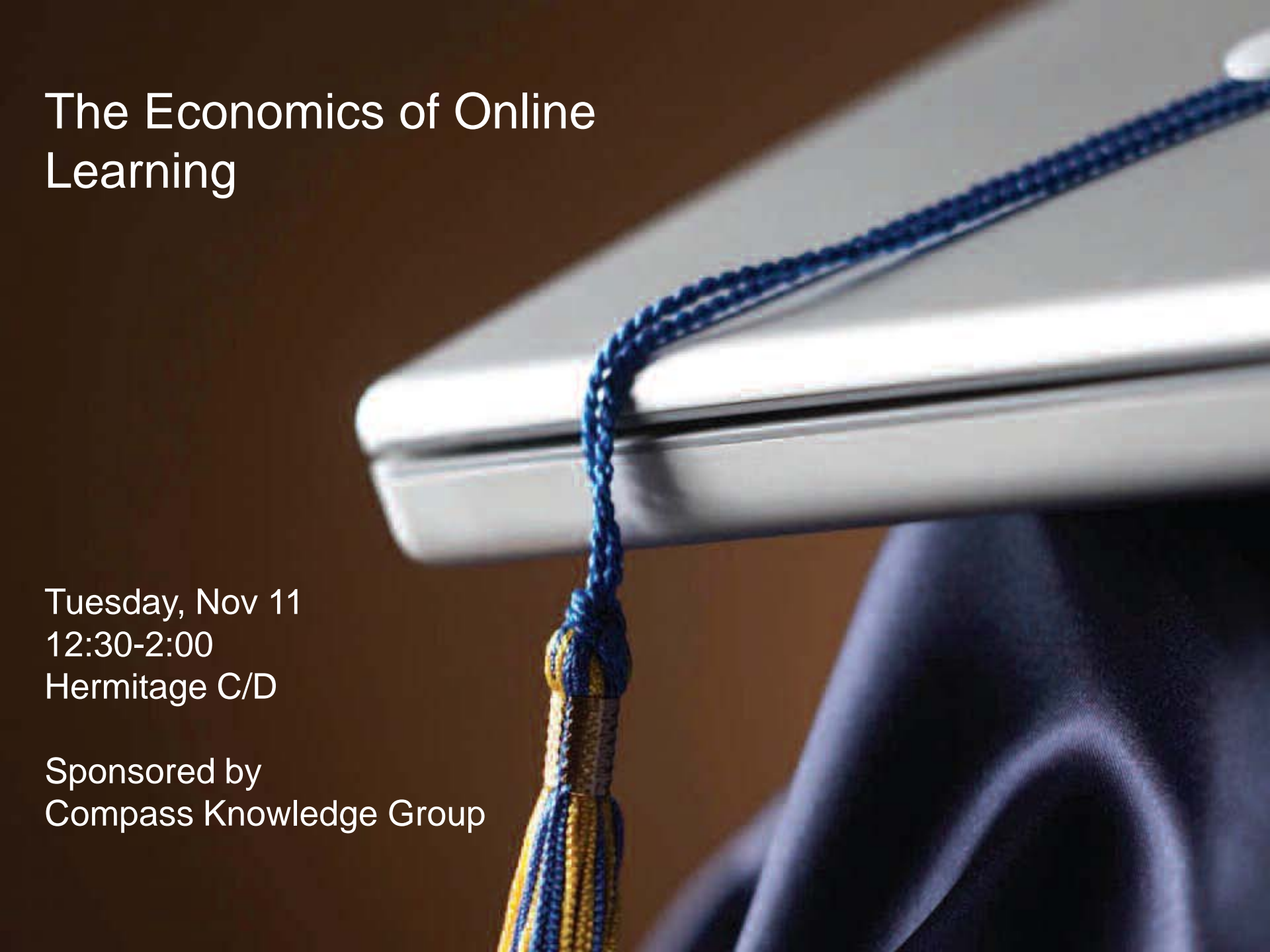


# The Economics of Online Learning



Tuesday, Nov 11  
12:30-2:00  
Hermitage C/D

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Compass Knowledge Group

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We hope the information is helpful to your organization.

# Who are we?

## Dr. Gloria Pickar – President of Compass Knowledge

- Former Dean
- Best-selling textbook author
- Compass from 7 to 170 employees

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## Dr. Fred Snow – Vice President

- Former University President
- Founding Dean Norwich University School of Graduate Studies
- Member, Registry of University and College Presidents



# What we will be sharing

- Performance data from over 50 starts of certificates, bachelors, masters, and doctoral-level programs
  - Do-it-yourself
  - Revenue share
  - Pay as you go
- What you should expect economically from online programs
- The industry supply chain and the costs per link
  - The most critical aspects of profitability

# The three most important decisions

- Decision #1 - What outcomes will we expect of our online programs?
  - Financial, academic, strategic?
  - Six short- and medium-term..
- Decision #2 - How will we pave the road for our academic institution to implement online programs?
  - Governance
  - Acceptance
  - Resource planning
- Decision #3 – In which activities of the supply chain do we develop internal expertise?
  - Ten supply chain activities

# Qualitatively - what to expect in the short- and medium-term

If you are not getting the entire family of outcomes as discussed below, you should revise your expectations or your operations:

1. Superior academic outcomes
2. Productive and rewarding faculty and student experience
3. Strong net financial performance
4. Strong incoming enrollments, with well-qualified students
5. Outstanding retention
6. Improved brand awareness and perception

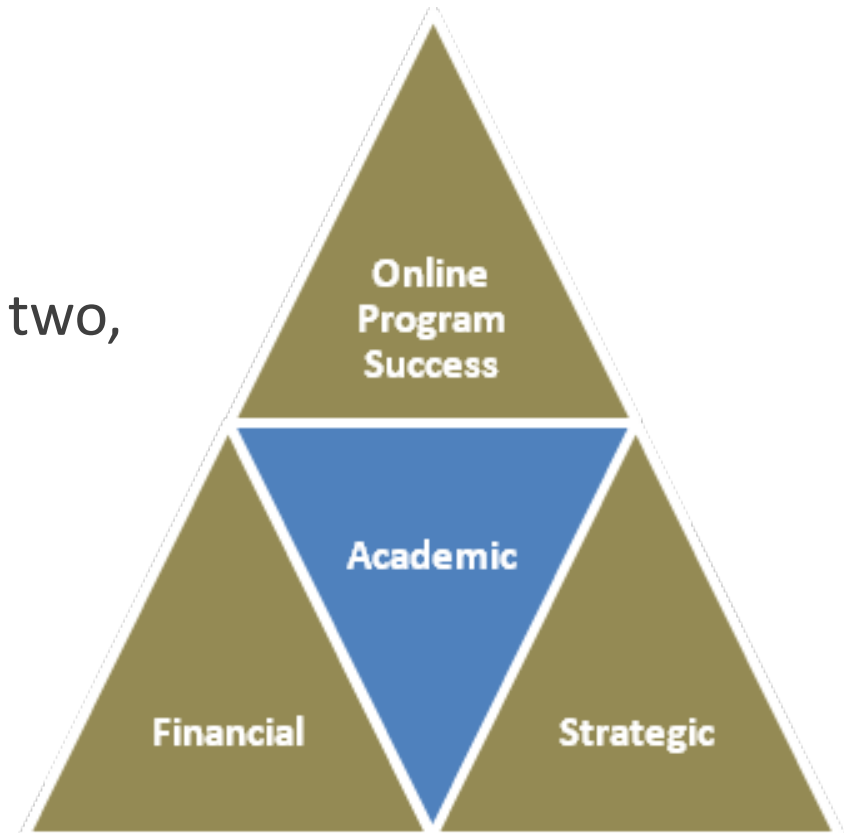
# The importance of a balanced perspective

There are three foundations, or “**Windows**”

- Academic
- Financial
- Strategic

If you are looking through only one or two, you are not seeing the whole picture, and you are leaving precious benefits on the table.

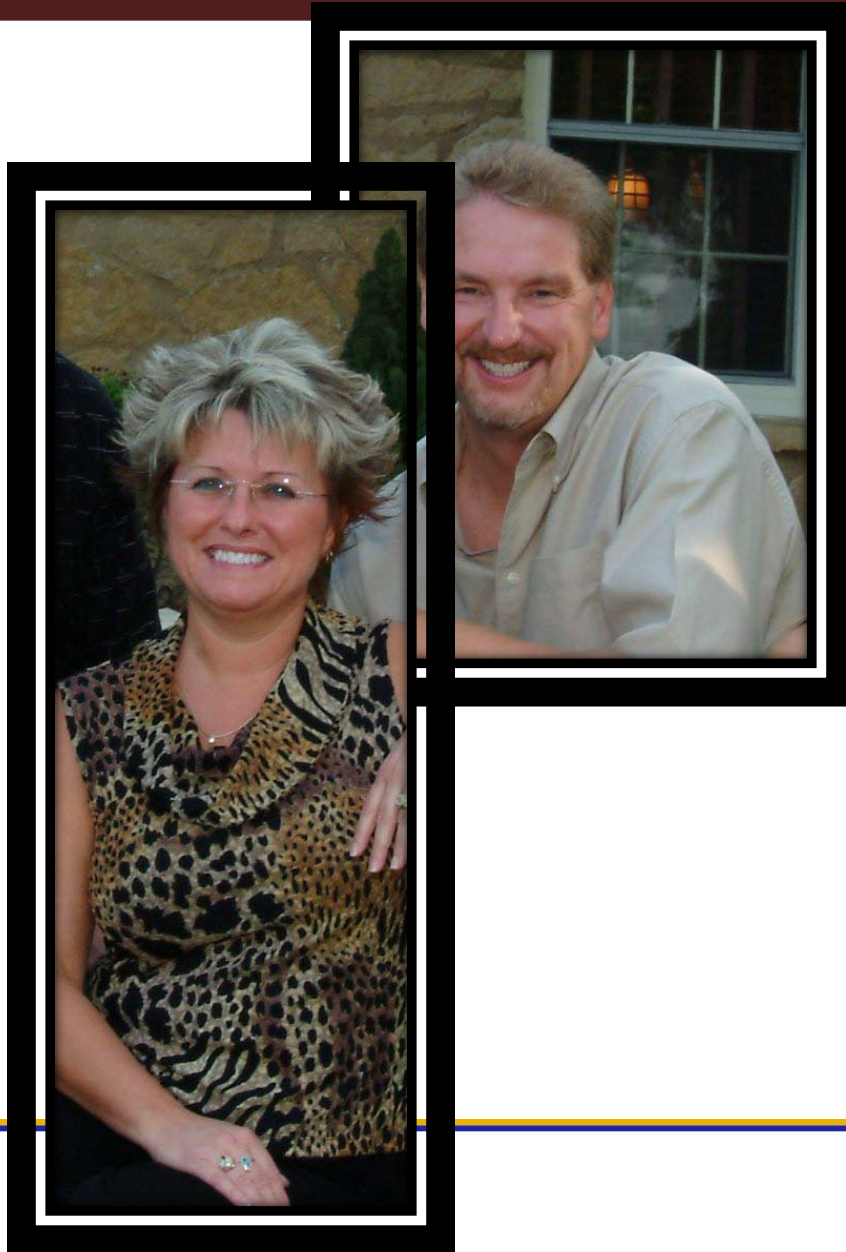
Maximizing all of three takes effort, and you will do things differently when trying to maximize the sum of these three than you would by maximizing any one of them.



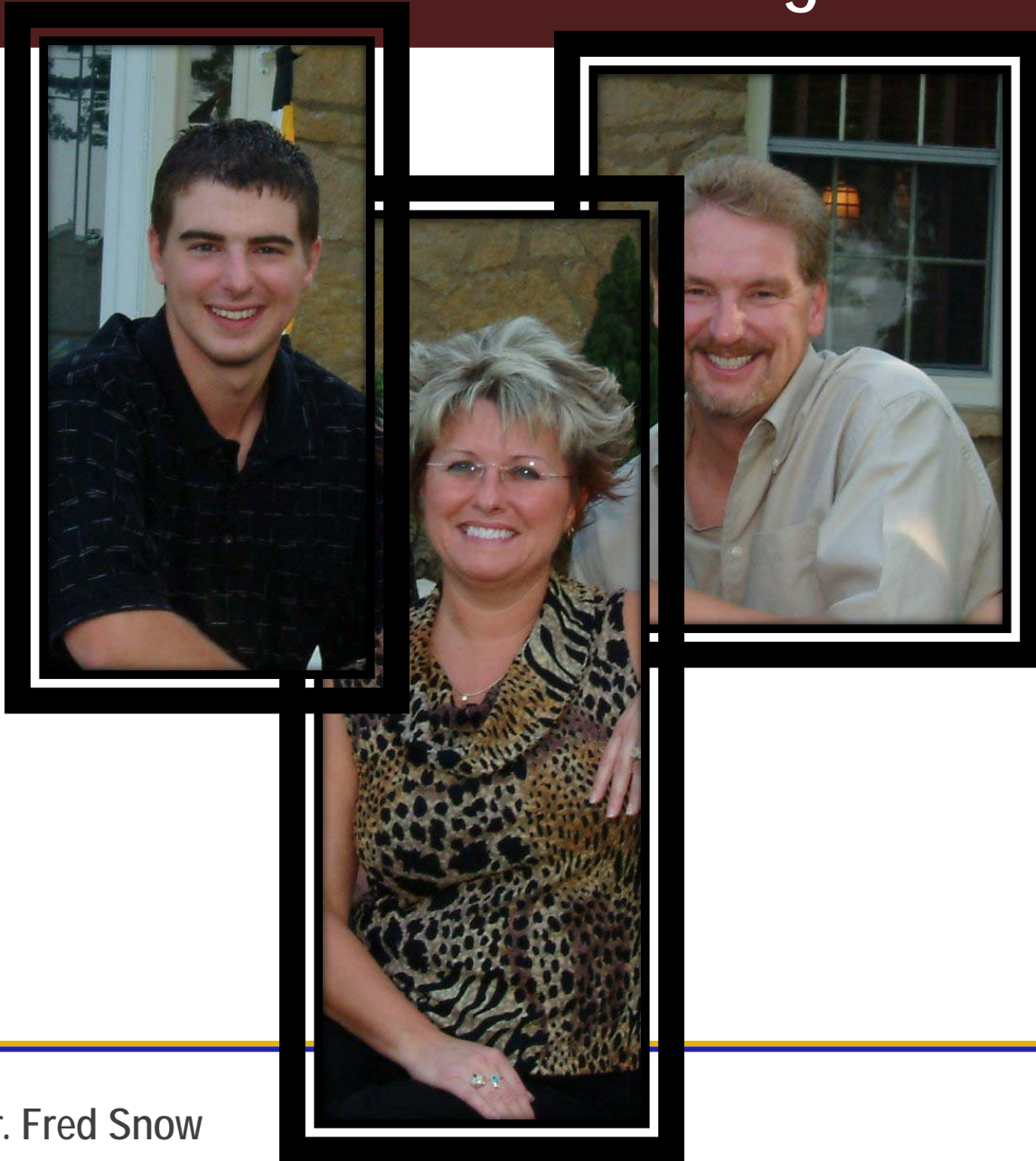
# Maximizing the View



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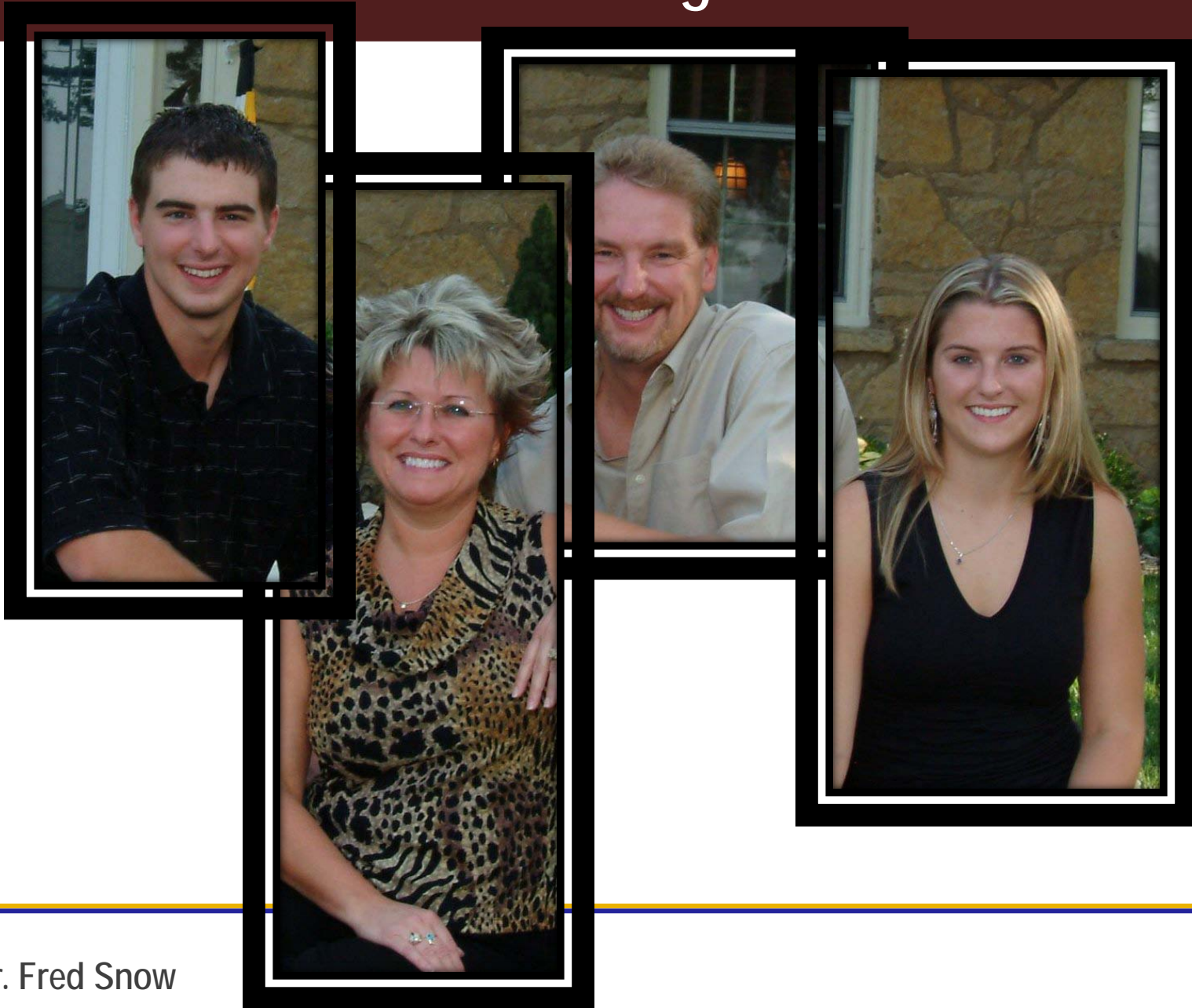


# Maximizing the View



Dr. Fred Snow

# Maximizing the View

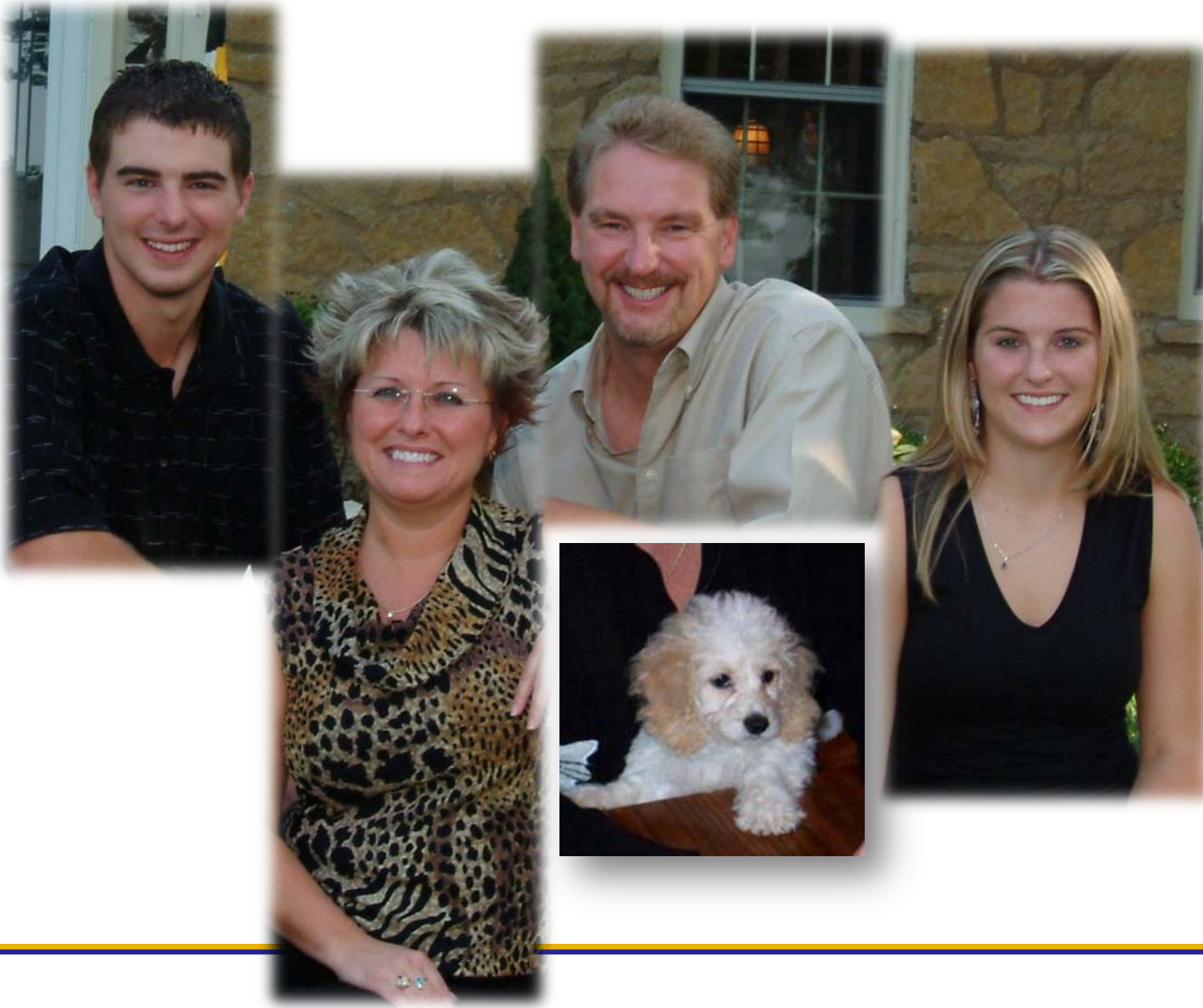


Dr. Fred Snow

# Maximizing the View



# Maximizing the View

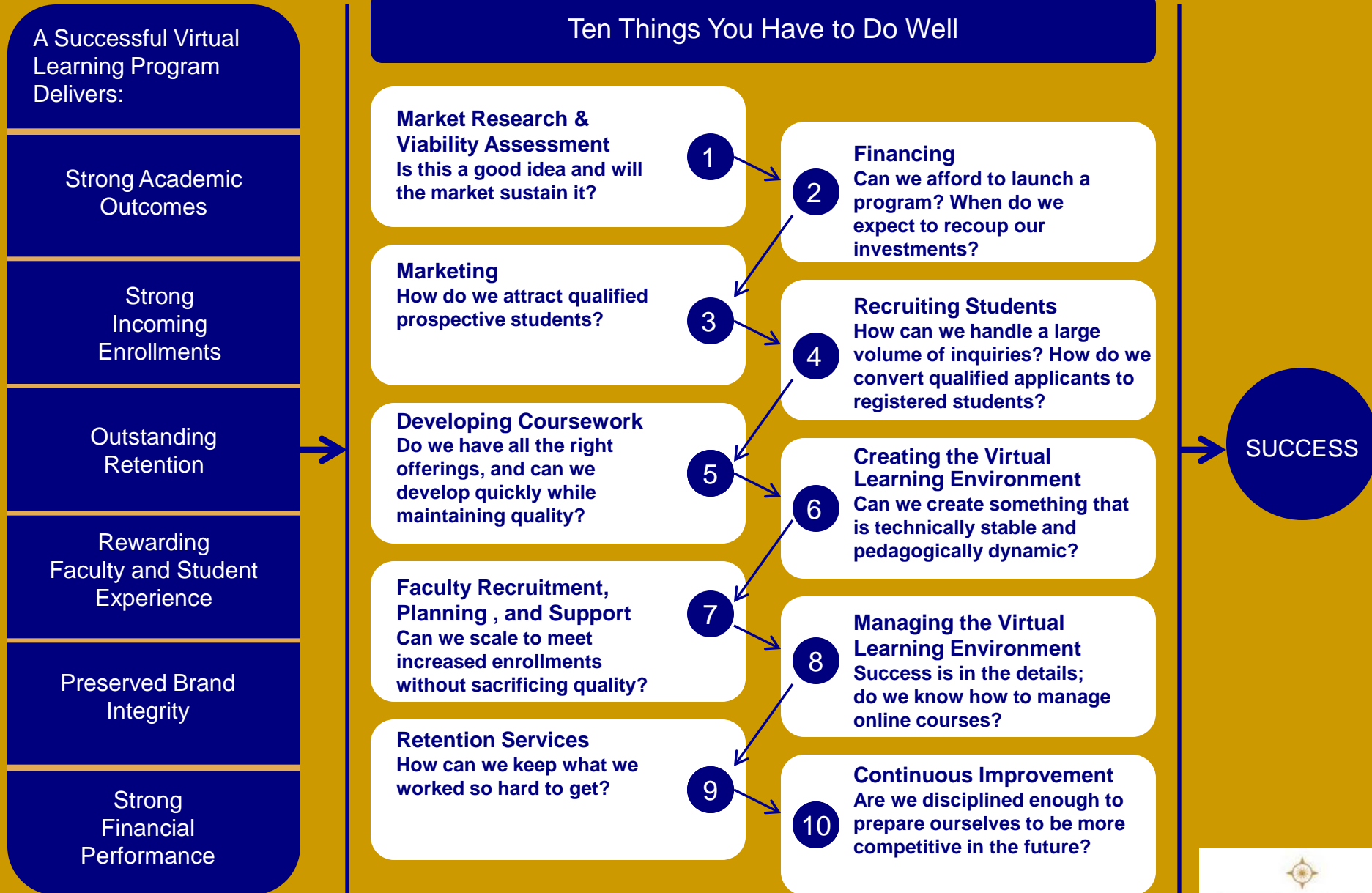


# Risk

- Financial - Upfront costs
- Brand - Failure in the marketplace
- Internal politics – not making enrollments in highly contested programs



# The Value Chain for creating successful online programs



Value Chain Function		Upfront Costs and Year 1 Working Capital	Steady-state Percentage of Revenues
1	Market Feasibility and Institutional Assessment	\$50,000 to \$125,000	0%
2	Financing	\$0	0-3%
3	Marketing	\$250,000 to \$400,000	25-35%
4	Recruitment	\$75,000 to \$150,000	15-20%
5	Course Development	\$0 to \$75,000	2-4%
6	Instructional Design	\$25,000 to \$75,000	3-6%
7	Faculty Recruitment, Training, Compensation	\$150,000 to \$250,000	15-20%
8	Managing the Online Environment	\$25,000 to \$50,000	2-4%
9	Retention	\$25,000 to \$50,000	3-5%
10	Continuous Improvement	<u>\$0</u>	<u>0-2%</u>
<b>Total Costs</b>		<b>\$600,000 to \$1,175,000</b>	<b>68-99%</b>

# Some typical financial performance scenarios

- There is no typical program.
- Tuition, credits, disciplines, level of education all differ considerably.
- But we see quite a few common outcomes that seem to center around the following scenarios.
- The scenarios below are revenue share relationships, typically with 50% of revenue going to marketing, recruiting, retention, and other services.



# Program Example 1

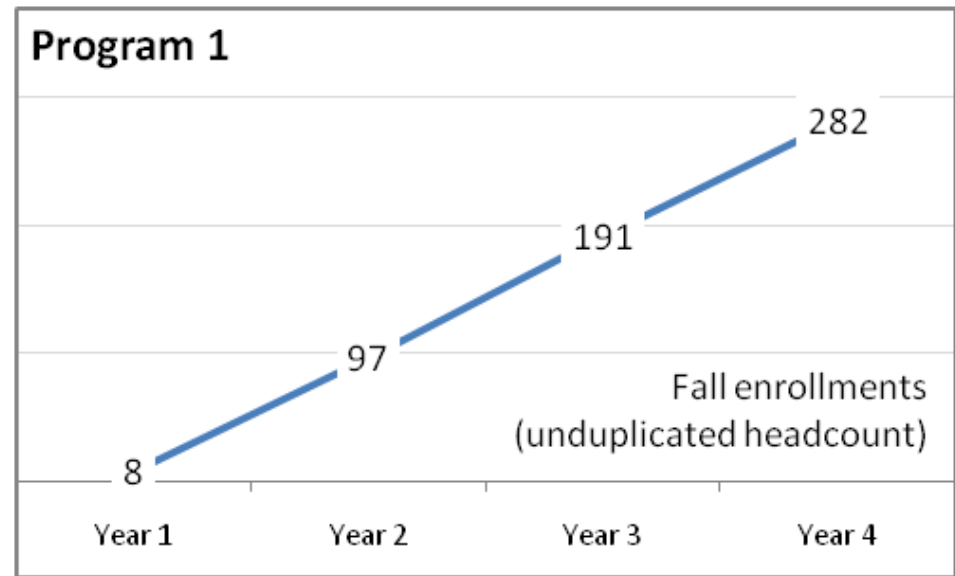
## Characteristics

- Master's program in a healthcare discipline
- 2 years to completion
- \$11k/year tuition per student

## Enrollments

- Enrollments still rising
- 95% term-over-term retention

**4-Year Revenue: \$8 MM**



# Program Example 2

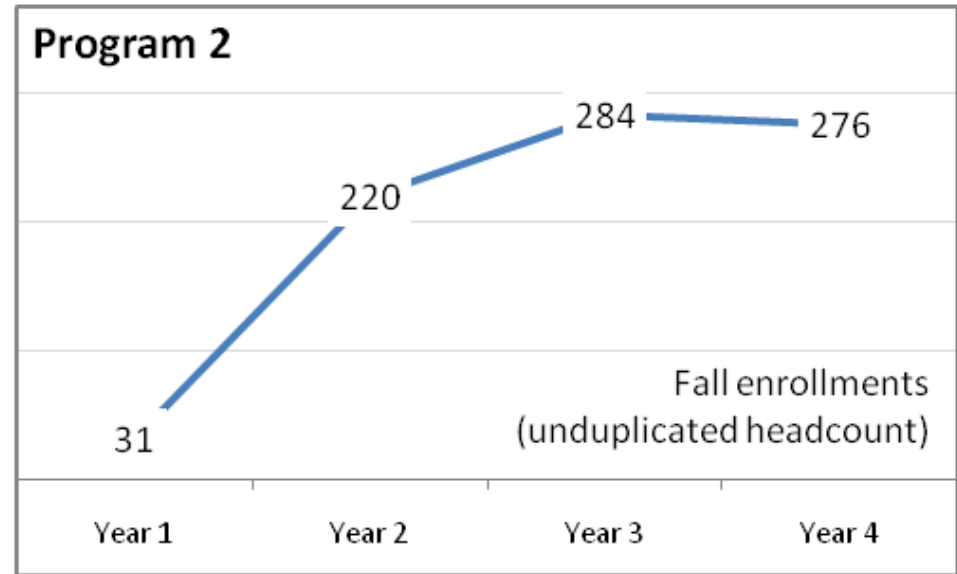
## Characteristics

- Master's program in an education discipline
- 16 months to completion
- \$14k/year tuition per student

## Enrollments

- Quick to mature
- 96% term-over-term retention

**4-Year Revenue: \$11 MM**



# Program Example 3

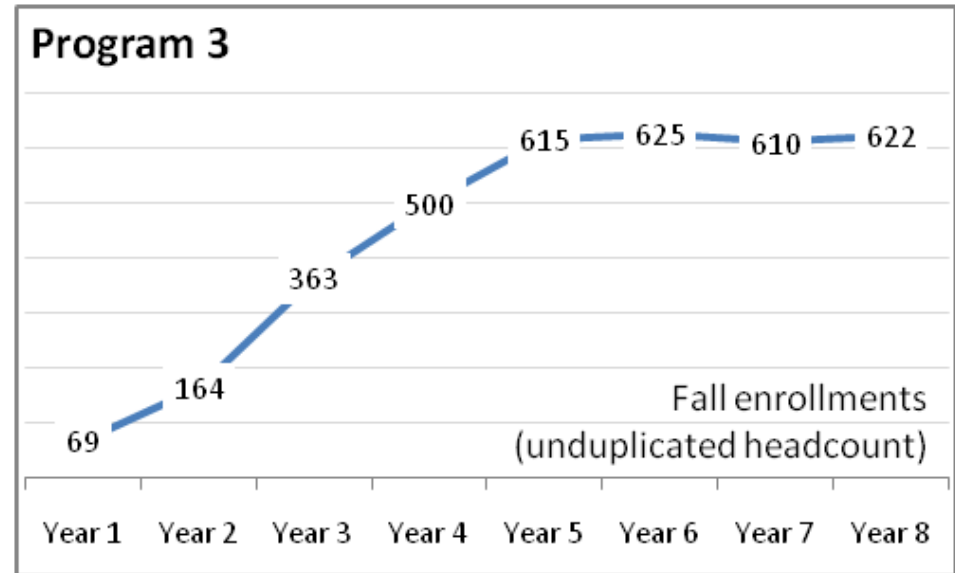
## Characteristics

- Bachelor's program in a healthcare discipline
- 32 months to completion
- \$6k/year tuition per student

## Enrollments

- Leader in market
- 95% term-over-term retention

**8-Year Revenue: \$19 MM**



# Expenses: capturing total cost of operation

## Direct Expenses

- Instruction
  - Course development (V)
  - Instructor salaries (F)
  - Adjunct fees (V)
  - Facilitators/TAs (V)
- Administration
  - Director, staff (F)
  - Phones, printing, postage (V)
- Marketing, outreach, inquiry management/follow-up (F/V)

## Indirect/Hidden Expenses

- Facilities overhead for staff (F)
- Add'l support resources
  - Admissions (F)
  - Financial aid (F)
  - Course design/multimedia (V)
- Utilization
- Dean's office
  - Flat fee (F)
  - % of revenue (V)
  - % of free cash flow (V)



# Sample Program

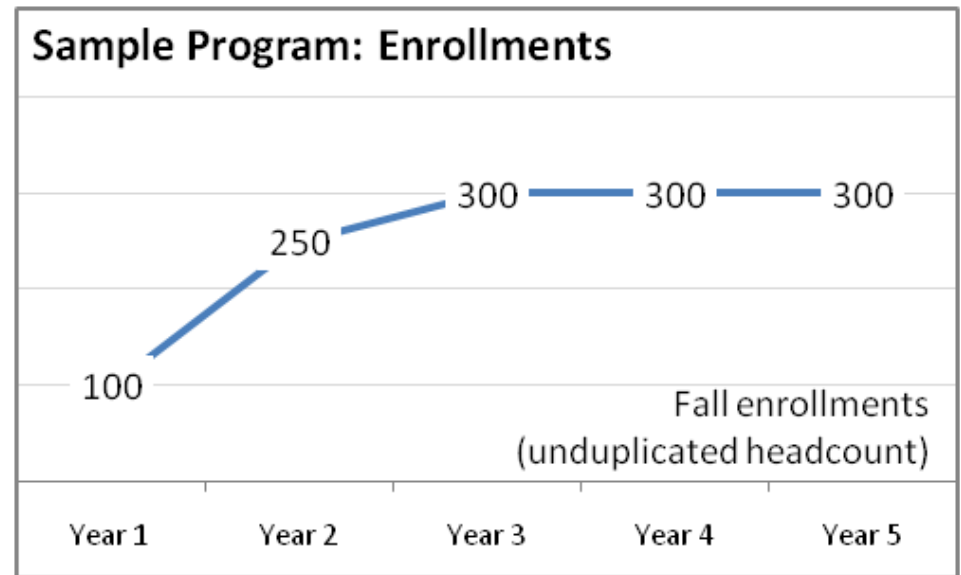
## Characteristics

- 2 years to completion
- \$10k/year tuition per student

## Enrollments

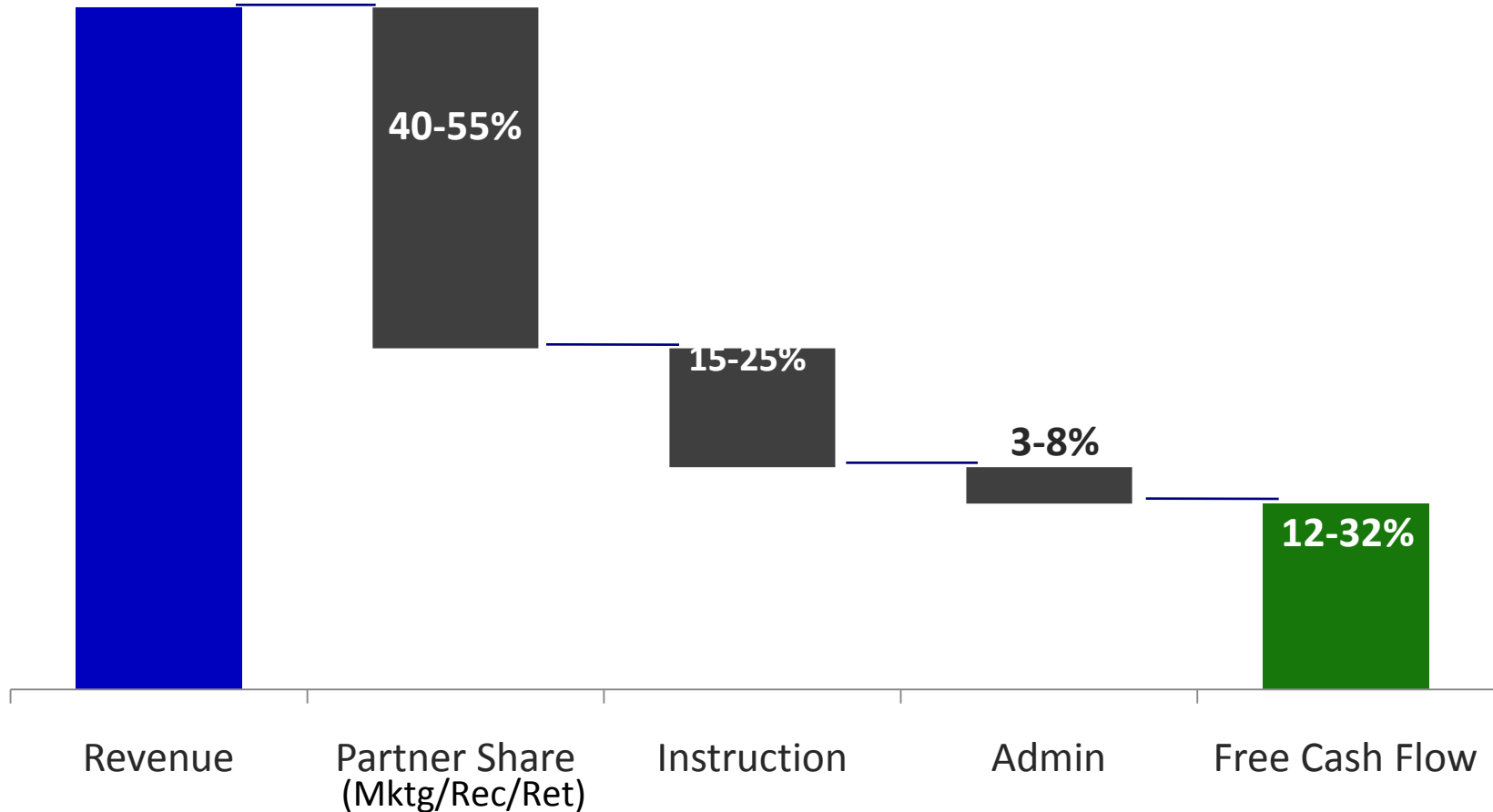
- 300+ enrollments by Y3
- 94%+ term-over-term retention

**5-Year Revenue: \$13 MM**



# Benchmarking program expenses

## Five-Year Revenues and Expenses

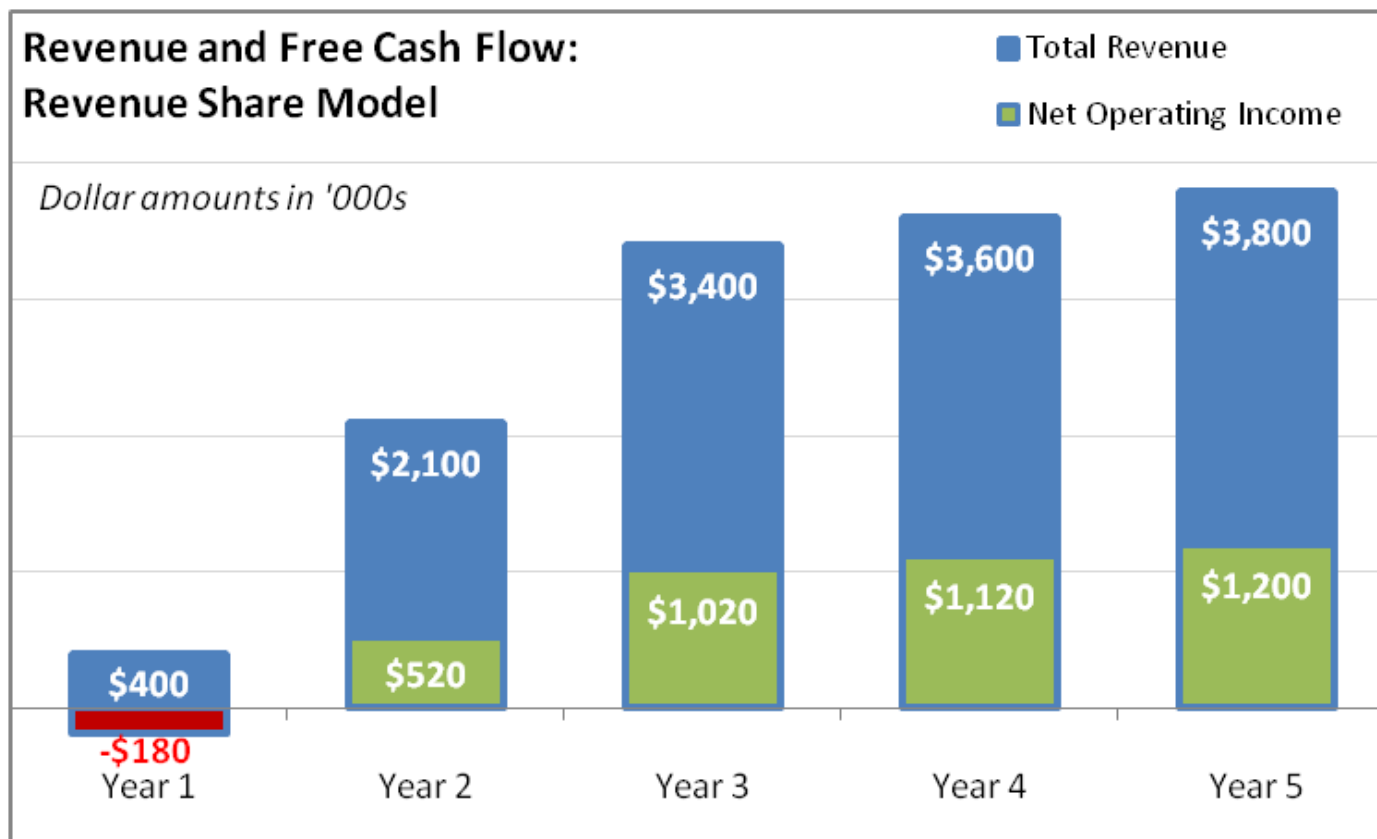


Well-structured and properly-managed programs generate significant cash flow margins



# Free Cash Flow: Five-Year Profit Outlook

- Five-year Revenue: \$10 - \$15 MM
- Free cash flow: \$3 - \$5 MM (12-32% of Revenue)



Properly-structured programs generate free cash flow in the second year

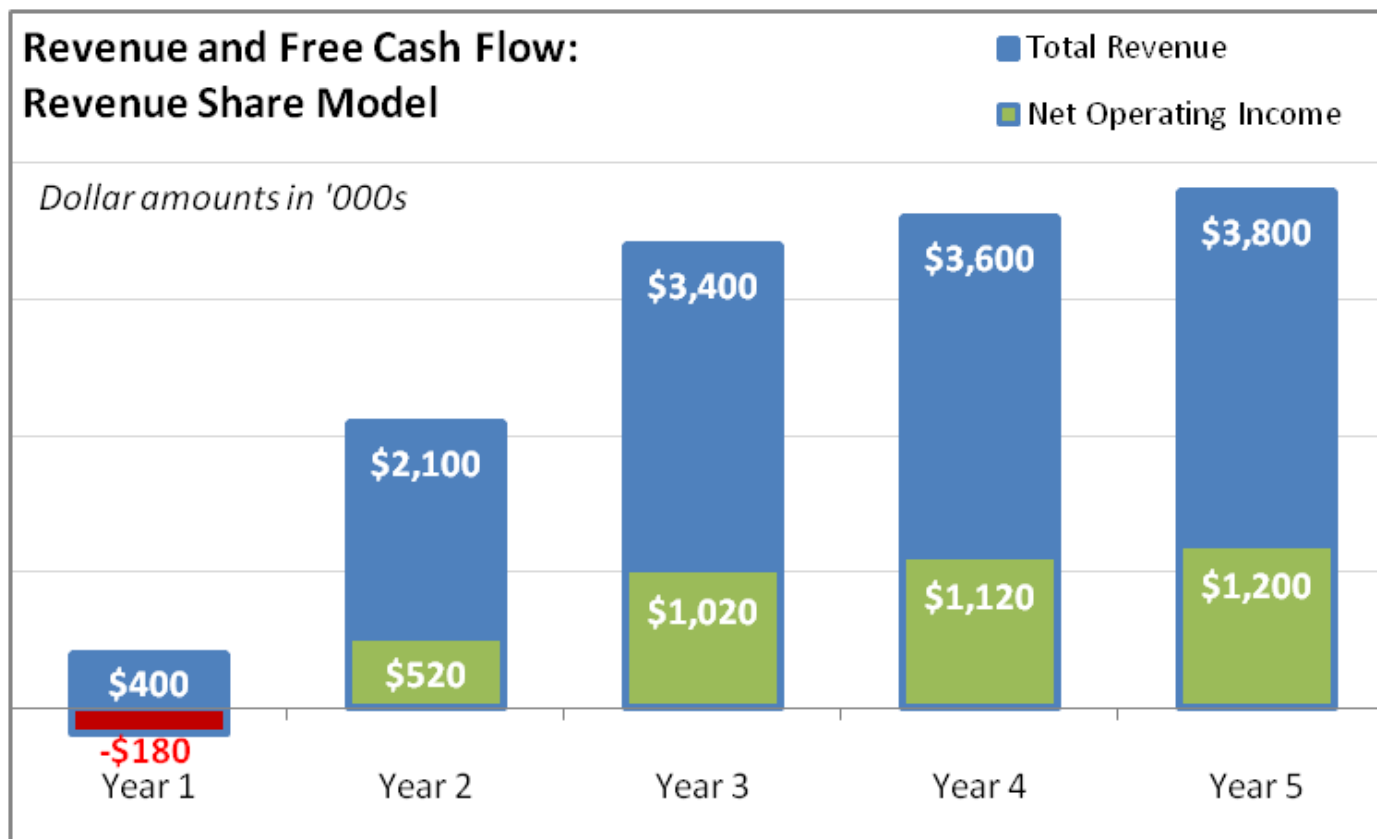
# Financial Performance

- **NOI:** 25% of each tuition revenue dollar
  - (*at the 50<sup>th</sup> percentile of tuition rates*). How efficiently you perform the functions in the value chain will determine how well you ultimately do.
  - Don't forget to count EVERYTHING – know your accounting system.
- **Net Present Value** – Between \$1million and \$3million
  - 15% discount rate
  - 5-year horizon
- **Breakeven** – (cash inflow and outflow) – Year 1, Quarter 4.
- **Maximum Investment** – Year 1, Quarter 3.
- **Investment Payback** – Year 2, Quarter 3.



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