

Online Higher Education Market Update 2012

Initial Commentary at Eduventures Annual Member Meeting

Online Higher Education Learning Collaborative (OHE-LC)

June 2012

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- Understanding the Latest Enrollment Data
- Higher Education Still Has Lots of Problems
- 1915, 1999 and 2012
- End of an Era; Beginning of the Next







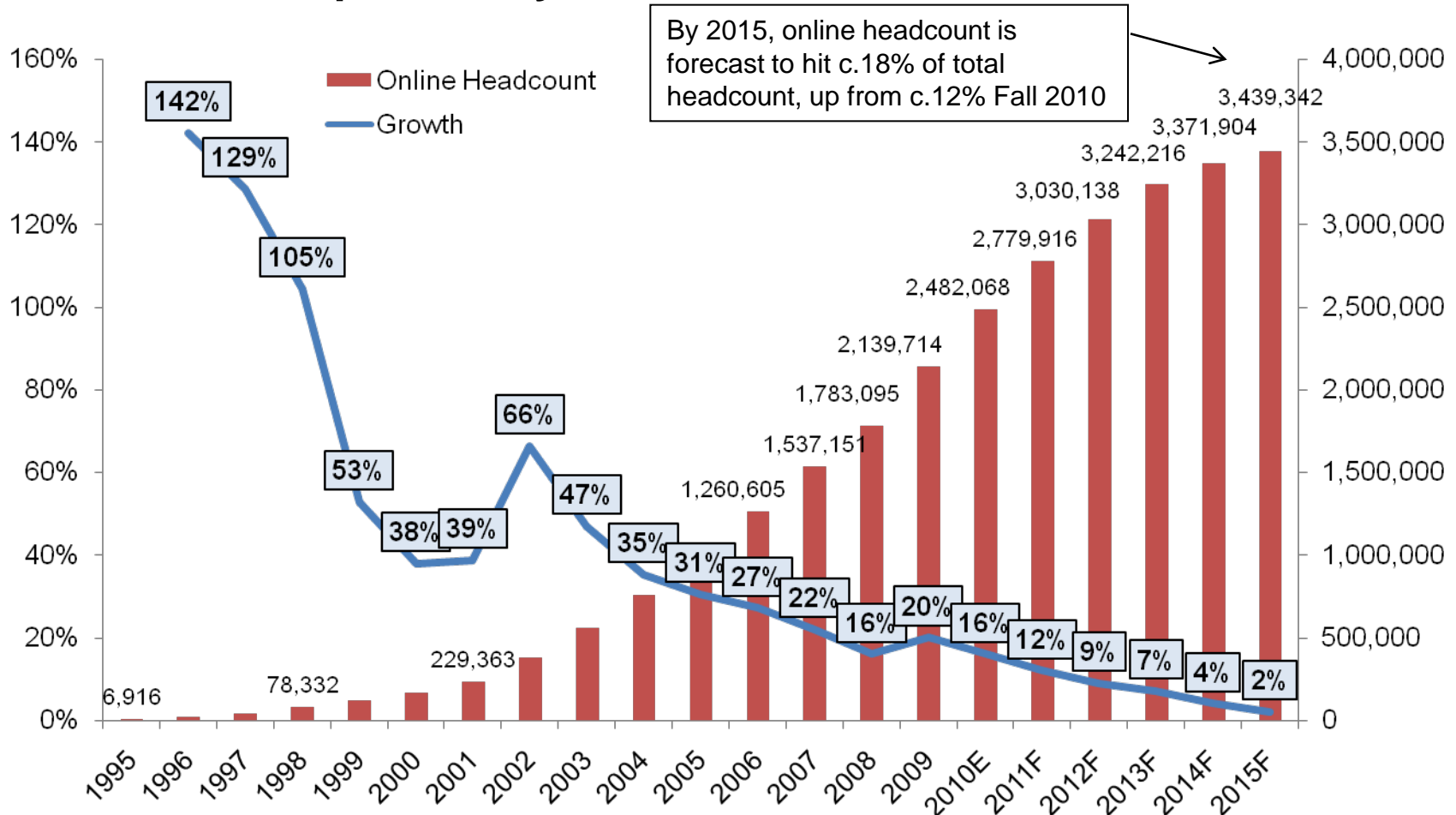
Key Takeaways

- Online Higher Education is beginning to mature- at least in its current iteration
- Consumers want to further their education but online delivery plays only a limited role as an enabler
- To drive long-term growth, online programming needs to address fundamental higher education frictions (cost, engagement, attainment) head on
- Innovation can be disruptive as well as sustaining

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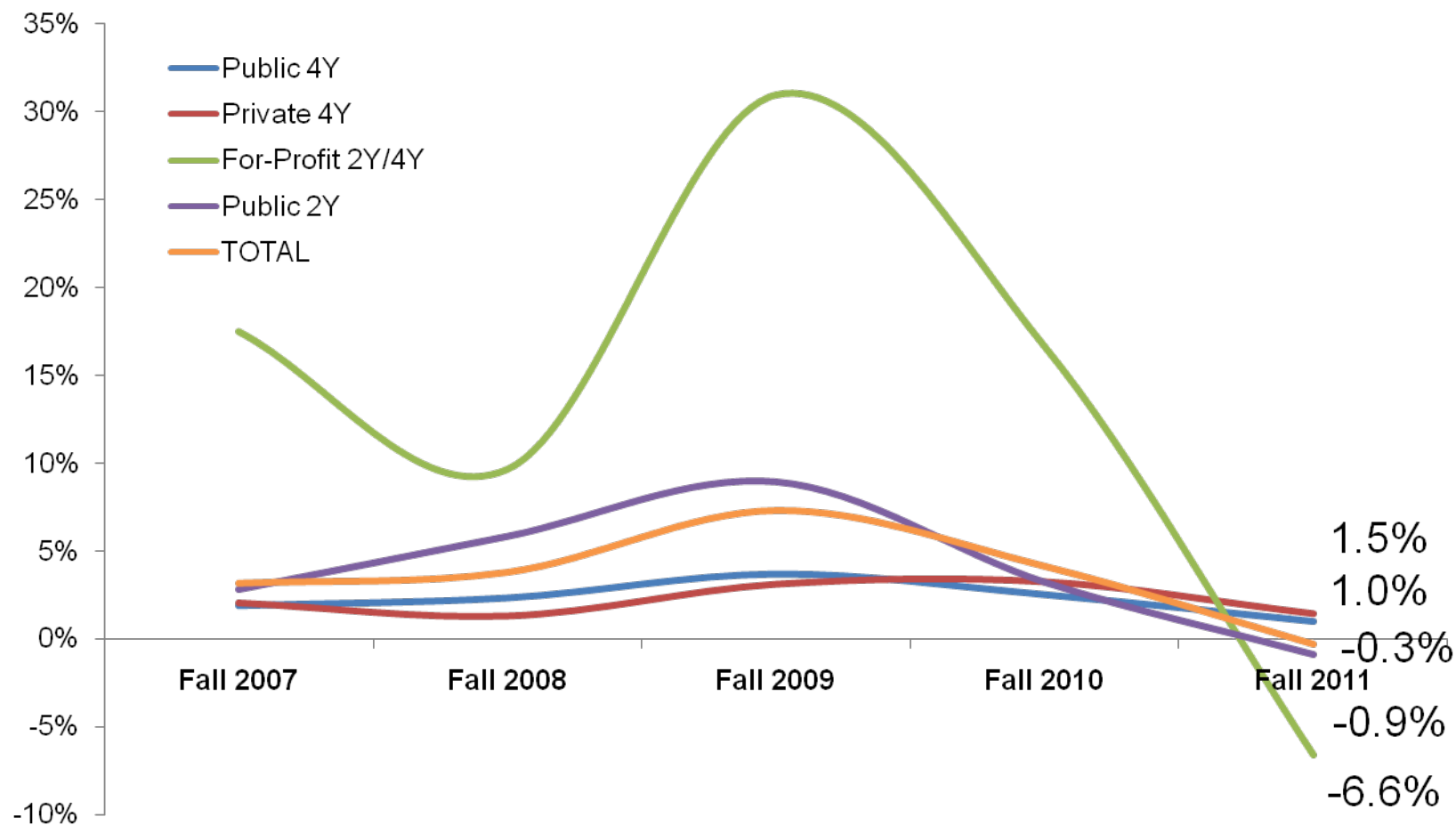
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Without experiential or market breakthrough, rapid growth in adult participation, for-profit rethink, scale and strengthening economy will see online headcount plateau by 2015



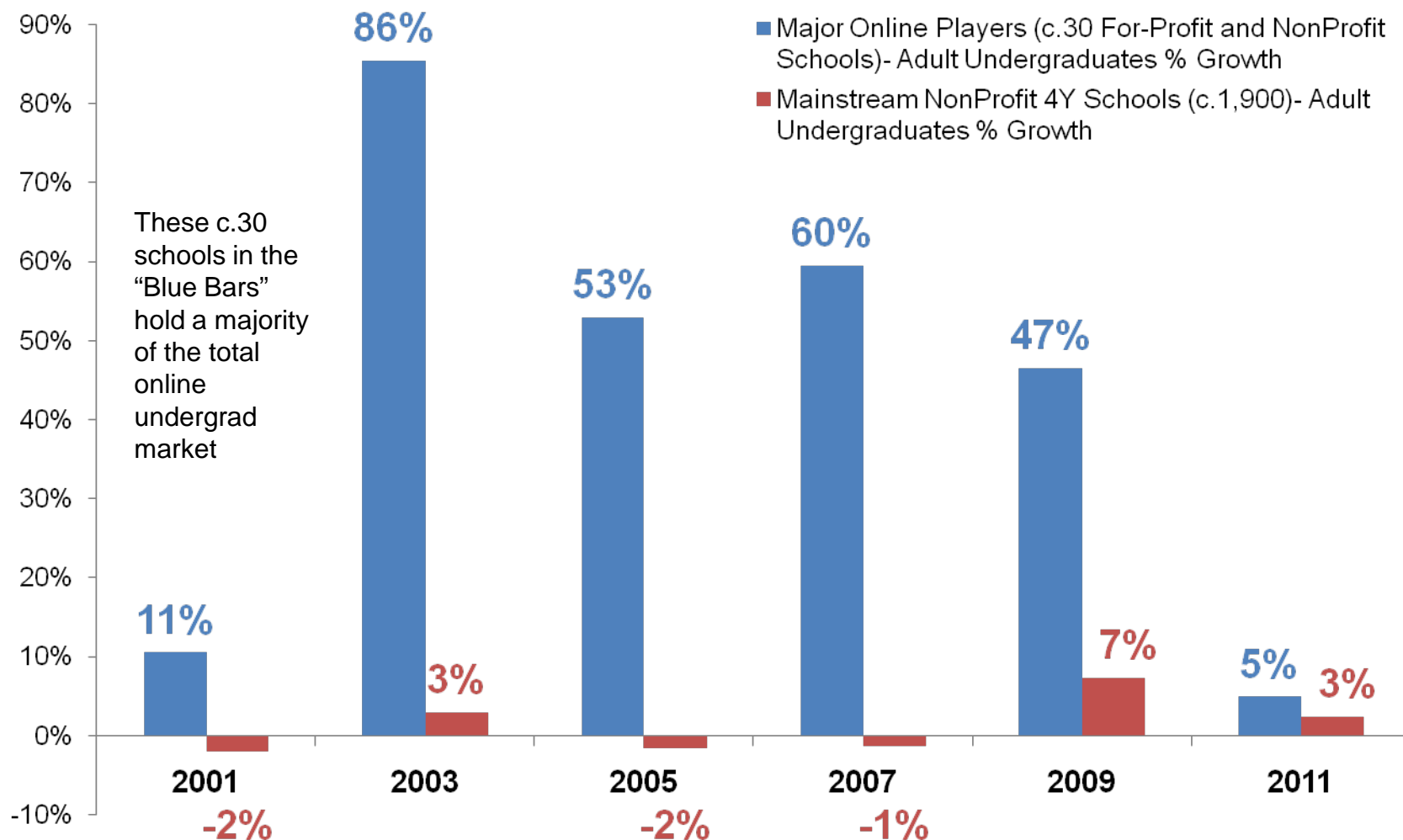
Online significance in the adult market- Eduventures estimates that in Fall 2010, online headcount represented c.27% of total adult (aged 25+) headcount at degree-granting schools; and is forecast to hit 39% by 2015

Fall 2010/2011 point to enrollment slowdown, and first decline since 1995. Adult data not yet reported, but not immune from downturn



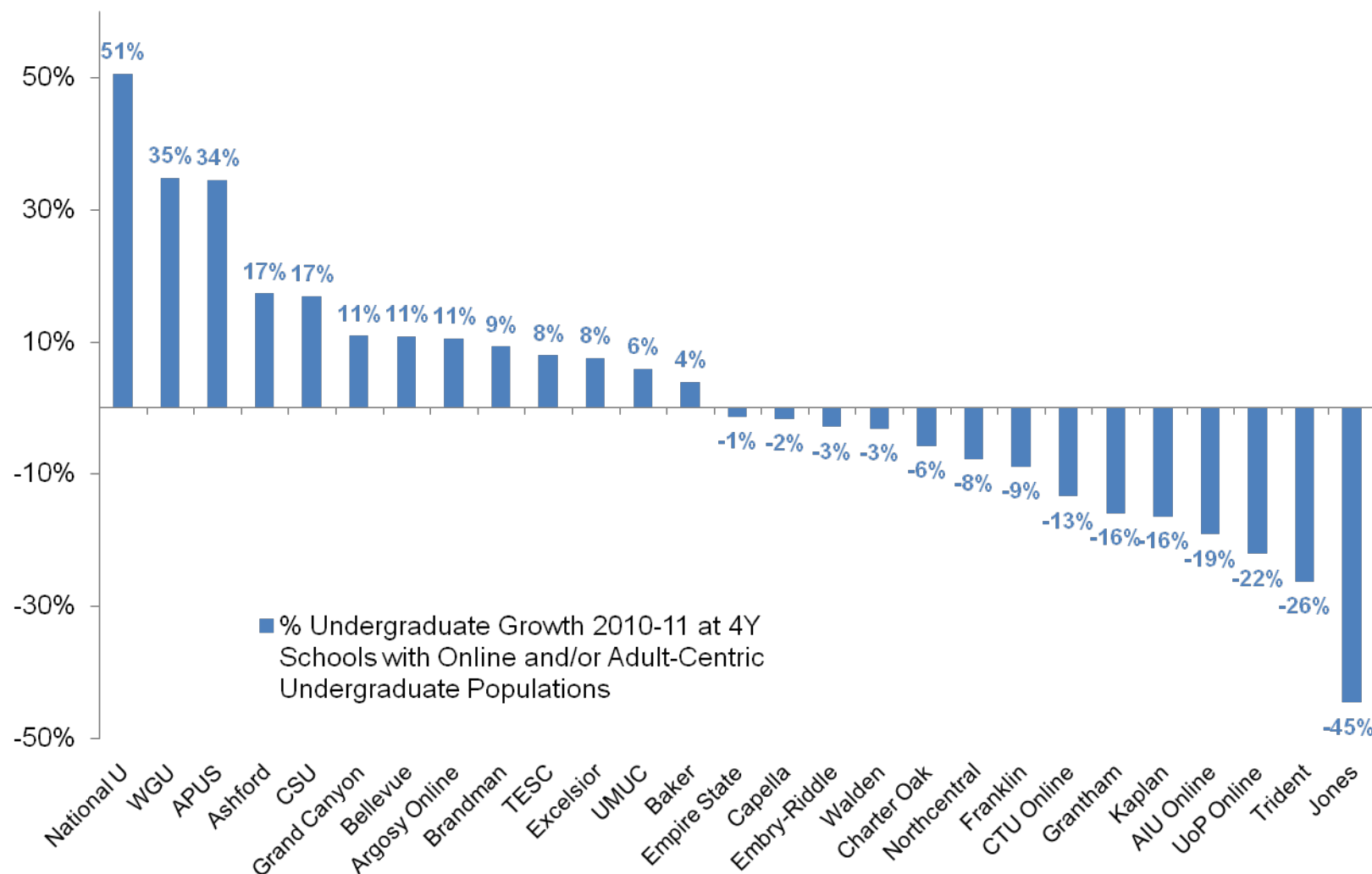
Source: IPEDS and Eduventures analysis

Major online players starting to mature at undergraduate level; mainstream nonprofits catching up but not dramatically



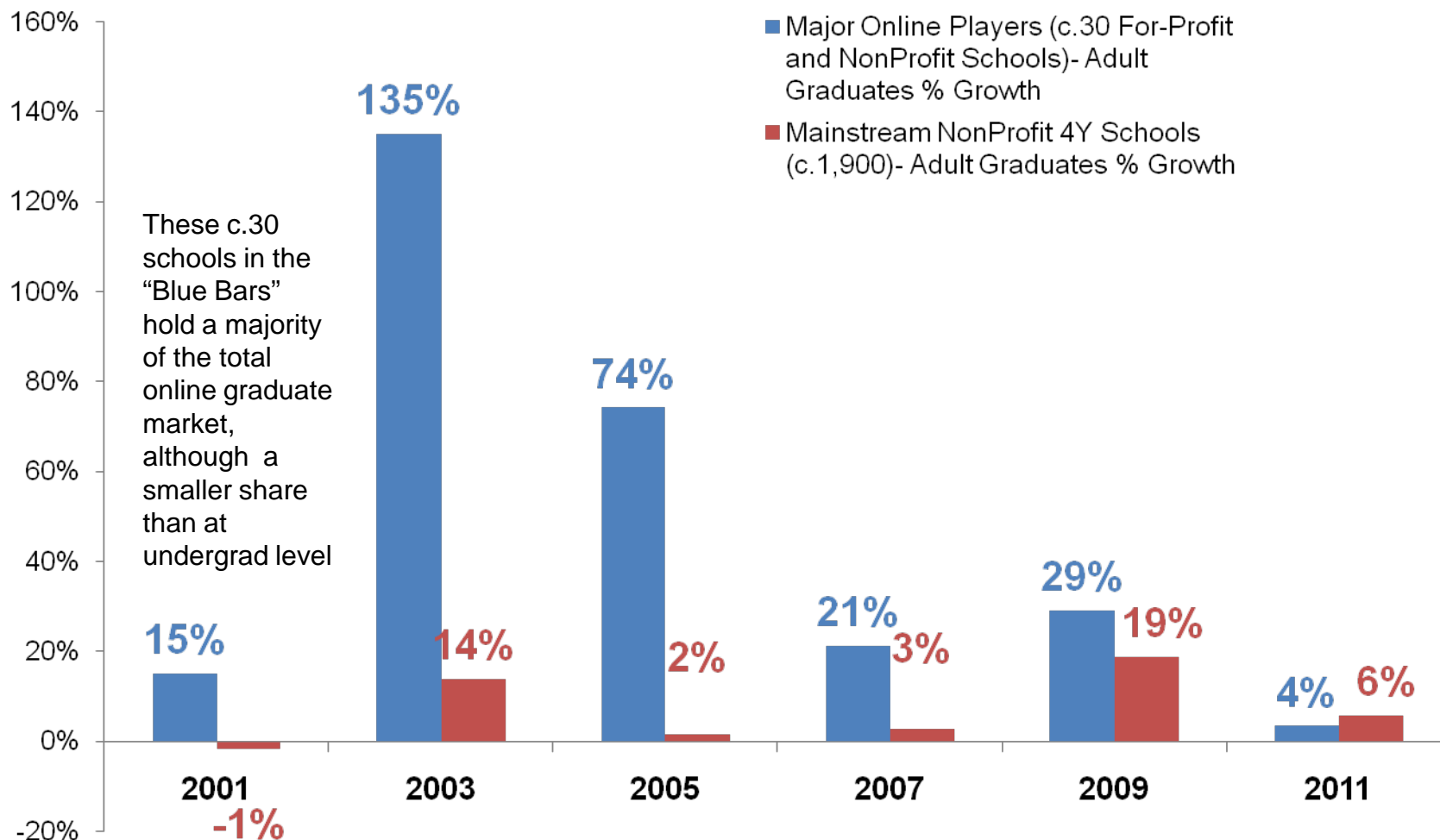
Source: IPEDS and Eduventures analysis. 2011 "Mainstream" numbers are estimates based on early reported part-time undergraduate enrollment

Online-centric schools show mixed undergrad performance. No patterns by control, but low price, differentiation help. Growth slowing



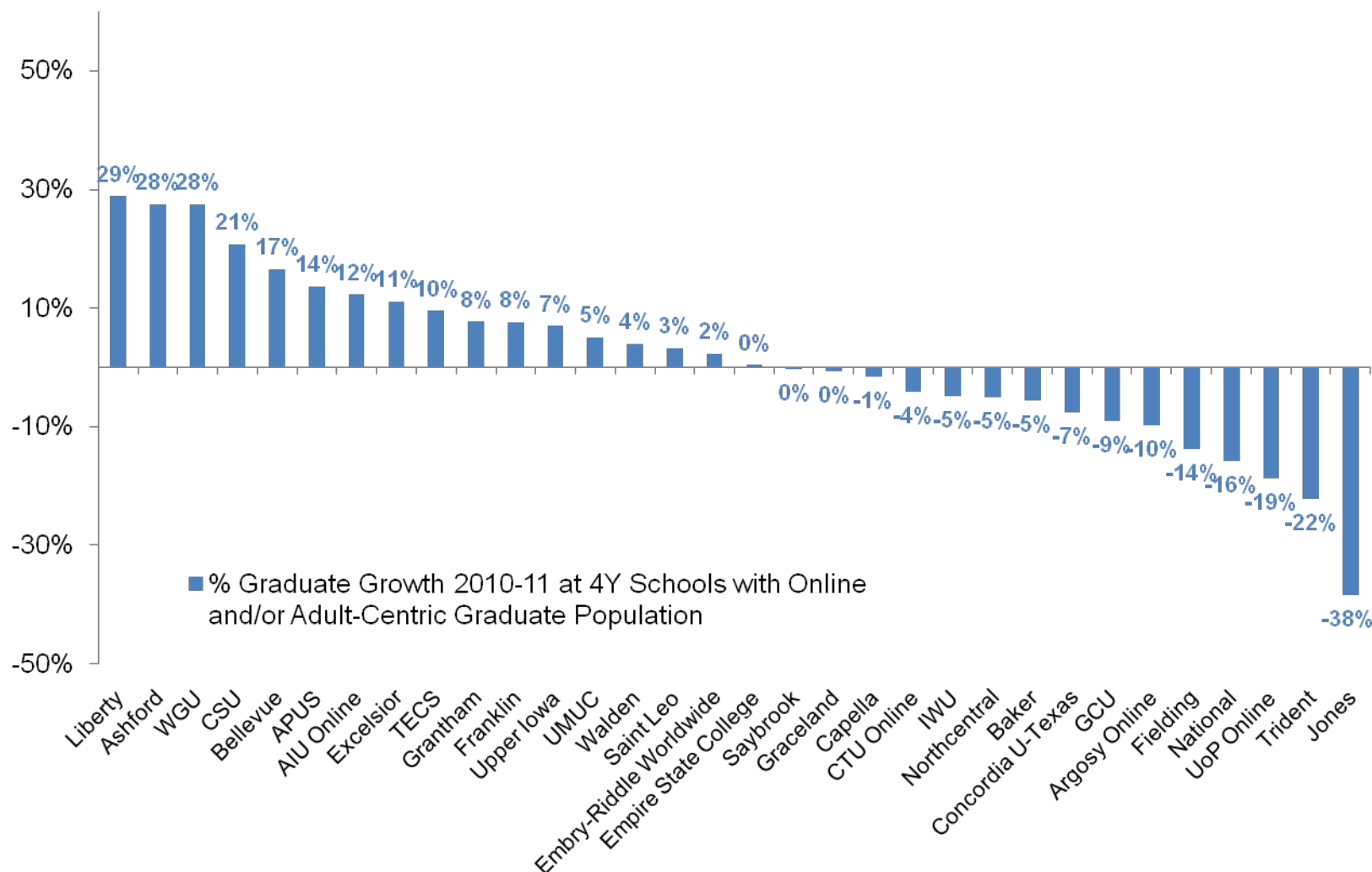
Source: IPEDS and Eduventures analysis

Major online players starting to mature at graduate level. Stronger mainstream response than at undergraduate level



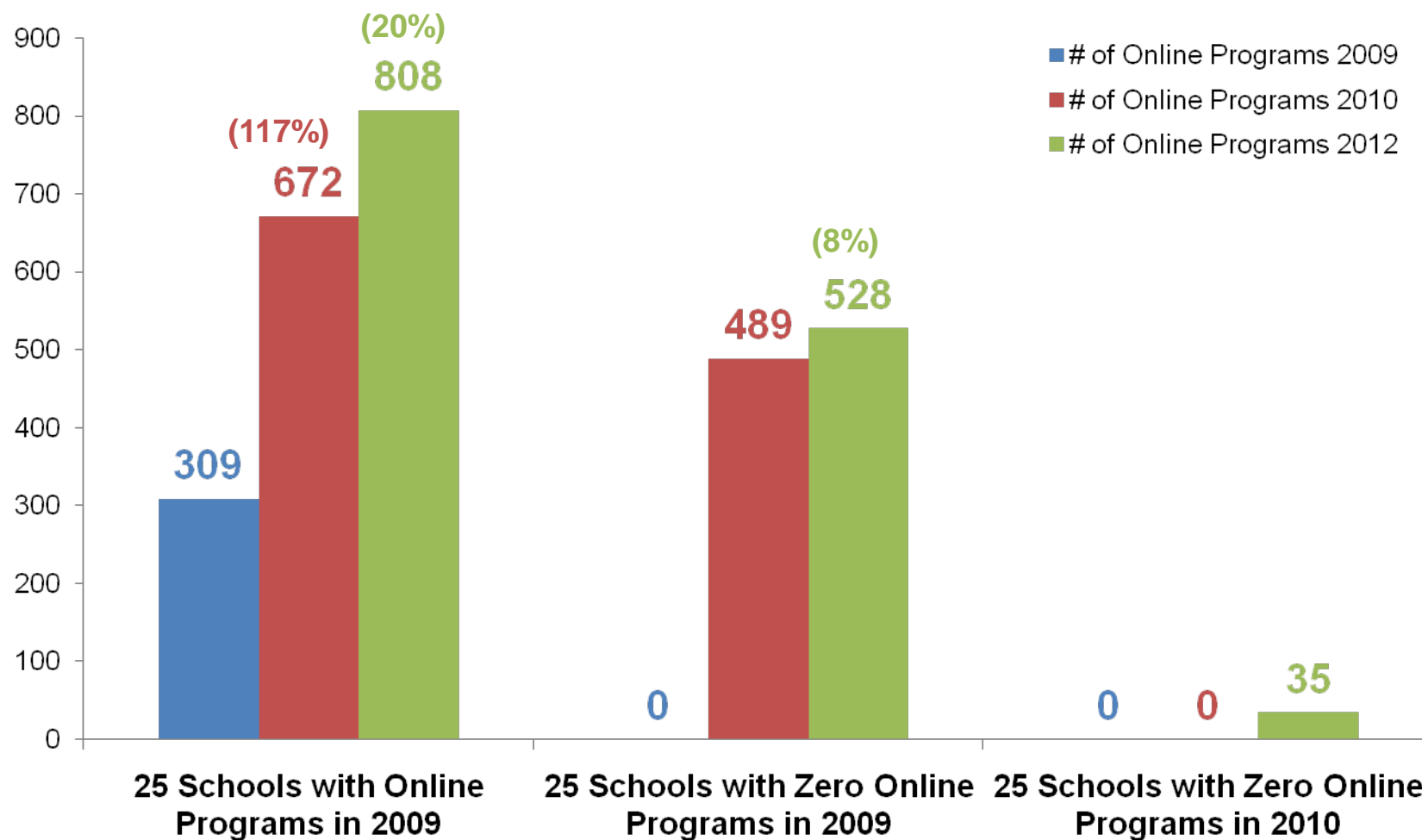
Source: IPEDS and Eduventures analysis. 2011 "Mainstream" numbers are estimates based on early reported graduate enrollment

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Source: IPEDS and Eduventures analysis

Online Program Volume- new programs still rolled out, and new players still entering the market, but rate of growth has slowed dramatically



Recent online enrollment performance reflects array of factors that both support and inhibit growth

Support Online Growth- 6 Factors

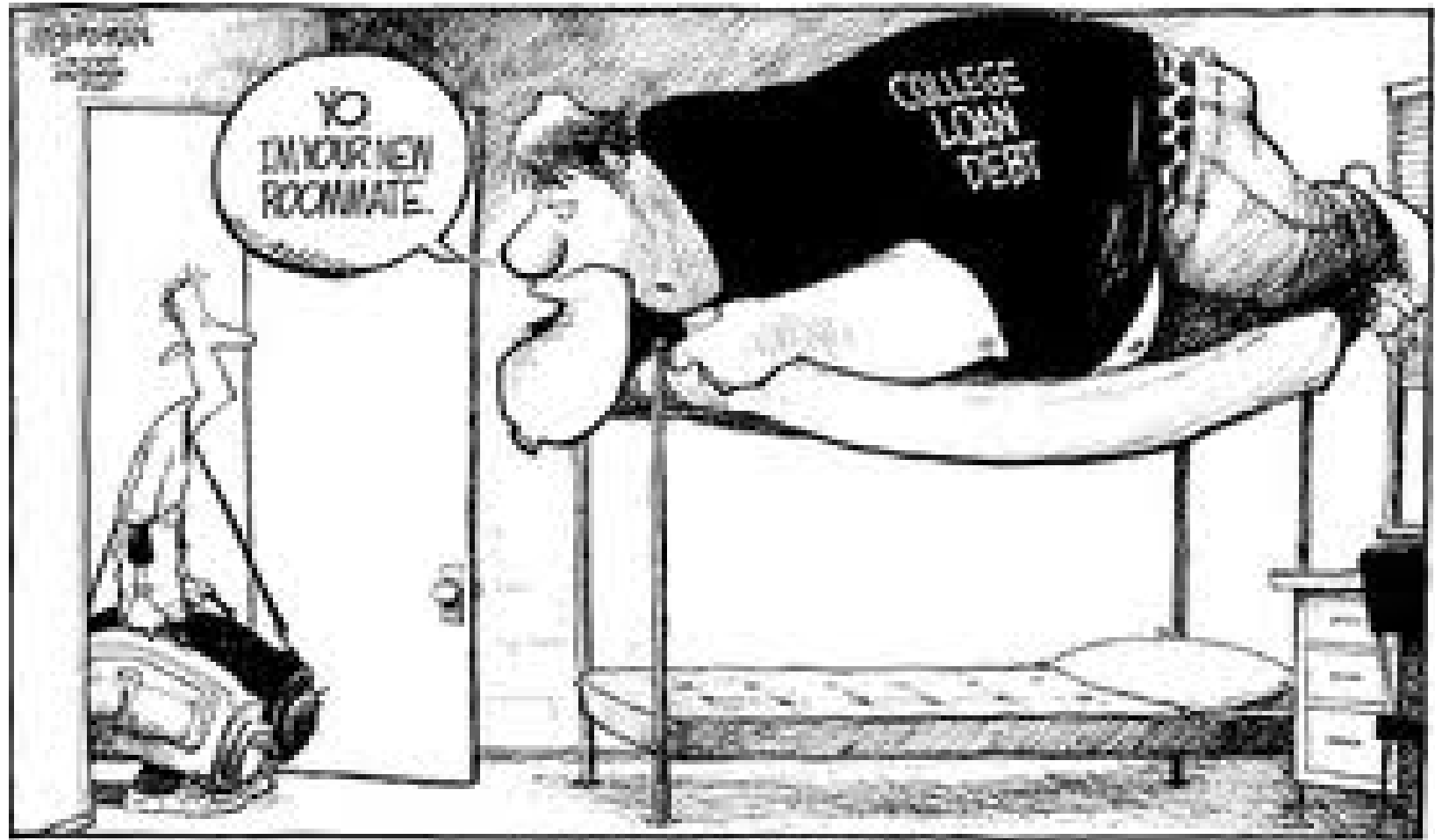
- **Interest**- consumer surveys consistently show more interest than participation in online programs
- **Adult Demographics**- 7% increase in 25-44 U.S. population 2012-2020
- **Wage Premium**- wage gap between college graduates and non-graduates higher than any time since 1915
- **Policy**- federal goal of 60% of U.S. working age adults with a degree or certificate (from c.40% today)
- **Acceptance**- broader range of schools offering online programs; strong evidence of online's instructional potential
- **Cannibalization**- even if overall higher ed enrollment is flat, online will replace a growing portion of campus enrollment

Inhibit Online Growth- 6 Factors

- **Economy**- whether we're in a growing economy or sustained weak economy, neither is good for enrollment growth
- **Regulation**- schools are adapting to state/federal regime but adds cost, heightens perceived risk
- **Supply**- risk that growth market attracts excess supply, excessive graduate focus
- **Participation**- online/for-profits/recession drove up adult participation in higher ed to unprecedented levels. Tough to sustain, never mind grow from
- **Funding**- state funding is troubled; endowments volatile and over-tapped; private capital favoring start-ups over conventional for-profit schools
- **Potential**- struggle for online programming to break through current value ceiling to address core higher ed challenges- cost, engagement and attainment

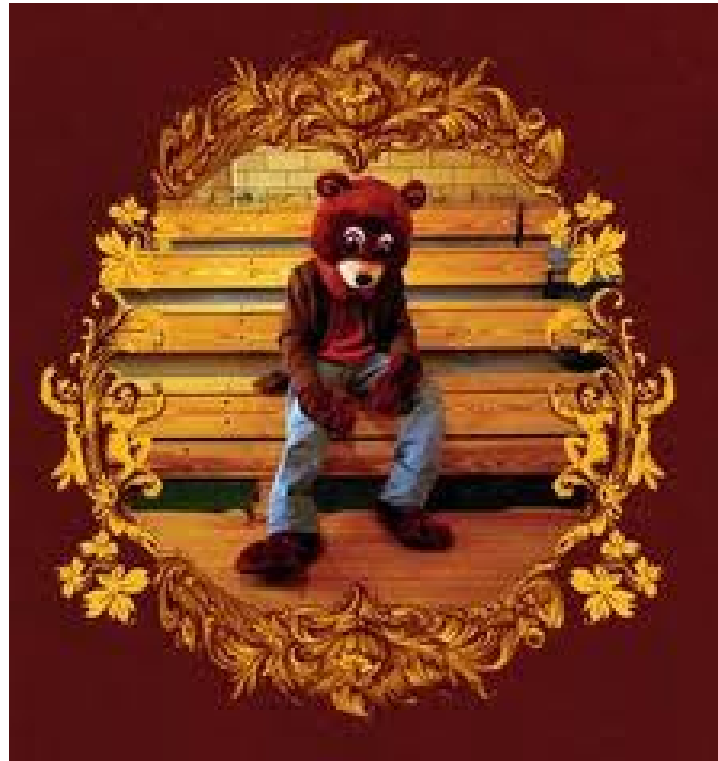
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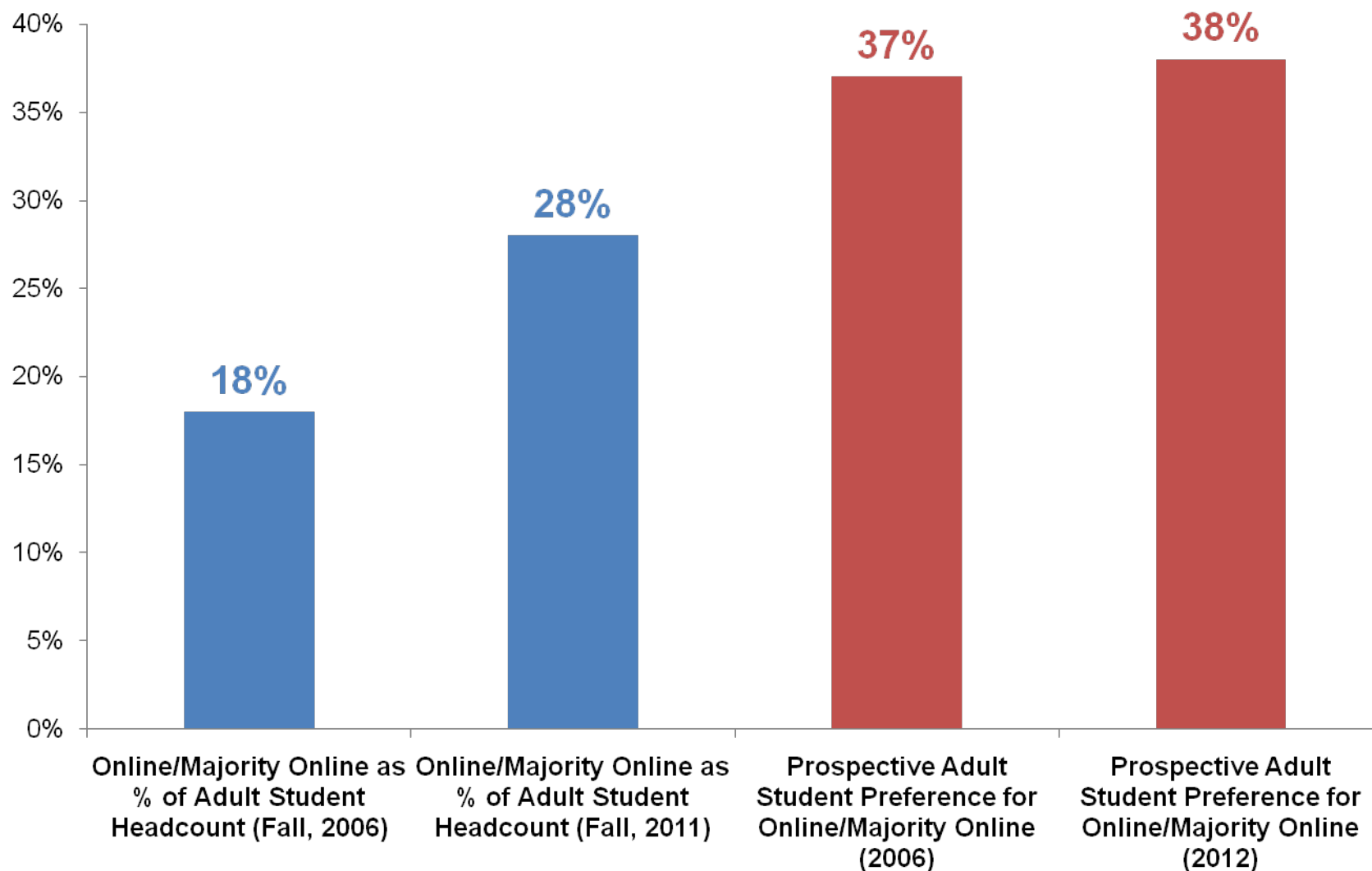
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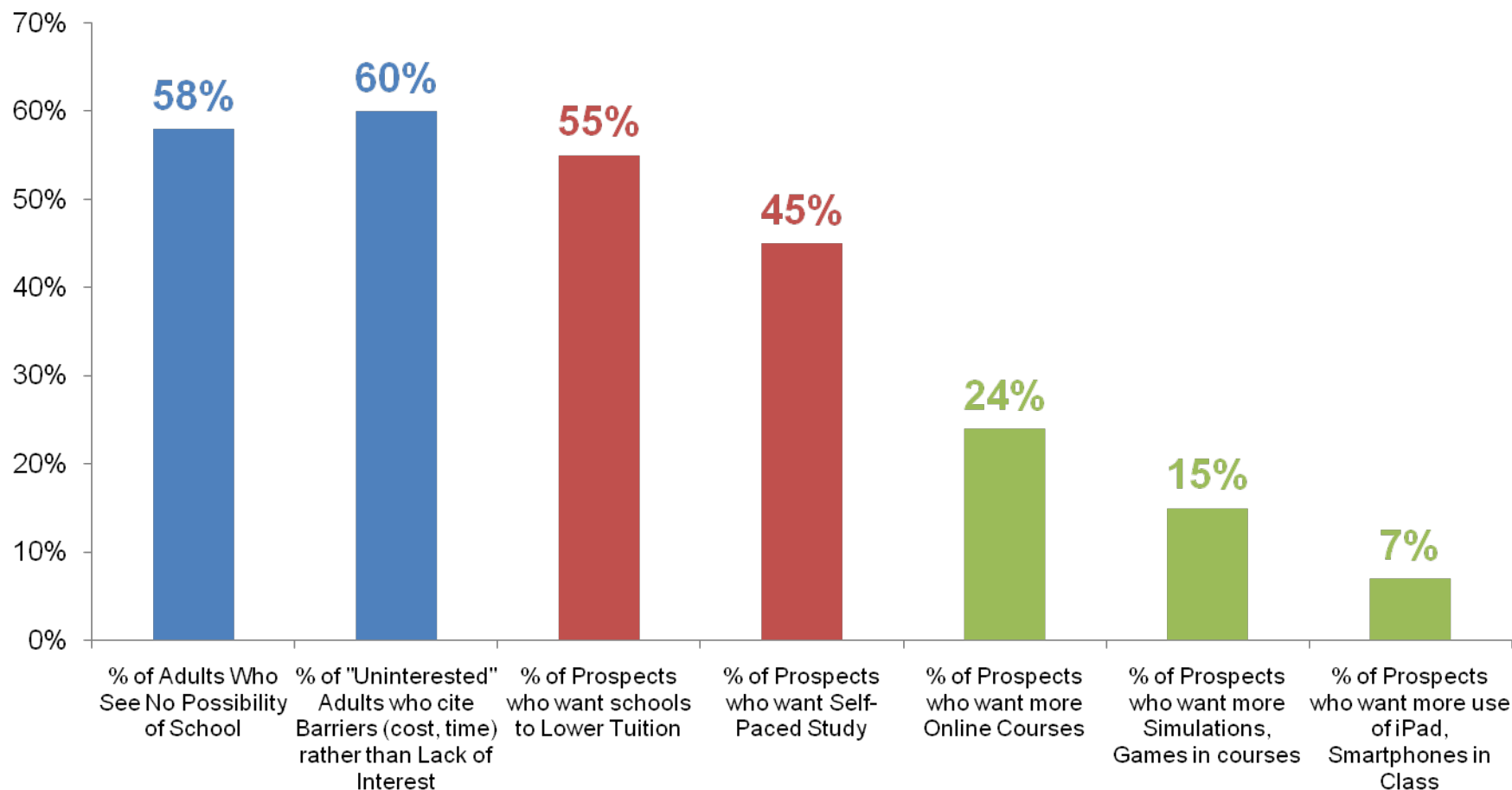


Can online do more
to address higher
education's big
problems?

Online penetration of adult student market has grown strongly, but prospective student preference for online is stuck. Why?

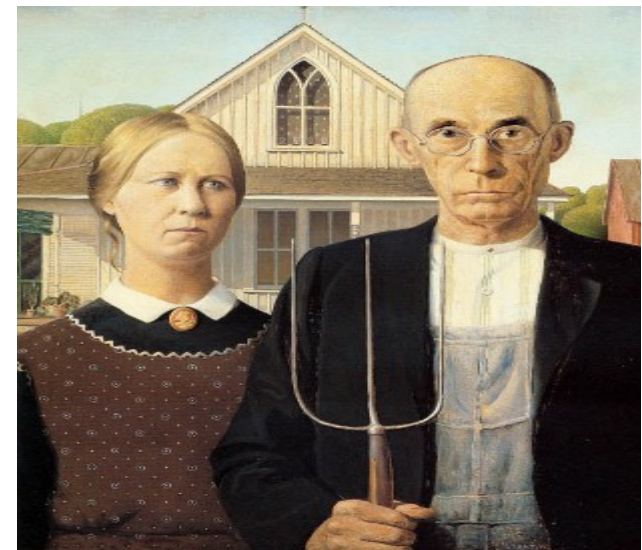


Is online programming simply not yet reaching the broader potential market, or is Online 1.0 not up to the job?



Prospective students are pretty conservative (small “c”)

- Vast majority interested in standard credentials and credit
- Standard disciplines continue to dominate
- Perceptions of online quality as equal/it depends- still not moving much higher
- Increased desire to combine online and campus- points to growing sense of the value but also the limitations of wholly online study?
- Most prospects still only considering 2-3 schools, prioritizing local and personally recommended



Is online higher education running out of answers?

- Fifteen years of online program innovation have only moved the needle so far:
 - Online programs have not reduced **tuition**, or always clearly reduced school **costs**
 - Online program **outcomes** remain vague
 - Online student **engagement** quickly defaults to convenience
 - Online has yet to challenge **credential** norms that impact cost and time
- Higher education attainment continues to attract a compelling wage premium, but how much of the value-add is administrative convenience (sifting resumes) and ritual? Is there a way to equal/enhance the value-add at significantly lower cost?
- For all the “innovation” associated with online delivery, certain components (degree, time, cost) appear locked in

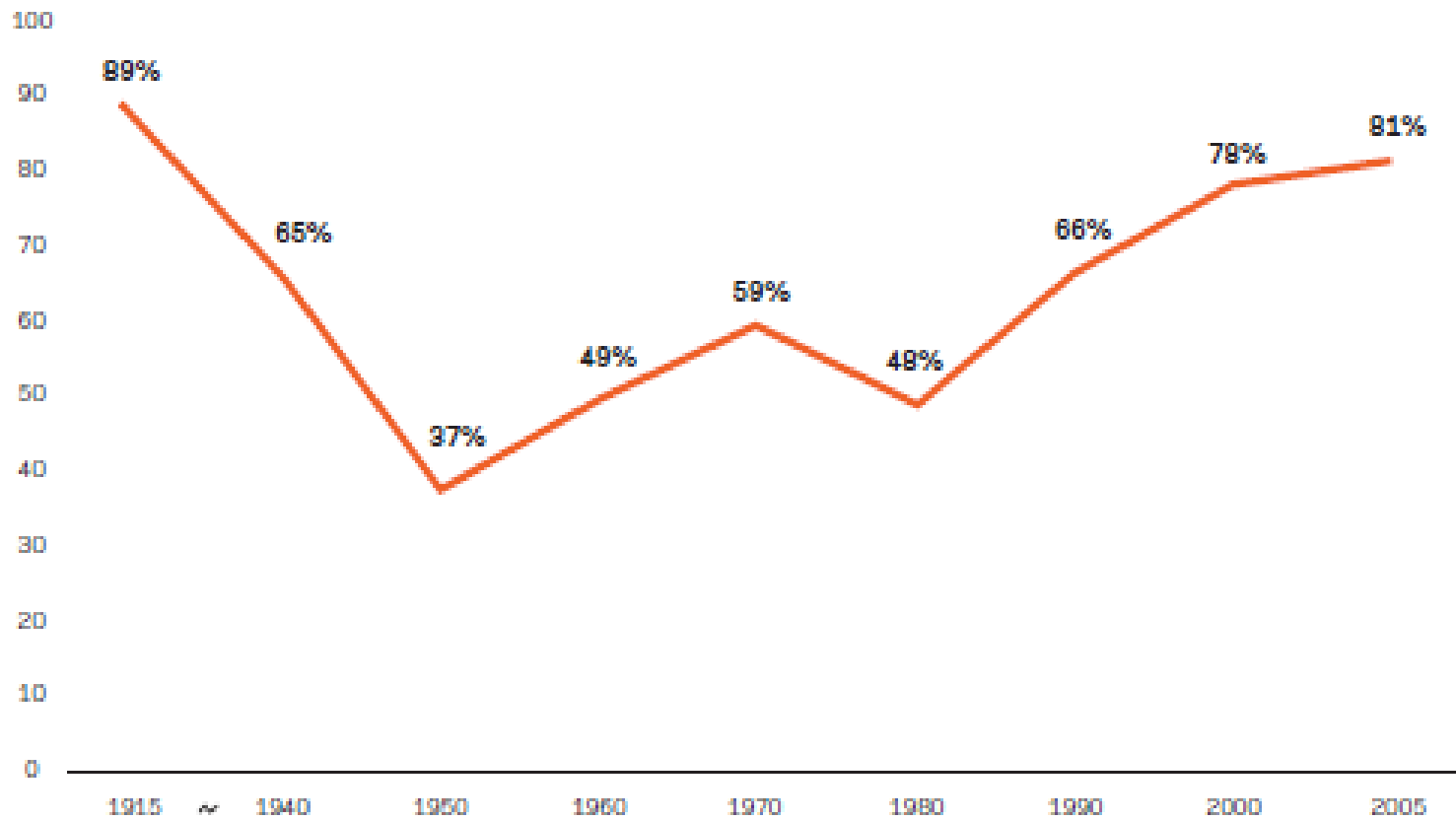
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Very high wage premium- sign of graduate under-supply and undesirable inequality? Public funds drove mid-20th century higher ed boom. What's 21st century alternative?

Figure 3. Wage Premium of Skilled versus Unskilled Labor, 1915–2005



Source: Goldin and Katz (2008)

Cited from "The Undereducated American", Georgetown Center on Education and the Workforce (2011)



Tonight we're gonna party like it's 2012... Is "traditional" online higher education being out-innovated?



Coursera

Today's ed-tech boom is unfinished business from 1999. History tells us truly disruptive innovation in higher education is very difficult

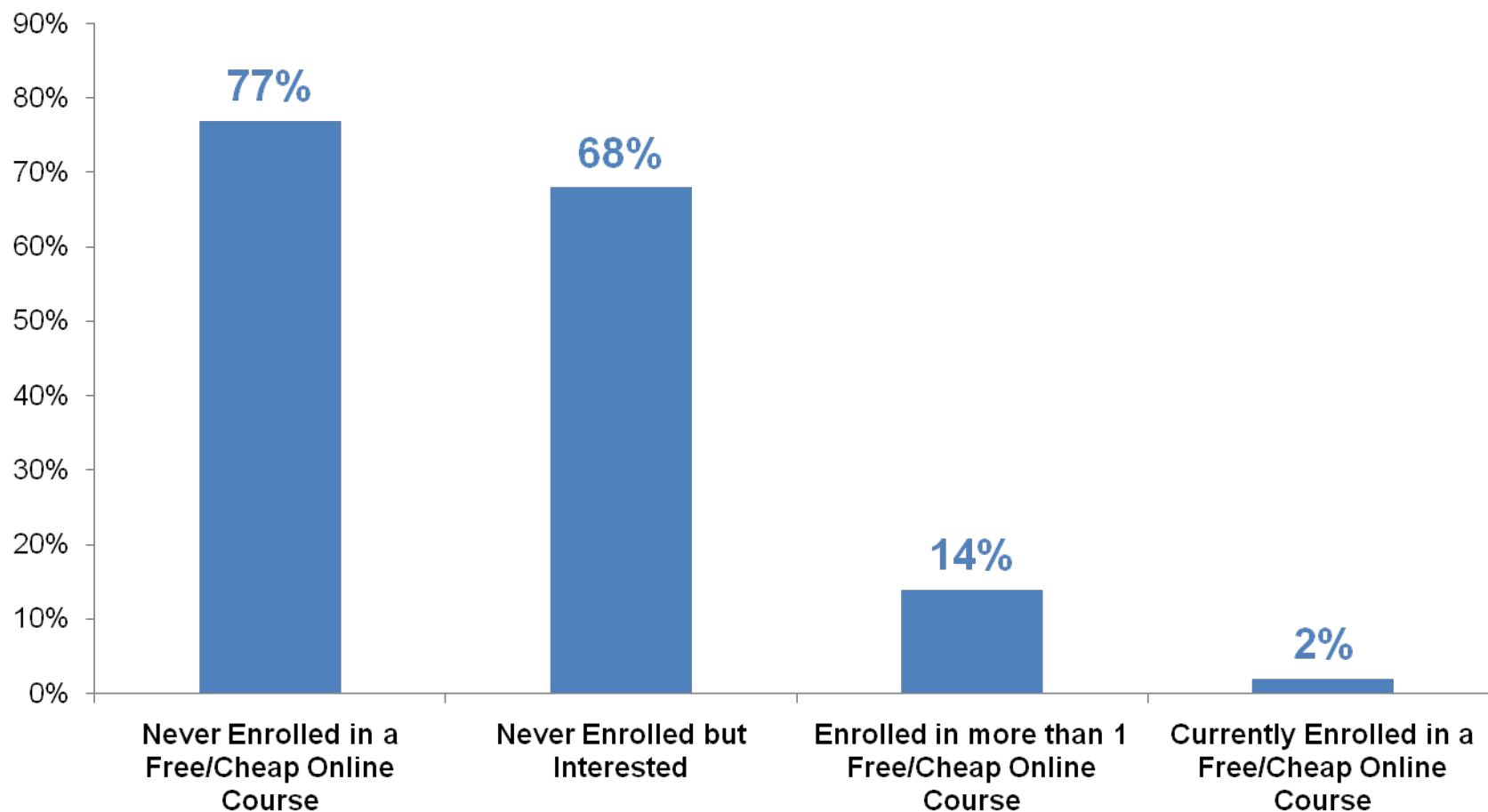
- **Unfinished Business.** Current groundswell of new online offerings and services reflects unfinished business from the last e-learning boom in 1999, and points to the limitations of what we currently understand by “online higher education”
 - Free or low price
 - Enrollment scale with low variable cost
 - Alternative credentials; faster turnaround
 - Private capital to compensate for reduced or conservative public funds
 - Disaggregation of value chain; higher ed populism
 - By-passing traditional schools- in some cases
- **Call that Revolution?** Post-1999, what actually happened with both traditional schools and new entrants adopting certain core school features (accreditation, degrees) used online to innovate at the margins (adult learners, course-level), but leaving much existing infrastructure intact
- **Will there be anything different about post-2012?** Same cycle, or next iteration of long-term cycle that is steadily more disruptive? Today's higher education system provides invaluable symbols and order that any alternative must replace

As a reminder.... prospective students are pretty conservative (small “c”)

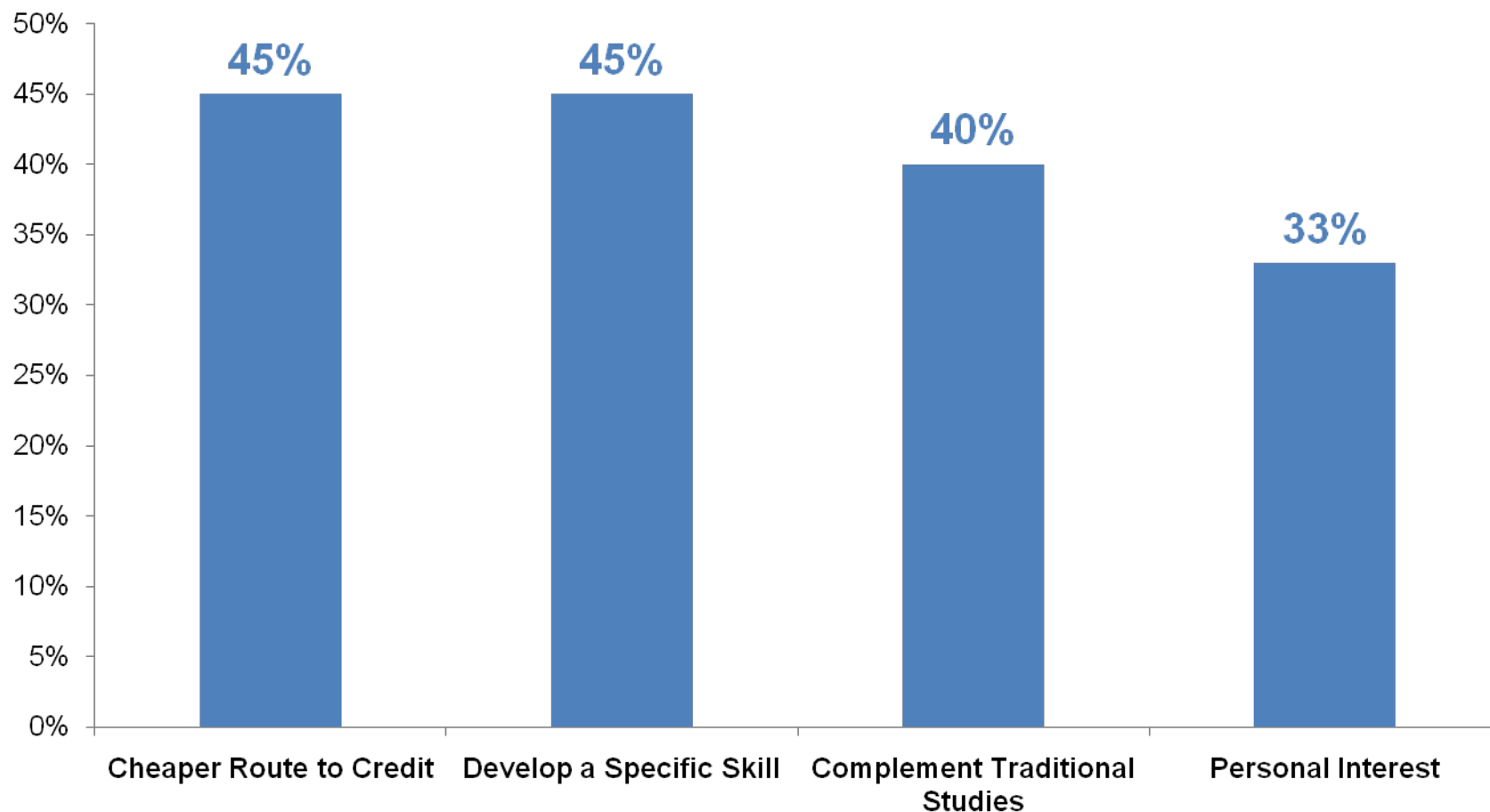
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Adult prospects watching free/very cheap online course boom with interest, but few have/are enrolled to date



Various motives for minority of adult prospects who have taken a free/very cheap online course; reflects vision and reality of offerings



Most adult prospects who have taken a free/very cheap online course suggested improvements, pointing to engagement as key weakness

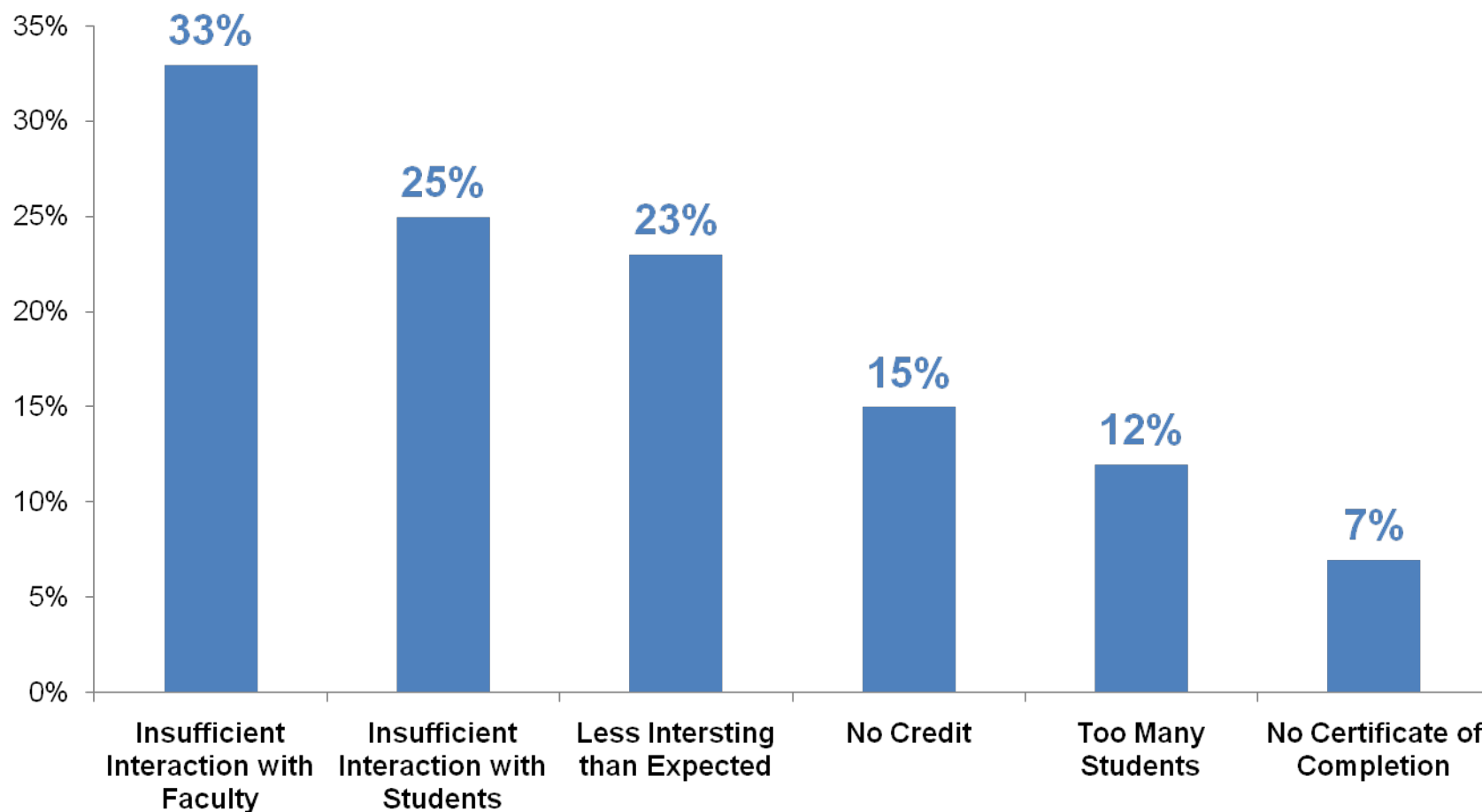


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Call that Maturity?

- **Slow**- it took higher education over 300 years to achieve 10% adoption (a 4-year degree and above among adults)
- **Don't Blink**- it took television c.12 years to get to 10% adoption in the U.S., the Internet 9 years, Smartphones 8 years and Tablets 3 years
 - The Internet achieved 40% adoption in 14 years; Smartphones in <11. The Internet is already past 75%, and Smartphones are catching up fast
- **Real Maturity Means 75%+-** higher education is only now approaching 40% (c.350 years), but went from 10-40% in only 40 years, and some are targeting 40-60% in under another 15 years
- **Fast?** Online degrees held by U.S. adults- c.2% adoption over c.17 years
- **Why haven't online degrees taken off as fast as Smartphones?** Policymakers want mass adoption of higher ed, but is the effort banking on “small adoption” models?
- **What Kind of Alternative?** Current ed-tech innovation is trying to precisely make online education more scaled, personalized, quick and cheap, but like technology, will higher education simply keep adding alternatives without disrupting the fundamentals of the core? What would make an alternative powerful enough?

Implications- online higher education either needs to live with maturation or innovate to reinvigorate growth

- **Online 1.0**- starting to mature and hit some fundamental limits
- **Online 2.0**- To stem maturation, online needs to break into new markets (by age, geography and type)
- Market maturation means less “program launch” growth (less greenfield opportunities) and more “sweating the assets” to grow enrollment in existing programs, improve differentiation, enhance efficiency
- To stem maturation, online needs to address major frictions in higher education as a whole (cost, engagement, attainment)- impactful not just convenient
- Is there enough of a “crisis” to force revolutionary market change in higher education?
 - Will wholly online programs remain confined to adult learners- a market where participation will remain low, and other kinds of shorter, cheaper more specific and more information learning will continue to outperform degrees?
 - Is the macro online solution, for the mainstream student, a hybrid offering still coming into view?
 - Will the very mainstreaming of online, particularly at graduate level, mean the end of the “online unit” model?

Market maturation is driving both inside/outside market innovation, but too early to judge impact

Question: Are we seeing signs of innovation that will sustain online market growth?

Eduventures View: there are many encouraging signs of investment, cooperation and disclosure that may positively impact the online brand. But innovation can be disruptive rather than sustaining. Examples include:

- **New Platforms** (e.g. LoudCloud, Sophia)
 - **New Engagement/Analytics** (e.g. PAR project, Knewton, Civitas Learning)
 - **New Competition** (e.g. EdX, Coursera, New Charter University, 2Tor, Minerva)
 - **New Data** (e.g. Gainful Employment disclosures, U.S. News Rankings)
 - **New Markets** (e.g. APUS/Walmart; Regis, Brandman with Hispanics; PurdueHUB-U; NAU and community colleges)
-
- **Today v. Tomorrow.** However, today is characterized by early-stage announcements and experimentation, not results. These trends speaks to current market pressures. Eduventures forecasts assume it will take some time for these innovations to bear fruit, but we expect them to begin to blossom in the second half of the decade, reinvigorating enrollment growth

Thank You

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