University outsourcing of online program management

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ABSTRACT

What are the opportunities and risks involved for a university for outsourcing the marketing and administration of its academic programs? A university was faced with increased costs, declining enrollment, and decreased state support. Joining forces with an online program manager (OPM) to offer online degrees held the promise of increased enrollment and consequently increased tuition revenues. This paper examines five questions that must be addressed by a university in expanding its online program development and management. Key questions about online learning include whether to expand in-house or outsource, which of revenue-share or fee-for-service models, what OPM vendor to choose, what degrees and programs to offer online, and what contract terms to seek.

Keywords: higher education marketing, outsource marketing, Online Program Manager (OPM), make-buy decision, revenue-share, e-learning

INTRODUCTION

"The bottom line is: We need a new source of revenue," said the president of Composite State University. (Composite State is a compilation of multiple universities). This was becoming a common refrain among middle-tier universities in the United States. Enrollments had been declining since 2007, which resulted in declining tuition revenue. This was coupled with declining state budget appropriations. While revenues were declining, expenses seemed to always increase, especially employee pension and medical benefits, insurance, utilities, etc.

Online learning was one option to increase incremental revenues. Offering online programs was a way to reach non-traditional students. This approach would enable students with some university credits to complete their degrees who would otherwise find it difficult to attend courses on campus. Online learning was also a means of reaching potential students outside of the region, and thereby accessing a new market. The administration, and ultimately, the Board of Trustees faced a number of questions to resolve before expanding online learning options.

1. Should the University expand on its current online offerings (in-house), or outsource some elements of online learning to an online program manager (OPM)?
2. If they outsource, what OPM engagement model should they choose: revenue share or fee-for-service?
3. What OPM company should they choose?
4. What degrees and programs should they offer online?
5. What contract terms should they seek?

"I have no doubt that we could expand our online programs in-house," said the Board of Trustees Chair, "but at what cost, and how quickly could we get it done, compared to outsourcing?"

Like most universities, a significant number of Composite University students have completed an online course as part of their degree program. U.S. Department of Education (2019) data showed that 35% of enrolled students nationwide had taken an online college course in fall 2018. Composite State already offered 12 undergraduate and 18 graduate programs in a 100% online format.

According to Phipps & Merisotis (2005), outsourcing has historically been focused on functions that are unrelated to the core functions of the university-- teaching, research, and service. This started to change around 2008, and since then the OPM industry has reached revenues of an estimated $3.2 billion in 2019, and is expected to grow to $12 billion by 2027 (ResearchAndMarkets.com, 2020).

OPMs generally recognize the need for faculty to be in control of curriculum development, course content development, teaching, and assigning grades. The OPM offers to be responsible for elements of online learning that are not key competencies of traditional universities, such as marketing (particularly digital marketing), 24/7 recruiting, advising, retention, online faculty development, and centralized course quality control, as indicated in Table 1 (Appendix). An OPM executive characterized the OPM's role as providing the "core services of marketing, enrollment, and retention" (Newton, 2016).

Composite University administration was open to the argument that they should focus on the core competencies of the university. In the immediate timeframe of the decision to expand online learning the university had outsourced health services, the motor pool, dining services, and grounds and facilities maintenance.

The major attractions of contracting with an OPM are (1) management expertise and (2) revenue growth. According to Pearson, they are "Positioned at the intersection of quality education, best-in-class student and faculty support, the most advanced technology and compelling marketing" (Pearson, 2019). University investment needed for in-house online teaching capabilities is substantial. It is quite attractive from the University's perspective to have an OPM partner to assume the responsibility for some or all of the incremental needs associated with online growth. OPMs employ specialists with roles such as "Program Strategy Manager, Learning Designer, Learning Technologist, and Video Production" to work with faculty and program heads (Wiley, 2019).

OPM proposals forecast mouth-watering tuition revenue forecasts and results. A proposal from Pearson's OPM division to the University of Montana forecast a peak of total revenue gains (before sharing) of over $207 million, and total enrollment of over 42,000 students (Pearson, 2019). According to Wiley Education Services, a Purdue University Education Master's program went from 20 to 300 students in 9 years, and an MS in Communication program went from zero to over 400 students enrolled in 6 years (Wiley, 2019).

In 2017, five universities each earned over $10 million in revenue, after OPM 2U received a 60% take-rate: USC-Social Work, $40 million; UNC-MBA, $17 million; George Washington-Public Health, $11 million; Simmons-Nursing, $16 million; and Simmons-Social Work $14 million (estimated from Spruce Point Capital Management data, 2018).

Some worry that the University may lose control of the direction of the online initiative. According to Hall and Dudley (2019) "the data . . . not only underscore how much control for-profit companies have over these public online programs, but also illuminate how much they're profiting off that control, as well as many of the contractually binding methods that they employ to acquire and maintain control."

"Should we provide a greater share of the upfront investment, and assume the risk, of a fee-for-service model? Or should the OPM provide the upfront investment, and take a larger revenue-share in return?" – Chief Financial Officer

Different OPM companies tend to lead with a particular engagement model, which makes it difficult to separate the choice of model from the choice of provider. The University published a request for proposal to gather information on how various OPMs would expand online learning and their associated costs. OPMs offered two engagement models: tuition-share or fee-for-service. In the tuition-share model, the OPM provides a bundle of services, and receives a percentage of the tuition received by the university. In the fee-for-service model, the OPM supplements the university's existing online efforts by providing select services. This enables the university to procure services as needed initially, and to adjust over time as the university develops its own capabilities.

One key difference is that the fee-for-service model requires up-front investment by the university to develop and market programs, and to recruit and manage students. The university's investment is at risk if the online programs fail to attract enough students. This compares to the tuition-share model in which the university engages the OPM on a pay-as-you-go basis, essentially paying for services from the tuition revenues. There is still risk that the university's incremental tuition share fails to cover costs of faculty and other instructional costs.

The tuition share model has been criticized for a number of reasons. The concept itself has come under fire. Carey (2019) described the tuition model as contrary to federal student aid regulations that prohibit universities from paying a commission to student recruiters (U.S. Department of Education, 2012). OPMs have gotten around this prohibition by bundling recruiting services with other services, such as marketing. OPM companies have "realized that the best way to avoid for-profit regulation is to pretend to be something else (e.g. a not-for-profit university)" (Carey, 2019).

Spruce Point Capital Management (2018) noted the emergence of fee-for-service pricing models from OPMs. Universities are concluding that "they can invest the substantial upfront capital in order to retain more of their own tuition." A fee-for-service OPM (contracted at 34% of tuition) could replicate the offering of a revenue-share OPM (contracted at 60% of tuition), and increase the surplus to the university from about 21% of tuition revenues to 48% (Spruce Point Capital Management, 2018).

Which OPM company would have the best fit as a strategic vendor? – VP of Operations

The OPM industry is competitive. A review of the OPM industry identified 20 firms offering revenue-share models, and 6 firms offering fee-for-service models (E-Literate, 2018). Industry experts estimate that there are 27 to 40 competitors in the marketplace (McKenzie, 2018). Major OPM providers include: 2U, Inc., Academic Partnerships, Apollidon, Bisk Education, Inc., Blackboard Inc., Keypath Education, Noodle Partners, Online Education Services, Pearson PLC, and Wiley Education Services (ResearchAndMarkets.com, 2020).

Hoffman (2012) developed an Online Education Vendor Partner Decision Matrix comprised of 5 criteria categories: "support services, technology systems, vendor characteristics, financial impact, and vendor interest." Advantages of clearly defining the selection criteria included ensuring that everyone knew of the expectations for each candidate, that each candidate was evaluated against common criteria, and that each criterion was evaluated for all candidate vendors. A decision matrix, as part of a vendor selection process, may lend legitimacy to the decision (p.5).

Composite University chose Academic Partners as their OPM. Key factors included a level of comfort and prior familiarity with the firm. Composite University administration concluded that Academic Partners had the most flexibility and willingness to work with the University. Another factor was that Academic Partners seemed to be a good fit for Composite University, given that AP served approximately 30 universities similar in size and scope as the University.

"What degrees and programs should we offer to make this pilot program a success?" – Provost

There are a few reasons why universities favor partnering with OPMs for graduate degrees over undergraduate degrees. First, demand for the master's degree is growing. "The share of the U.S. population with an advanced degree has increased from 5% in 1980 to 13% today, leading the most competitive sectors of the workforce to refer to the master's as the new bachelor's" (Burke, 2019).

As an example, Table 2 (Appendix) shows that the number students enrolled in master's degree programs at George Washington University grew 1,000% from 2014 to 2017, including a significant number of students in programs facilitated by OPMs or other outside vendors.

Second, an undergraduate degree program typically consists of 120 semester credit hours. Many online graduate degree programs consist of 30 semester credit hours. It is a significant investment for a university to offer a full slate of required and elective courses for an online undergraduate degree. Like many universities, Composite University did not readily have the resources to bring the wide range of lower-level courses online. Some universities are protective of their undergraduate admissions selectivity, to maintain their prestige and rankings. This hesitance limits enrollment growth. Plus, they are "legally required to publicly report undergraduate admissions statistics, including SAT scores" and percentage of applicants admitted (Carey, 2019). There is no requirement to report admissions data for master's programs.

Finally, the amount of government money that students can borrow for a bachelor's degree is limited, whereas students can borrow unlimited amounts of money for a master's degree (Carey, 2019). According to OPM Learning House, 45% of online students paid their tuition with federal loans, and 40% used government grants (Newton, 2016).

The OPM representative was up-front in their insistence that the MBA degree was a "must-have," and that its omission would be a deal-breaker. The OPM also professed a core competency in managing programs in education and nursing, in addition to business. Composite University considered a number of factors in identifying programs, including (1) what programs were already online, (2) OPM recommendations of in-demand programs, and (3) potential programs that were already "on the radar" of the university. The parties arrived at 5 degrees:

Master of Business Administration (MBA)
Master of Public Administration (MPA)
Master of Science (MS) in Cybersecurity Management
Master of Science in Mass Communications (concentration in Public Relations)
Master of Science Information Systems (MSIS) (concentration in Business Analytics)

"What terms should we seek in a contract?" – President

Composite University billed the relationship with the OPM as a "pilot program," that could be expanded or reduced in the future, depending on outcomes. Researchers have criticized the terms of contracts between universities and OPM providers (Mattes, 2017). The two most contentious terms have been the length of the contract and the tuition share (Hall and Dudley, 2019).

Length of Contract

Contract length is an important term to the OPM. It is important because the OPM expects to make an initial investment at the beginning of the contract, including funds for upfront marketing expenses and labor for course development. Initially, this upfront investment is offset by a share of zero tuition dollars. The contract term needs to be long enough to pay back the initial investment from growing revenues, and subsequently provide the OPM a return on investment.

A contract length of 7 to 10 years is not unusual (Czerniewicz & Walji, 2019). Springer (2018) reported on a contract entered into by West Campus University (a pseudonym) with a length of 7 years. The contract also included options for adjusting the term. West Campus could "buy out" the remainder of the contract after 5 years if after 4 years their online MBA did not reach an enrollment goal.
Hall and Dudley (2019) conclude that the "unbreakability" of contracts contributes to their restrictive nature as much as length of term. "Too many colleges have signed OPM contracts so restrictive that leaving the partnership is next to impossible."

Share of Tuition

One criticism is that the revenue-share model is expensive for the university. Mattes (2017) noted that universities have shared tuition with OPMs at rates that range from 10% to 80% of the institution's gross online tuition revenue. "OPM's historically offered a very compelling value proposition, as the OPM would take on the upfront capital risk (up to $10 million) to set up the program in return for 65% of student tuition over the course of a 10- to 15-year contract" Spruce Point Capital Management (2018).

A signed contract between Boise State University and an OPM contains a duration of 5 years and a tuition share to the OPM of 45% (Boise State University, 2012). A signed agreement between Eastern Michigan University and an OPM contains a duration of 5 years and a tuition share to the OPM of 50% (Eastern Michigan University, 2016).

Hall and Dudley (2019) analyzed 41 contracts between universities and third-party vendors, relevant to the management of online courses. Over half (53%) paid the vendor a percentage of the university's tuition revenue. At the low end, The University of Arizona gave 35% of its tuition revenue to OPM All Campus. At the high end, the University of North Dakota gave 62 percent of its tuition revenue to Pearson. Their collection of contracts had grown to 184 by July 2020 (Hall and Dudley, 2020).

SUMMARY

The administration and the Board of Trustees were faced with some important decisions. The decision process could lead to outcomes that generate much-needed revenue for the University. An OPM partner could be a "change enabler" (McKenzie, 2018) that prompts the University to develop new degree products and enter new online markets. A for-profit OPM partner can prompt the University to move faster than is customary for a public university.

The choices are not without risks. A failed effort could leave the University locked into a long-term contract at a usurious revenue share. How the faculty will react to their roles in this new business model is unknown, and may not be supportive (Supiano, 2017), particularly if an OPM infringes on "educational quality, academic freedom, university reputation and shared governance" (Sundt, 2019).

Will the market embrace Composite University branded online degree programs, amid a crowded field of similar offerings? There are also risks for not taking action, such as missing a window to enter the growing online market, and being "left behind in the digital age" (Feldhouse, 2019).

CASE QUESTIONS

Composite University was faced with answering several questions before signing the contract:

1. Should the University invest in capacity to do in-house online marketing, recruiting, enrollment and retention; or should they outsource them to an online program manager (OPM)? What are the pros and cons of each option?
2. If the University decided to outsource, why would they choose a revenue-share agreement? Why choose a fee-for-service model?
3. What criteria should the University use to select an Online Program Management (OPM) company? Why are the criteria important?
4. What degrees and programs should the University offer? What stakeholders should be involved in the decision?
5. What terms should the University seek in a contract? Who will sign the contract on behalf of the University?
6. Of the University stakeholders impacted by the decision, who will be more likely to advocate for the partnership? Who will be more likely to be hesitant about the partnership?

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APPENDIX

Table 1: Typical Online Program Management Services

Institutional Readiness	Assess readiness to develop and deliver the courses in an online format
Academic Services	Collaborate with faculty to design and develop online courses
Market Research	Estimate demand for programs
Recruitment	Student lead generation
Enrollment Services	Student onboarding, inquiry to enrollment
Retention Services	Advising students from course to course through graduation
Data Science & Analytics	Data analysis related to student experience, performance and efficiency
Regulatory approvals	Obtain state approvals and licenses

Sources: George Mason University (2017), Eastern Michigan University (2016), Academic Partnerships (2020).

Table 2: Students Enrolled in Online Programs at George Washington University

Term	Master's Degree (46 programs)	All Degrees
2014 Spring	331	574
2014 Summer	533	851
2014 Fall	1075	1660
2015 Spring	1461	2092
2015 Summer	1548	2092
2015 Fall	2476	3328
2016 Spring	2820	3752
2016 Summer	2801	3655
2016 Fall	3456	4579
2017 Spring	3639	4796

Source: George Washington University (2017)