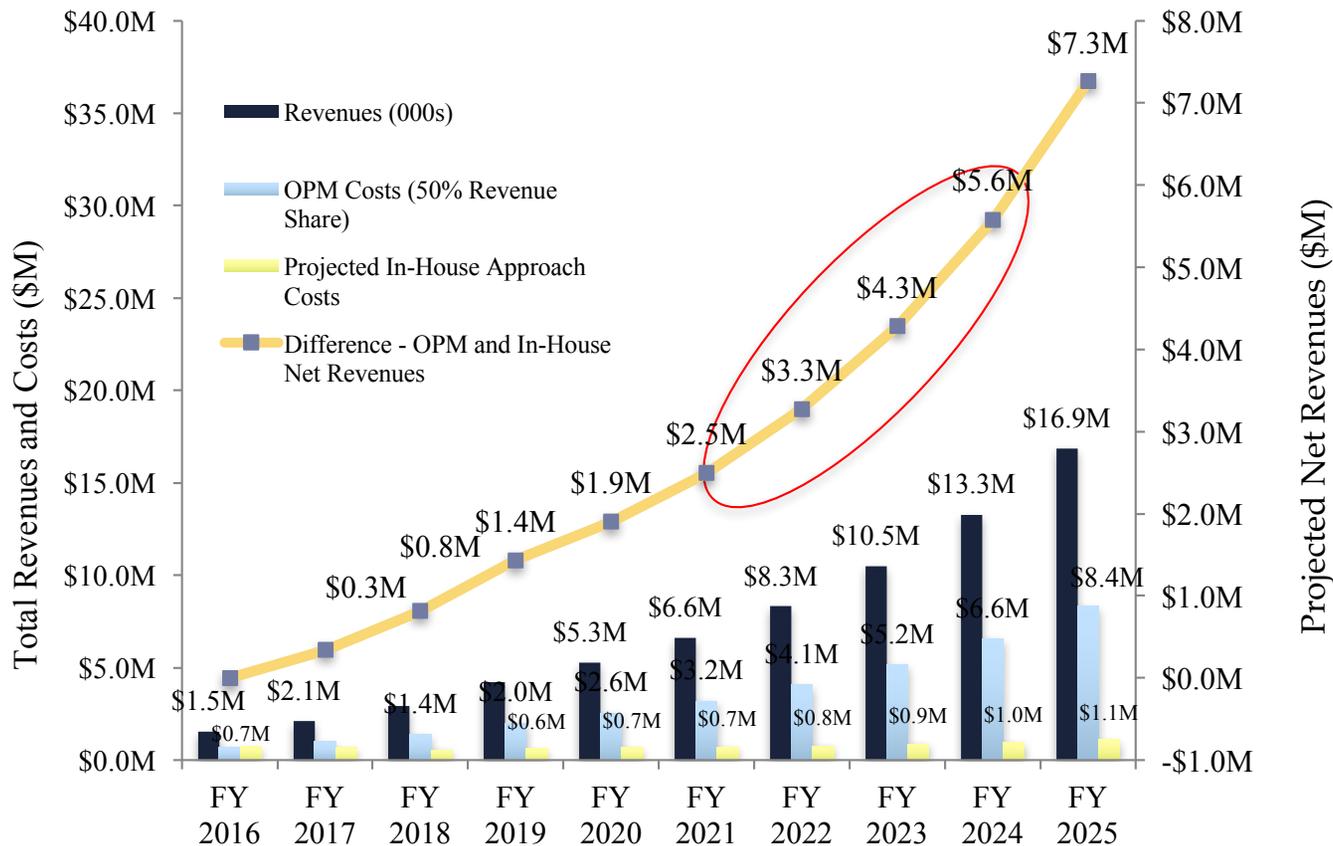
Advantages: (Sometimes) faster, more creative solutions

Disadvantages: Still requires “central” services such as bursar, registrar, admissions, financial aid; higher operational costs on per-student basis; potential for offerings to conflict with each other

WHEN DOES OUTSOURCING MAKE FINANCIAL SENSE?

Outsourcing to an Online Program Management (OPM) 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



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 the institution.

Source: Kennedy & Company, 2015 NACUBO Annual Meeting Presentation

WHAT TO OUTSOURCE?

For each service, an institution must decide if services are best-delivered in-house or outsourced, from a quality/competency perspective and a financial perspective as well.

Online Program Management Service	University Core Competency?	Does OPM Scale Matter?	Recommendation/Hypothesis	<i>Consider Outsourcing</i>
Local Marketing	High	No	XYZ should be excellent at local grassroots recruiting – Keep In-House	
Recruiting Call Center	Low/Medium	Yes	Depends on XYZ’s scale. Outsourcers do it well and have scale – Consider Outsourcing	✓
Course Development	High	Maybe	Digital content a part of all on-ground and online. Needed core competency – Keep In-House	
Website Development	Low	Yes	Should match what XYZ does now; highly competitive market. – Consider Outsource	✓
Retention Services	High	Maybe	The emerging must-have university core competency of the 21 st century – Keep In-House	
Partnerships with Business	High	Maybe	Highly localized offering in-state; partnerships with out-of-state business could be outsourced	✓
Int’l Markets	Low	Yes	Unless XYZ has major international recruiting assets, Best to Outsource	✓
National Markets	Medium	Yes	Outsource where XYZ does not have assets in place -	✓
Market Research	Low	Maybe	Low-cost for OPMs; unsophisticated methods	✓

VISION - WHAT ONLINE STUDENTS WANT

To compete effectively for online students, it's important to consider the potential benefits for students and what vision they might have for the online enterprise.

1

The Right Educational Offering

- ✓ Offering more classes and course section availability
- ✓ Offering more classes on the weekend and in the evenings
- ✓ Offering more online options for classes and degree programs
- ✓ Improving advising services, especially outside the 9am – 5pm window
- ✓ Improving communication efforts
- ✓ Offering more opportunity for financial aid
- ✓ Positive learning experiences; consistent quality

2

A Smooth Enrollment Process

- ✓ Consistent information about offerings across all channels; easy-to-navigate
- ✓ Prospect information is kept and used
- ✓ Fast turnaround for questions
- ✓ Broad range of flexible offerings
- ✓ Seamless communication efforts

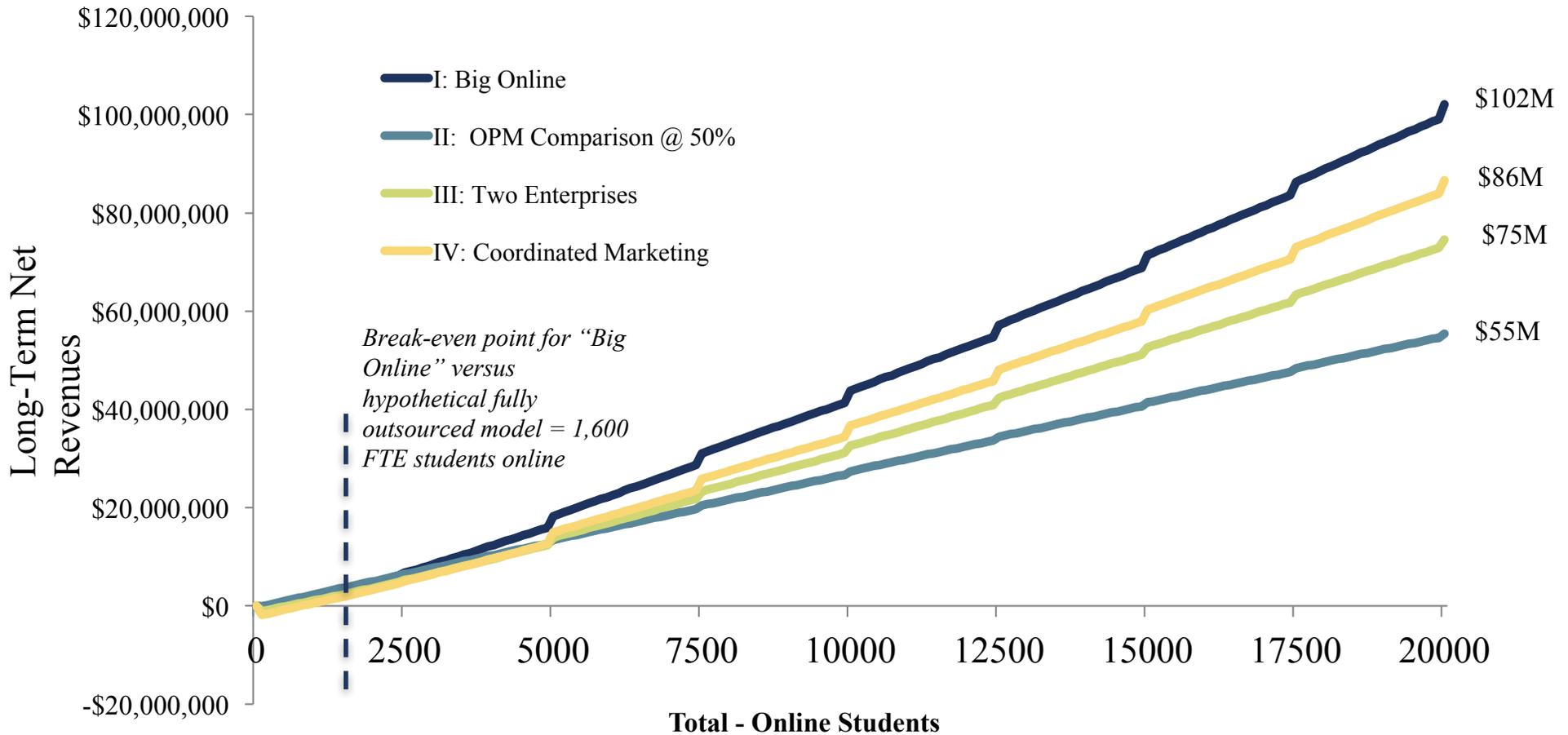
3

A High Quality Educational Experience

- ✓ Consistent online course content with quality controls
- ✓ Consistent experience with the University Brand
- ✓ Call centers/coaches that provide high-touch counseling for students that need it most
- ✓ Reduced time to degree, help navigating high DFW classes
- ✓ Lower costs because of fewer bottlenecks, faster graduation

FINANCIAL IMPLICATIONS – A GENERIC MODEL

Our “generic” online education models, **predicated on a system’s ability to execute efficiently on delivering like an online program management company**, predict much greater financial success with increased cooperation, sharing of resources, and centralization.



Option	I. Big Online	II. OPM Comparison	III. Two Enterprises	IV. Coordinated Marketing
Direct Cost Ratio	25% to 30%	55% to 70%	35% to 40%	30% to 35%

UNDERSTAND THE OPM'S PORTFOLIO ECONOMICS

- OPMs willing to take on programs where cost-per-inquiry/application is high
- Hard/impossible to get OPMs to disclose marketing spend on programs (“We spend thousands...”)
- A few Stars, a few Neutrals, a few Dogs
- Revenue sharing is changing. Was as high as 70%. Then 50%. Going into 40s and high 30s for the “full-basket”

WHERE WILL THIS END UP?

- Scale Matters
- Don't duplicate services & offerings at your institution
- Direct cost ratios vary *significantly*. Margins go down when OPMs take a 50% revenue share
- Brands and reputation (including student services reputation) will go a long way
- Four Main Drivers of Success: Reputation/Brand, Risk Profile, Capital (\$), and Execution. Early (and successful movers) will end up with the biggest gains

KENNEDY & COMPANY

Innovative Strategies for Higher Education