

THE GREAT UNBUNDLING: RISKS AND OPPORTUNITIES

Burck Smith, CEO, StraighterLine, 5/27/11

Why Were Colleges Created?

Scarcity of
Labor and
Content



Centralization

Network effects attract more teachers and students

Necessary facilities require high fixed costs

“Credentialing” is difficult to separate from “delivery”

Higher Education in 2011

Abundance
of Labor and
Content



De-
Centralization

Pricing Continues To Assume High Fixed Costs

Credentialing Still Tied to Delivery

Antiquated Regulatory and Financial Policies

Course Delivery Is Really Cheap

Institution/Course	Cost Per Student	Non-Resident Tuition and Fees
Frostburg State University/Intro. Psych	\$25	\$1,688
University of Alabama/Intermediate Math	\$82	\$2,680
Average NCAT Institutions/Gen Ed Course	\$111	\$1,854
Typical Adjunct Taught (\$3K/30 student)	\$100	\$1,000 - \$2,000

The Iron Triangle

Subsidy

- State allocation
- Federal student grants/subsidized loans
- Favorable tax status

Accredited Colleges

- Only degrees can be accredited, not courses
- Accreditation measures inputs, not outcomes
- Colleges set own, subjective articulation policies

Competitive Barriers

- Colleges cannot easily be “disaggregated”
- Colleges must look similar to each other
- Coursework outside of institution can’t easily be counted as credible

Barriers are Eroding

- Internet enables dramatically more competition at the course level.
- Student debt load is becoming unsustainable.
- Tuition growth is more rapid than ever.
- Sources of student support are drying up
- Online courses are cheaper to deliver and more scalable.

Trends: Growth of dual enrollment, co-enrollment, AP, CLEP, StraighterLine, community college enrollment growth.

Current StraighterLine Courses

Developmental Writing	English Composition 1	English Composition II	Developmental Math	College Algebra
Pre-Calculus	Accounting 1	Accounting II	Macroeconomics	Microeconomics
Business Statistics	Calculus	Chemistry	Biology	Business Comm.
A&P I	A&P II	Calculus II	Managerial Accounting	General Psychology
		Medical Terminology		



High Quality Courses

- Courses by McGraw Hill

Total Flexibility

- Start/Stop Whenever
- No Set Due Dates

Individualized Support

- On-demand educational support
- Personal Course Advisor

Affordability

- Cost for students: \$99 /month + \$39 /course
- Lower starting risk.

Real College Credit

- Credit by Regionally Accredited Partner
- ACE Approved

**How does
StraighterLine Help
STUDENTS?**

straighterlineSM



More Students

- After StraighterLine, a student will need to complete the majority of his or her degree.

More Valuable Students

- These students are very likely to persist.
- They will likely be out-of-state and using distance education delivery.

Referral Destination

- A place to refer students that they can't serve.
- Revenue stream

How does
StraighterLine Help
PARTNER Colleges?

straighterlineSM

Credit Delivery

- Partner College Network — students receive college credit for successfully completing a StraighterLine course when they enroll at a partner institution (all in US have regional accreditation).

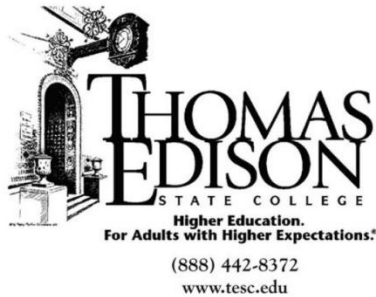
StraighterLine Partner College Network

	4-yr	2-yr	
Public	7	2	9
Private, not for profit	6	0	6
Proprietary	7	0	7
	20	2	22

- ACE — StraighterLine's courses have been reviewed and recommended for credit by the American Council on Education's (ACE) College Credit Recommendation Service.



PR Newswire Commercial Photo



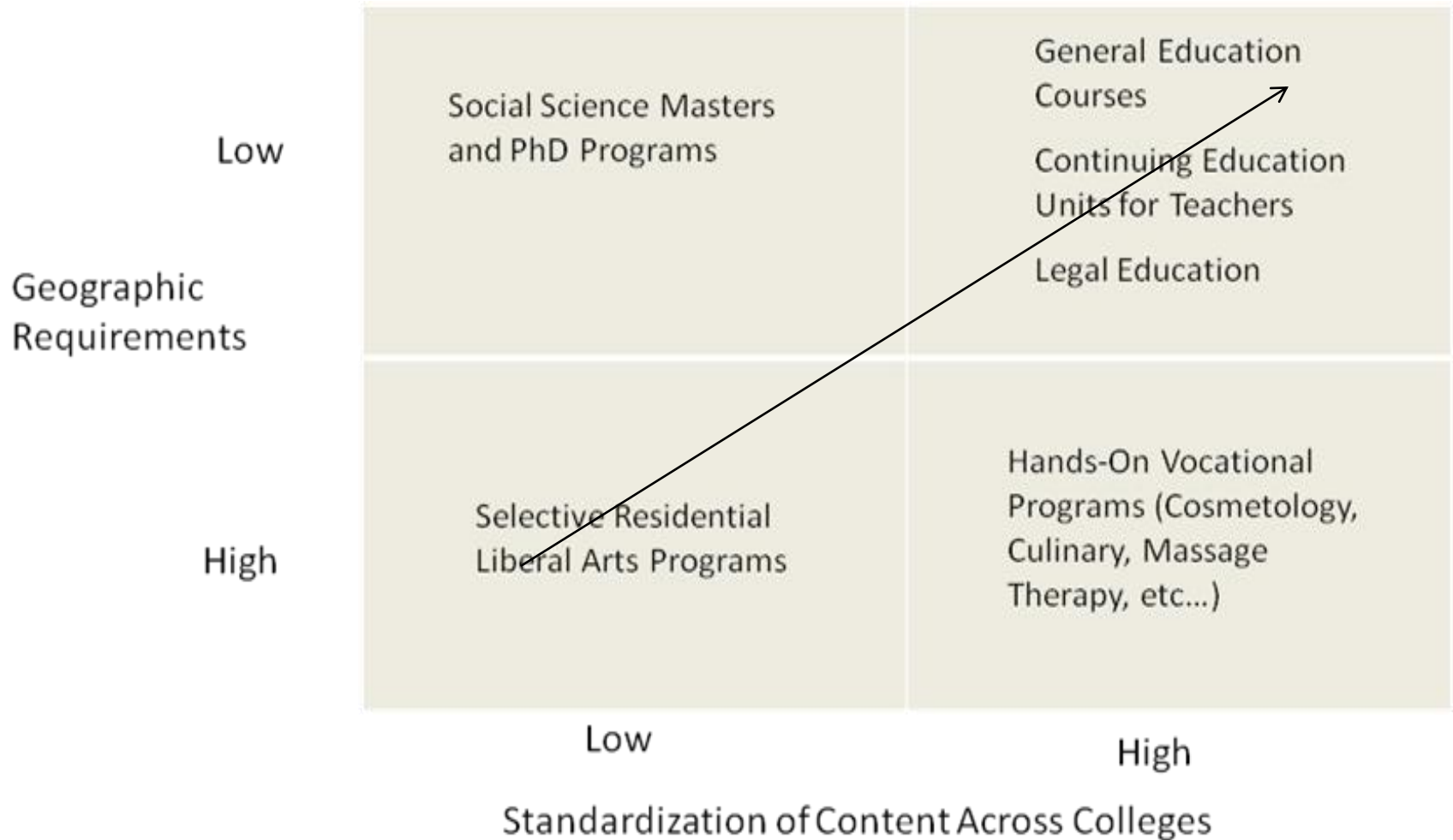
Potomac College



CAPELLA UNIVERSITY THOMPSON RIVERS UNIVERSITY



Susceptible Segments



What does this mean for colleges?

- Erosion of most-profitable courses
- Need to re-think pricing models
- Need to re-think business models
- New marketing and student recruitment opportunities
- Controversy around new partnerships

What are international opportunities?

- Destination

- Any college can compete on price in the international market.

- Market

- A school could attract any student in any country based on price competition.

Predictions

- Selective, high-priced colleges will be unaffected.
- Non-selective colleges will loosen transfer restrictions.
- Course prices will be variable and will reflect the cost to deliver the course. Subscriptions may become more common than flat tuition.
- Residential will cost a lot more than online courses.
- Highly efficient specialty course providers will emerge.
- College marketing strategies will begin to resemble retail marketing strategies.
- The rising cost of college will become a non-issue.

More Reading...



Public Policy Barriers to Post-Secondary Cost Control – Book chapter in Accountability in Higher Education published by Palgrave Macmillan. January, 2011.

Price Competition and Course-Level Choice in K-12 Education: Lessons from Higher Ed – Book chapter in Customized Schooling published by Harvard Educational Press, January, 2011.

College by Subscription -- AEI, September, 2009.

Disrupting College, Lessons from iTunes – Pope Center for Public Policy, April 2011.

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