The “Promises” of Online Higher Education: Profits

Executive Summary

With so much national focus on the “promises” of online higher education to expand access and to reduce costs, one truth about online higher education rarely mentioned is that it is big—Very Big—business. Understanding and assessing developments in online higher education require that we look at them not just through the lens of industry slogans—“innovation,” “expanded access,” and “reduced costs,” but also through the lens of corporate interest and influence.

This paper examines ways in which investors and corporate leaders have “followed the money” to be made in online higher education—expanding rapidly in areas where profits were robust, moving into virgin territory when new laws or other changes created new possibilities, tweaking their ventures when faced with bad press or regulatory crackdown, and always shaping their sales pitch to make each move appear a boon for students and for our country.

It also discusses the “insider talk” of investors and corporate leaders about online higher education. For parents, students, and the general public who focus primarily on what education means for people’s futures, for social mobility, for a healthy economy and a robust democracy, a dip into the insider talk of online investors and industry analysts is both instructive and disorienting: what will make money for companies in the online higher ed business, insiders acknowledge repeatedly, has nothing to do with the glittery sales pitch.

This piece is the Campaign for the Future of Higher Education’s first step in looking at who is making money, how much, in what ways, and with whose assistance in online higher education. Only when the public “follows the money” can we assess the full “value” of the seemingly endless stream of technologically-related innovations in higher education and make the best policy decisions for the future of higher education in our country.

Introduction

In much of the public commentary, online education is touted for its promise to dramatically increase access to higher education. To be sure, broad access to quality higher education is a valuable goal that should inform higher education policy in any democratic society; but in many ways, access is not the primary goal of those promoting online higher education.

Increasingly, online higher education is big business with huge profits being made by many private companies. We are told repeatedly that students will benefit from the rush toward more online learning, but we must ask who’s benefiting more: students? or investors and corporations?

Let’s start with the obvious: no corporation bluntly announces that feathering its own nest is its goal in bringing new products or services to the market. Whether it’s subprime mortgages or swiffers, the sales pitch always involves consumer-centered promises of convenience, savings, or grander “dreams come true.” In the world of swiffers, the social cost of allowing deceptive sales pitches to frame public discussion of products may or may not be problematic. But with a crucial social service like higher education, which affects individuals and societies in such far-reaching ways, the long-term cost of not looking behind corporate rhetoric can be huge.

The subprime mortgage crisis is instructive. Problematic loan practices proliferated for years in part because they were conducted in the name of expanding the middle-class dream of home ownership. No one could disagree with that desirable, over-arching goal, of course; and consequently, few questioned the methods being employed by mortgage companies or the huge profits being made. The results of our failure to look behind the rhetoric were disastrous, both for the nation as a whole and for the lives of ordinary people.

We need to do better for American higher education. Only by looking at who is making money, how much, in what ways, and with whose assistance can we assess the full “value” of technological innovation in higher education.
Education is Big Business

American education has become big – very big – business. None other than Rupert Murdoch, for instance, has opined that education in the U.S. represents a potential investment opportunity of five hundred billion dollars.[1] And as the chart below graphically demonstrates, investors are rushing in to get at those profits[2]:

“Ed tech” is itself a huge sub-area in the “education industry.” According to GVS Advisors, an ed tech consulting group, investment in that sector hit $1.1 billion in 2012, a figure almost as big as that in the dot com market.[3] Profits are following for many investors in this market area. For instance, in just one year (from the second quarter of 2011 to the second quarter of 2012), investors in 324 companies offering ed tech products and services made $1.43 billion.[4]

Online higher education has also become a hot spot for corporate growth.

Following the money in online higher education: 2000 – today

The online higher education market has had an action-packed history in just the last decade and a half. Throughout this time, investors and corporate leaders have done a remarkable job of “following the money” to be made – expanding rapidly in areas where profits were robust, moving into virgin territory when new laws or other changes created new possibilities, tweaking their ventures when faced with bad press or regulatory crackdown, and always shaping their sales pitch to make each move appear a boon for students and for our country.

These savvy, aggressive, and flexible strategies have worked well; profits overall for the industry have been impressive. A look at a few key developments in the online higher education market since 2000 can help us better understand the current landscape.

Stand-alone institutions

During the first part of the 2000s stand-alone for-profit entities, such as the University of Phoenix and Kaplan University, were the leaders in the online higher education business world. And they were hugely successful. During that time, five of the top 25 growth companies in the country were education entities heavily involved in online education.[5] In fact, between 2000 and 2003, online higher education providers were the darlings of Wall Street and the highest-earning stocks of any industry.[6]

Later in the decade, however, the American public learned why the profits were so huge. After a series of scandals about fraudulent practices, shoddy degrees, dismal graduation rates, and a host of other issues arose, a 2012 report released by Senator Tom Harkin (D-Iowa) revealed that these for-profit providers spent more on advertising and recruitment than on instruction.[7] Profits in 2009 alone were over $3 billion dollars with a whopping profit margin of 19.4 percent.[8]

These profits primarily came (and still do) from federal financial aid dollars, courtesy of the American taxpayer. As the Harkin report detailed, the amount of public money involved is enormous. In 2011 alone, $32 billion dollars in federal financial aid was funneled to for-profit colleges, 25% of all Department of Education financial aid funds. Pell Grant monies going to these companies grew from $1.1 billion in 2000-2001 to $7.5 billion in 2009-2010, twice as fast as the overall increase in the program. In just four years, from
2006 to 2010, veterans’ educational benefits flowing to for-profits increased 683%.

Without taxpayer subsidies, for-profit colleges simply could not stay in business, much less generate huge profits. As the Harkin report documents, during 2009 for-profit schools received 86 percent of their revenues from taxpayers.[9]

Profits in this sector suffered greatly in the aftermath of governmental investigation, widespread media coverage, and public outrage over for-profit practices. For example, the Apollo Group, owner of the University of Phoenix, saw its stock drop by 62%, giving it the distinction of being the third biggest stock loser in 2012.[10] Other for-profit online providers suffered as well.

The sector did not die, however. Instead, many companies simply moved into “partnering” with existing universities and colleges.

**Corporate/College Partnerships**

Although these corporate-college arrangements were (and are) often justified publicly as yet another innovative way to expand access to higher education, the business rationale has been profit. Recognizing that the image of the stand-alone online college was severely tarnished, companies quickly moved to remedy the problem by partnering with traditional colleges and universities and banking on their respected “brands.” As one of the masters of this strategy, Randy Best, head of Academic Partnerships, pointed out, “‘Public universities’ brands are the gold standard around the world.’”[11] He and a host of other entrepreneurs and “partnering” companies have raked in more than a little of that gold.[12]

After the Harkin report and its fallout, the University of Phoenix announced that it would enter new partnerships with more than 100 community colleges in 2013.[13] Business analysts responded positively to the company’s innovative strategies to recoup its image, increase enrollment, and recover profits.[14]

As part of this strategy, the University of Phoenix also partnered with the Harvard Business School. Again, analysts recognized the move as a savvy “part of a bigger effort to retool its struggling brand”; and in industry publications the company spokesperson acknowledged that the move was part of “repositioning the University of Phoenix.”[15]

In addition to stand-alone course providers, other companies also began partnering with traditional colleges and universities to offer a variety of online goods and services. This too, is a big and growing market.

Some of these companies, often referred to as “enablers” or Bundled Service Providers (BSP), have been buying up smaller companies (at impressive prices) to increase market share and squelch competition. Pearson, formerly a publishing company, has recently begun moving rapidly into providing online services for traditional colleges and universities. As part of that transition, they bought Schoolnet, a personalized learning company, for $230 million in 2011 and Embanet, a company that sells online services to higher ed, for $650 million in 2012.[16] John Wiley and Sons bought a BSP, Deltek, for $220 million.[17]

The number of contracts between for-profit online service providers and traditional colleges is growing rapidly. In 2013, about 200 non-profit institutions have partnered with for-profit service providers; and it is estimated that another 500 will in the next 1-2 years.[18]

Profits in this sector are robust. For example, in 2012 Academic Partnerships made $4 million from its share of tuition from Arizona State, over $10 million from Florida International University, and $18 million from Ohio University’s nursing program.

As Paul J. LeBlanc, President of Southern New Hampshire University and an enthusiastic player in online higher education, points out, “With hundreds of nonprofits hoping to grow online programming and finally shaking off their hesitancy about online education (the real gift of elites offering MOOCs), the bundled services market stands to outgrow the for-profit higher education sector over time. In short, it could be huge.”[19] With the corporate rush to enter this market, some have wondered if it is getting too crowded. Don Kilburn, CEO of Pearson Learning Solutions, disagrees. As reported in Inside Higher Education, he feels confident “it’s a very large market” since at this point only a small percentage of colleges have entered such partnerships to offer online programs.[20]

**MOOCs**

The latest for-profit online innovation, MOOCs, seem poised to make a big revenue leap as well. Doug Barker, for instance, a funder of Coursera, sees them as a “very nice business.”[21] Despite having no significant profits at this point and a product that is being given away for the most part, other investors seem confident that profits are in their future and are prepared to put up the money necessary to explore the possibilities. The three big MOOC providers, Coursera, Udacity, and EdX have “cash to burn,” according to a report in Inside Higher Education[22]: Udacity has received at least $21.5 million of investor money and Coursera, $43 million. EdX, while technically a nonprofit, has been generously bankrolled with $60 million from MIT and Harvard.[23]
Again, the rationale presented to the public for this latest online learning innovation is high-minded and even utopian. With no acknowledgment of the dismal completion rates for MOOCs or the Digital Divide impediments to online learning even in the United States, MOOC promoters (in the tradition of the for-profit online industry from its inception) promise unimagined-before access to higher education and the dawning of a new age.

For instance, Daphne Koller, CEO for Coursera, sees MOOCs creating a “global classroom” that “erases barriers between people of different cultures,” gives students a chance to learn “without the limits imposed by physical or socio-economic circumstances,” and offers teachers everywhere “the ability to transcend boundaries.”[24] Sebastian Thrun, head of Udacity, sees MOOCs as “the beginning of something magical”[25] and somewhat more prosaically predicts “a tenfold increase in the market for higher education.”[26]

This rhetoric is perhaps the most glittery yet in the public discourse about online higher education. But it is also a diversion shifting attention away from the logic of profit-making. For parents, students, and the general public who focus primarily on what education means for people’s futures, for social mobility, for a healthy economy and a robust democracy, a dip into the insider talk of MOOCs, their investors, and industry analysts is both instructive and disorienting.

Online Industry Insider Talk

What is notably absent in industry discussion of online higher education are details about what most people care about—the quality of the student’s educational experience that results from these innovations or the larger social impact of these new methods of teaching and learning. Instead, the burning questions focus squarely and exclusively on what will make money for particular companies. [27] Will Pearson be able to make massive textbook sales off of its involvement in MOOCs? Will charging successful students for placement services work as a viable profit-generator for MOOCs? What price will the market bear for MOOC student certificates of completion? MOOC companies are even exploring the possibility of making money by referring students who fail in their courses to traditional colleges and universities where they might do better.[28]

In the insider talk, Udacity and Coursera are judged not by the quality of the actual educational experiences they provide students, the degree to which they tear down barriers for students and instructors around the globe, or any of the goals so passionately discussed in public. The bottom line here is the business bottom line—which company looks positioned to make the most money. In the case of Udacity and Coursera it seems a tough race to call because “Udacity has a better range of monetization strategies—content, teaching, platform, recognition” while “Coursera as a brand will rely heavily on their [highly-respected, elite] university partners.” [29]

Even Moody’s is in the mix with angles few industry outsiders would predict. Who would have thought MOOCs could affect a college’s credit ratings? Apparently, industry players do.

Moody’s has projected, for instance, that MOOCs will be good credit news for elite institutions by allowing them “to use their powerful brand reputations to get ahead of rapid technological changes that could destabilize their residential business models over the long-run.”[30] By offering MOOCS, elite institutions will further “benefit from favorable publicity, in the form of enhanced name recognition and political good will.” In fact, the biggest bottom line benefit for them has nothing to do with education: “The most significant short-term benefit to the top-tier universities is blunting public criticism that wealthy universities do not provide enough service to fulfill their public mission and, therefore, maintain their tax-exempt status in the United States.”

The frankness of some analysts is often disarming, and the substance of their observations unsettling. What will make money for MOOC companies, they acknowledge repeatedly, has nothing to do with the glittery sales pitch. As one hard-nosed analyst observes,

Offering free online higher education may win bonus points from an ethical standpoint, but it won’t put money in Coursera’s pocket…What will is numbers. Revenue streams such as data, recruitment through MOOCs, and certification following a course will only be sustained by a significant user base. As with social networks such as Facebook, the game here is to offer the service users want and figure out how to monetize it afterwards.[31]

Clearly, there is another value to that “global classroom” besides the high-minded one invoked by Daphne Koller.[32]

In ways outsiders rarely ponder, industry analysts are also blunt about how larger political and social factors affect markets and profits. Insiders are keenly aware, for instance, that keeping tuition up and public funding down is not the horror for them that it is for American families. In fact, as one analyst makes clear, that situation helps online companies expand their markets and increase their profits:

As costs continue to mount in higher education, online courses will undoubtedly appeal to cash-strapped students looking to dodge a lifetime of debt. Furthermore, as governments continue to scrabble for money in the on-going financial stalemate, other forms of income may dry up, leading to some universities running out of gas. Coursera and its peers can see this on the horizon.[33]
To state a fact we too often forget, online higher education is neither philanthropy nor social activism. It is big business, not significantly different from that in any other industry.[34]

At this point, it’s fair to ask: what’s wrong with corporate profit-making in online higher education? Couldn’t that be a win-win for everyone? Perhaps. But we cannot answer that question without acknowledging corporate interest in online higher education and weighing that interest against the public’s.

Toward a Fuller Conversation about Online Higher Education

Most fundamentally, understanding and assessing developments in online higher education require that we look at them not just through the lens of industry slogans—“innovation,” “expanded access,” and “reduced costs,” for instance—but also through the lens of corporate interest and influence.[35]

For instance, a question rarely asked is what effect actions in the for-profit world have on non-profit colleges and universities.

Taking just one small example, Patricia McGuire, President of Trinity College in Washington, D.C. has pointed out that Wall Street pronouncements about higher education ripple widely and can, in fact, influence campus behavior in unacknowledged ways totally unrelated to educational issues:

Moody’s impact on the behavior of universities is a topic worthy of someone’s dissertation — or an investigative report. The quest for improved Moody’s ratings drives up tuition prices (thus producing higher net revenues) and freezes out low income students who need financial aid (thus reducing net revenues) and pose greater risks of attrition (thus stressing enrollment, the driver of net revenues). Endorsing MOOCs is curious, since right now the costs for institutions to participate are relatively high and the net returns unclear at best. Attrition in MOOCs is high and it’s not yet clear how the monetization of MOOC credit will work in the long-run. But a declaration like this from Moody’s will repress more thoughtful consideration of the value of adopting MOOCs for any given institution — and will encourage further avoidance of faculty participation in the decision — in favor of rushing to embrace this unproven method “because Moody’s said so.” Moody’s should stay out of academic decisions.[36]

If one small report by a single Wall Street entity can affect affordability and access at non-profit colleges across the country, more analysis in this area is certainly needed.

The debate about online education (and indeed, the future of American higher education in general) would also be much deeper if we examined the full range of interests involved in national higher education policy decisions.

In the past, many changes in federal policy and law have had effects that were clearly beneficial for the online education industry but that history would prove to be less positive for the country more broadly.[37] Consider, for instance, the ways these changes in the last decade and a half have affected private companies and their profits:

- Prior to 1998, for-profit colleges were not allowed to get federal financial aid dollars. A regulation change in that year allowed them to receive up to 90% of their revenue from this source. Many quickly expanded profits by coming close to that limit.
- Prior to 1998, institutions receiving federal financial aid dollars were required to offer at least half of their courses in face-to-face formats. This regulation was in place to prevent the proliferation of digital diploma mills. A change in regulations that year allowed for the granting of waivers, and the regulation was later dropped altogether. This too created huge expansion in the online industry.
- In the 1990s, for-profit companies were not allowed to pay recruiters based on how many students they actually recruited. That rule was also abolished. Enrollment (as well as unethical and fraudulent practices) mushroomed.
- In 2006, Congress passed a law that eased restrictions on student loans in for-profit colleges.[38] The industry impact for this single change is breath-taking, as a report published in the Washington Post details:
  
  For Kaplan and other for-profit educators, the federal money soon came in torrents. By 2009, students at for-profit education companies received $26.5 billion through these loans, more than five times the amount they collected in 2000. At Kaplan, Title IV revenue soared from $101 million in 2001 to $1.46 billion in 2010, when the money accounted for 82 percent of the company’s higher-education revenue.[39]

Online industry players have been at the center of decision-making about all these changes. A number of favorable changes for the industry, including lifting the prohibition against paying recruiters, occurred while Sally Stroup, who had been a lobbyist for the online industry giant, the Apollo Group, was serving as Assistant Secretary for postsecondary education.
This revolving door between government and the online higher ed industry still exists.[40] At a minimum, it raises questions about how aggressive government oversight is likely to be and whose interests—the online industry’s or the public’s—might be paramount. Add to this the lobbying and election contribution activity of the online companies, as detailed by the Center for Responsive Politics, and the picture of who is driving government regulation and oversight of the online higher ed industry becomes even murkier.[41]

**Going Forward**

Whatever one’s feelings about whether private companies are a plus or a minus in higher education, broader access to the full range of facts about corporate interests is a fundamental requirement for a discussion that leads to sound higher education policy. Currently, the online higher education industry is clear about its interests and pursuing them with vigor. The public, however, has too often been offered only slogans that pay lip service to the public interest. Only when the public also “follows the money” in online higher education will we be able to make the best decisions about the future of higher education in our country.

**ENDNOTES**

[2] “Catching on at Last: New technology is poised to disrupt America’s schools, and then the world’s.”
[3] “Catching on at Last: New technology is poised to disrupt America’s schools, and then the world's.”
[7] “For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success,” Executive Summary. Earlier reports of unethical and fraudulent practices included a 2011 GAO report (“For-Profit Schools: Experiences of Undercover Students Enrolled in Online Classes at Selected Colleges”). The U.S. Senate report was issued in 2012 after a two-year investigation. For an overview of the report, see Paul Fain, “Results are In.”


[9] “For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success.” For discussion of the degree to which taxpayer monies are “the lifeblood of for-profit higher education,” see Deming, Goldin, and Katz, “The For-Profit Postsecondary School Sector: Nimble Critters or Agile Predators?”


Bolstering their image isn’t the only way for-profits have used traditional universities. For instance, the path to accreditation has often involved actual purchase of struggling non-profit colleges. Ashford University’s rapid growth, for instance, was launched through the purchase of University of the Prairies, a struggling college with enrollment of 312 students at the time of purchase (Steven Eisman, “Subprime Goes to College”).

[12] When Lamar University was destroyed by Hurricane Rita in 2005, its leaders called on a wealthy alumnus and donor, Randy Best, to help with restoration. According to Best’s version of history as reported in the Texas Observer, Best responded to the request, “You know what you guys need to do is, instead of me trying to give you a one-time gift, you guys should be thinking about the future of online” (Patrick Michels, “Randy Best Is Going to Save Texas/ Public Universities Or Get Rich Trying”). Best became Lamar’s “partner” in that endeavor; and his business, now called Academic Partnerships, expanded to 24 public colleges and universities that have paid Academic Partnerships at least $105 million as of 2012.

According to the Michels’s report in the Texas Observer, Best has plenty of critics who think “the company looks like a pipeline from
the public coffers to Best’s bottom line.


[16] “Catching on at Last.”


[21] “The Attack of the MOOCs: An army of new online courses is scaring the wits out of traditional universities. But can they find a viable business model?”


[23] “Major Players in the MOOC Universe.”


[26] “The Attack of the MOOCs.” Peter Levine, a general partner in one firm on Udacity’s board, throws out some particularly effusive praise for the Udacity project, describing them as “a team and company that we’re absolutely convinced will change the world.” (Don Clark, “Startup Udacity Builds Bankroll for Online Learning.”)

[27] For discussion of “insider talk” in the for-profit higher education industry in the 1990s, see Andreas Ortmann, “Capital Romance: Why Wall Street Fell in Love with Higher Education.”


[29] “Quality Control in MOOCs.”

[30] Moody’s Investors Service, “Shifting Ground: Technology Begins to Alter Centuries-Old Business Model for Universities.” September 12, 2012. This report also makes an important point about the larger business implications of MOOCs those for institutions offering or using them: “The entry of elite universities into this space in a meaningful way will help legitimize this form of delivery and reduce the stigma that has historically been associated with distance education.”

For discussion of a later Moody’s report not made available to the public, see Sara Grossman, “Moody’s Says MOOCs Could Raise a University’s Credit Rating.”


[32] Christopher Newfield has been perhaps the most pointed critique of MOOCs: MOOC momentum is being driven not by educational need or proven technological achievement but by a business lobby with connections and resources as good as Wall Street’s, and with a better social cause. The movement’s systematic exaggerations, the lack of concern for impacts on public university ecosystem, the staged benevolence towards a hostile customer—all are hallmarks not of technical or pedagogical progress but of a carefully designed business strategy. We won’t be able to assess the technology correctly unless we see this (“MOOCs Have Become A Straight Business Play”).
[33] Gregg Bayes-Brown, “Coursera Races Ahead.” Of course, this is exactly what has happened. Public funding for higher education is bad for business; lack of funding is good for business. In “Crowded Colleges and College Crowd-Out: The Impact of Public Subsidies on the Two-Year College Market,” Stephanie Cellini provides compelling evidence from California on how public sector funding constraints on community colleges increased the rate of entry into higher-priced for-profit colleges.

[34] Americans became familiar with a wide range of business and financial maneuverings in the subprime mortgage crisis. Not so well known are the quite similar maneuverings in the for-profit higher education market. As Steve Eisman indicated in his testimony before the Senate Committee, short sellers (investors who bet that the market will fall) were watching government regulation with the hopes that companies would perform poorly and their own investments do well.

As came to light afterward, Eisman and other short sellers were not just hoping for increased government regulation to help their investments: they were actively seeking it without being transparent about their motives (Jennifer Epstein, “Does the Messenger Matter?”)

[35] Diane Ravitch has described in detail the price paid for not looking beneath the “pseudo-populist” terms corporate reformers use to describe their aims in K-12 education. As she points out, their real goals have been “rebranded” in order to sell them to the American public. See, for instance, “School Privatization is a Hoax: ‘Reformers’ Aim to Destroy Public Schools.”

[36] Sara Grossman, “Moody’s Says MOOCs Could Raise a University’s Credit Rating.” President MaGuire’s remarks are in the comments section of the article.

[37] For further discussion of how federal and state policy affects expansion or contraction of for-profit higher education, see Sarah E. Turner, “For-Profit Colleges in the Context of the Market for Higher Education.”


[41] For further discussion of the ways for-profit companies alter the higher education landscape through lobbying and campaign contributions, see Brian Pusser and David A. Wolcott. “A Crowded Lobby: Nonprofit and For-Profit Universities and the Emerging Politics of Higher Education.”

Student debt is another area of massive profits and corporate influence in American higher education. For recent details on Sally Mae’s donation and lobbying, see the Center for Responsive Politics’ chart at http://www.opensecrets.org/pacs/pacgot.php?cycle=2012&cmt=C00331835.

For a recent discussion of Sallie Mae’s influence in securing favorable treatment by Congress, see Ben Cohen and Edward Erikson, “Who’s to Blame for Student Debt Crisis?” And for a recent discussion of corporate influence through lobbying in the K-12 sector, see Lee Fang, “Selling Schools Out.”

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