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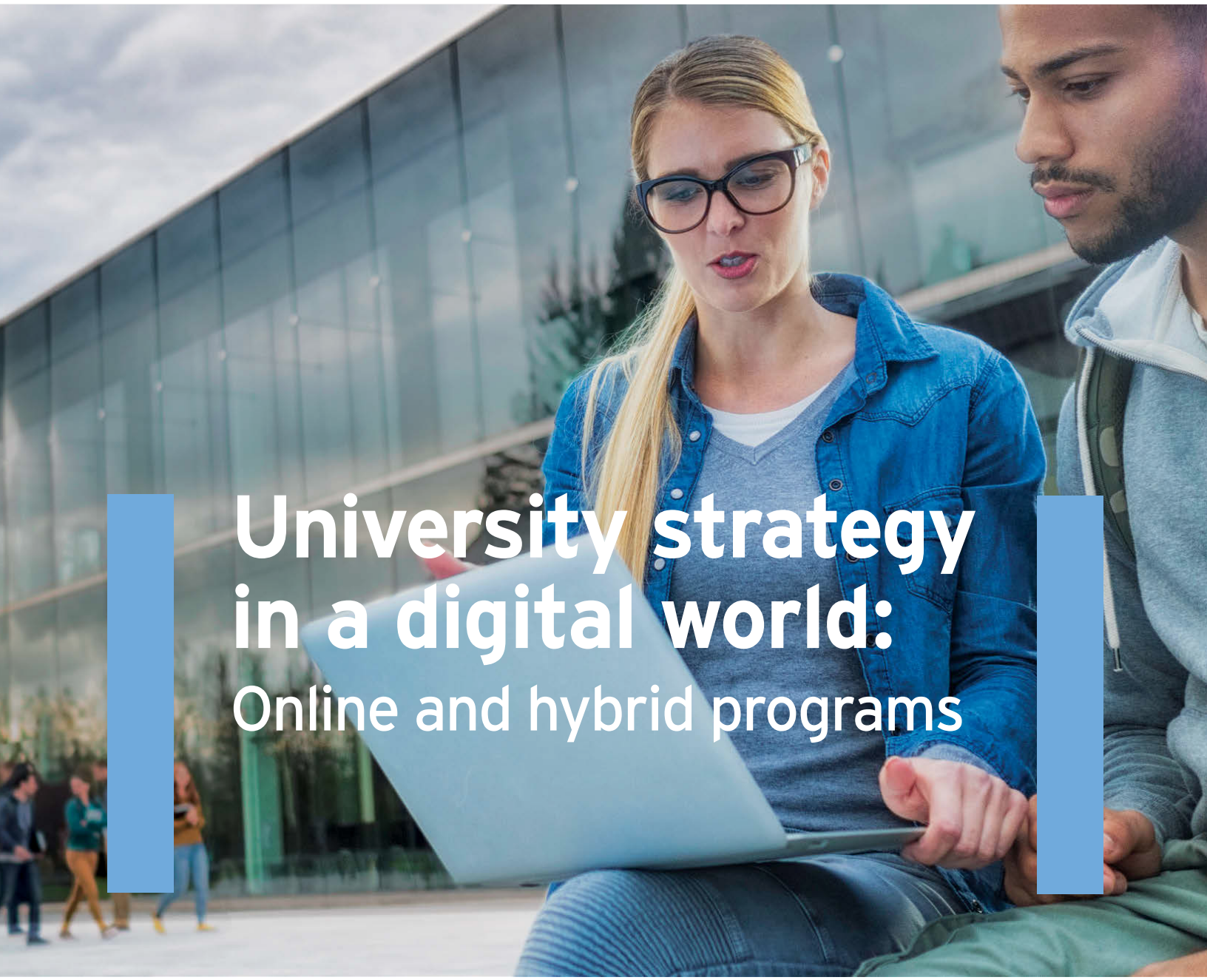


University strategy in a digital world:

Online and hybrid programs

EY

Parthenon-EY Education practice

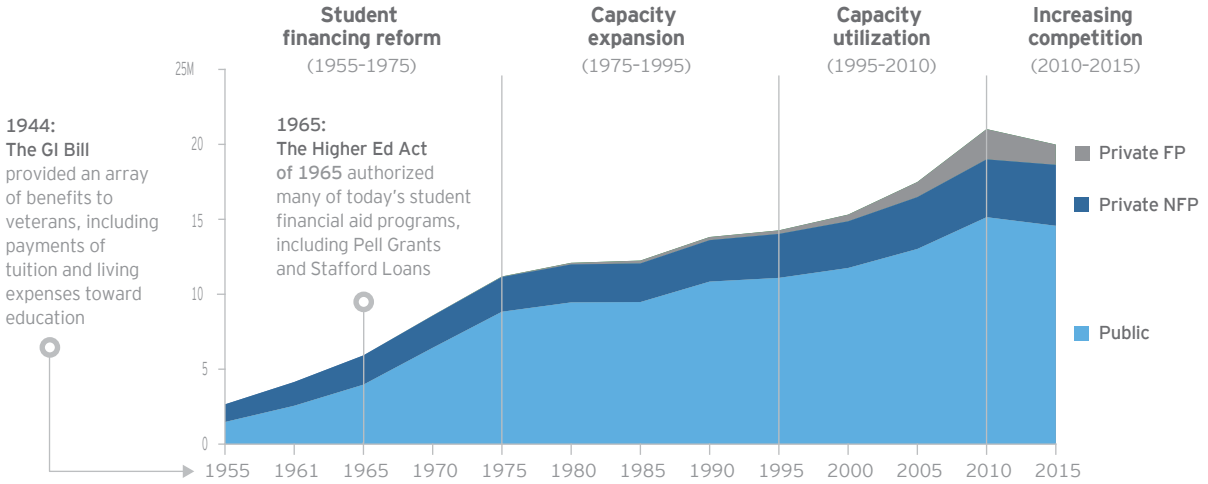
Online is the new "table stakes" for colleges and universities

In the past, online learning was associated with for-profit education and viewed, by many, as a substandard modality. In the last decade, however, many public and private not-for-profit institutions have entered the online space, some very aggressively. As such, the landscape for online offerings today is much different than in the early 2000s. Once seen as an offensive move, a strategy to increase enrollment and grow share, **moving into the online space is increasingly becoming a defensive move**, to maintain share in a market where students, especially at the graduate level, are increasingly switching from onsite to online or hybrid options.

Higher education in a new era: increasing competition

Prior to 2010, higher education institutions lived in a world where year-on-year enrollment growth was the norm, as illustrated in Figure 1 below, and therefore an expectation. As a counter-cyclical sector, higher education actually saw its enrollment growth rates spike during periods of recession: 1969-70, 1973-75, 1980, 1990-91, 2001 and most recently 2007-09 (the Great Recession). Since 2010, enrollments have been flat or shrinking, reflecting underlying demographic trends.

Figure 1: US Postsecondary Enrollment by Institution Type, 1955–2015

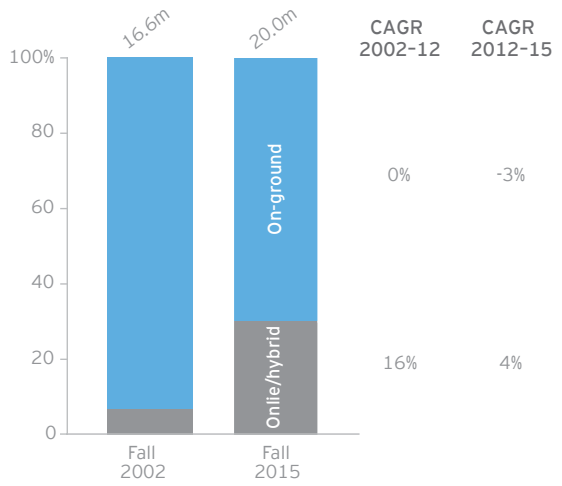


Source: NCES/IPEDS. Total fall enrollment in degree-granting postsecondary institutions table in NCES Digest of Education Statistics.

Online/hybrid: a bright spot in a flat market for higher education

In a world where on-campus enrollments are flat or shrinking, online[1] enrollment growth has been a distinct bright spot. From 2002 to 2015, enrollment in online and hybrid (blended onsite/online) programs absorbed nearly 30% of total US enrollment, approximately 6.0 million students.

Figure 2: enrollment growth in millions by modality, 2002-2015



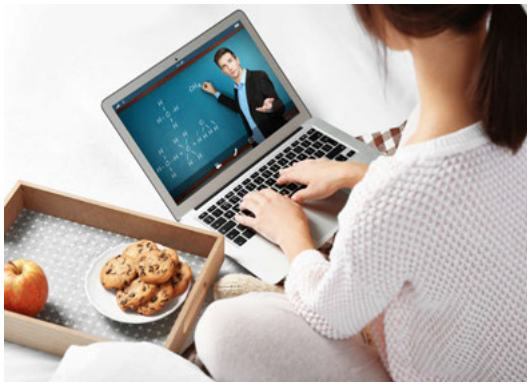
Source: Babson Survey Research Group Online Learning Survey 2014; IPEDS; Parthenon-EY analysis. Online is counted as students who are enrolled in at least one distance learning class.

Students across the spectrum have been voting for online and hybrid with their feet

In the past, online learning was seen as something students would pursue only when a traditional class setting was not an option. Today, it is increasingly viewed as a worthy, and perhaps equal, alternative to traditional education. Students are embracing online alternatives that meet their needs for convenience, flexibility and personalization better than classroom-based learning. They have been making their preferences known by "voting with their feet" and enrolling in online and hybrid programs in growing numbers.

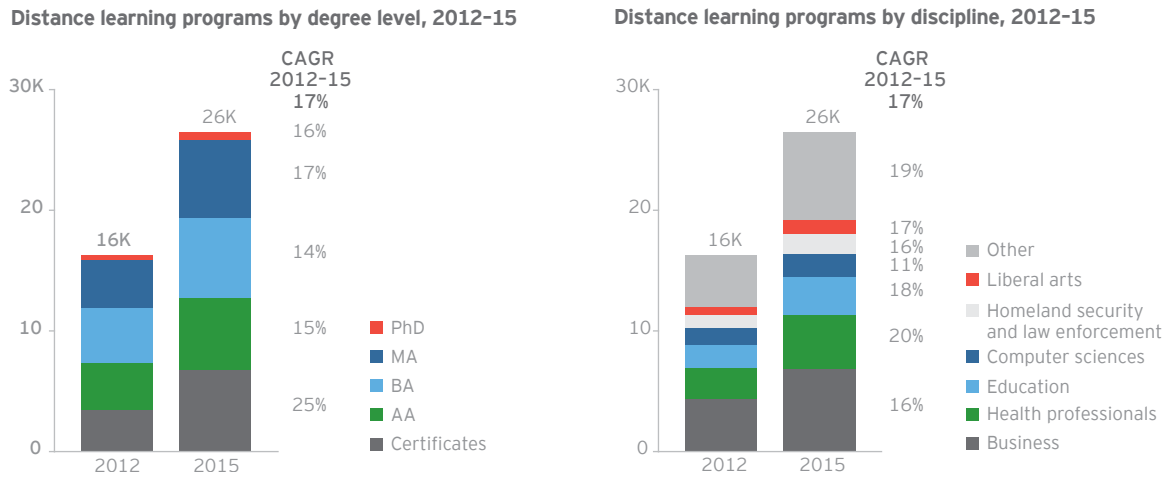
Popularity of online and hybrid reflects changing student demographics

Institutions have responded to student needs and preferences by rapidly shifting their programs online. From 2012 to 2015, the number of online programs in the US grew at an annual rate of 17%, far outpacing online enrollment growth, which grew just 3.6% annually during that same period. Of the roughly 10,000 programs that have come online during this three-year stretch, business, health care and education have been the greatest focus areas. This trend is particularly strong at the certificate, bachelor's degree completion and graduate levels, where student profiles are substantially different than the traditional college student population (age 18-22). "Non-traditional" students enrolling in these programs tend to be older, more likely to be working part or full time and more likely to be married and have children. These students place a high value on the additional flexibility and convenience that online and hybrid programs can afford.



[1] Throughout the paper, when we refer to "online," we are referring to the Integrated Postsecondary Education System (IPEDS) field for students enrolled exclusively in "distance education courses." "Hybrid" refers to the IPEDS field for students enrolled in some but not all distance education courses. When we refer to online programs, we are using the IPEDS field for distance education programs, which are programs for which all the required coursework for program completion is able to be completed via distance education courses.

Figure 3: growth in online/hybrid education programs by level and discipline, 2012–2015

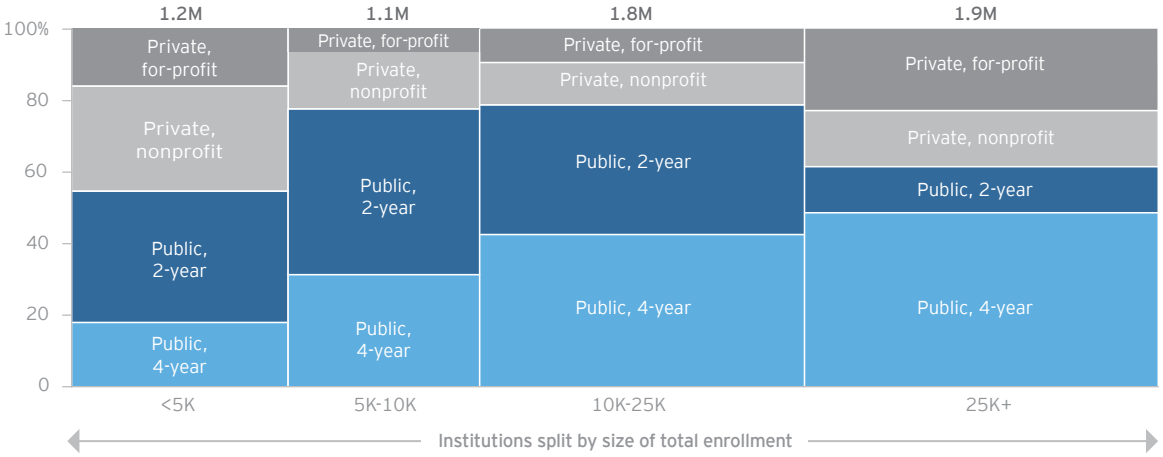


Source: IPEDS

Online and hybrid: an everybody's game

For-profit institutions or purely online institutions no longer dominate this market. As the student population becomes less "traditional" and increasingly diverse across all university and college types, but especially in public institutions, higher education institutions that have been pursuing a traditional classroom-based model are now expanding not only the number of programmatic offerings delivered in an online setting but also the number of exclusively online degree programs available to students. **The range of institutions investing in online programs to recapture elusive enrollment growth now spans the gamut in terms of institutional type, size and reputation.**

Figure 4: online enrollment by type of institution, 2015



Source: IPEDS

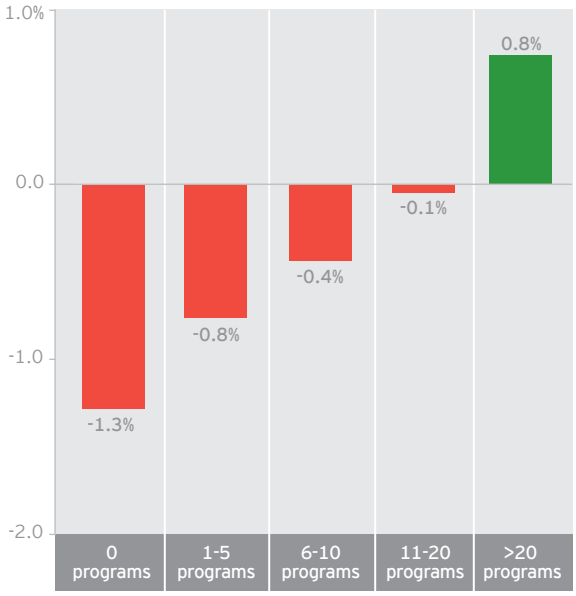
The more traditional higher education institutions are starting to recapture enrollment growth previously ceded to for-profits and online-only schools. From 2012-2015, nonprofit institutions' online enrollments grew 40.0%,[2] and public institutions' enrollments grew steadily at 13.4%.[3] Simultaneously, for-profit-sector online enrollment decreased 18.0% annually,[4] and enrollments as a whole were down 1%.

The inevitable shift to incorporating online and hybrid

Those nonprofit institutions that have embraced change and shifted to having more than 20 online and hybrid programs have captured overall enrollment gains as the for-profit institutions lose share. Conversely, nonprofit institutions with less of a commitment to online and hybrid programs have lost students, and are likely to continue to do so if they persist with this strategy. (See Figure 5.)

While claims that online learning will eventually replace traditional face-to-face learning or on-campus learning may be exaggerated, **it is entirely possible that few exclusively on-campus institutions will remain in the future higher education landscape.**

Figure 5: growth of nonprofit institutional enrollment (2011-2015)



Source: IPEDS

[2, 3, 4] Elaine Allen, PhD and Jeff Seaman, PhD, *Digital Learning Compass: Distance Education Enrollment Report 2017*, http://digitallearningcompass.org/, Babson Survey Research Group, e-Literate and WCET, 2017.

So what now?

The shift to online and hybrid has been remarkable, but that relative growth is slowing. While online enrollment growth was 18% year-over-year from 2002-2010, it was just 5% from 2010-2015. Given this relative slowdown in growth, institutions need to act now, if they haven't already, to embrace online and hybrid programs if they are going to compete successfully for students going forward.

Winning in the increasingly competitive online and hybrid market

Now that a large number of institutions across the spectrum have undertaken the shift to online, competing effectively in this space will be more challenging for those institutions that have thus far delayed their decision to venture into online programming. It is not enough to simply offer online education. Institutions must also differentiate their offerings to make them attractive to students. Today's students are digital natives who demand high-quality user interfaces with easy-to-use features. They are also attracted to online and hybrid offerings because of the flexibility and convenience that they promise to provide, and winning online offerings take that into account in their program design.

Below, we've outlined three major considerations for colleges and universities as they embark on the implementation of online programming to ensure that their offerings are differentiated from their peers:

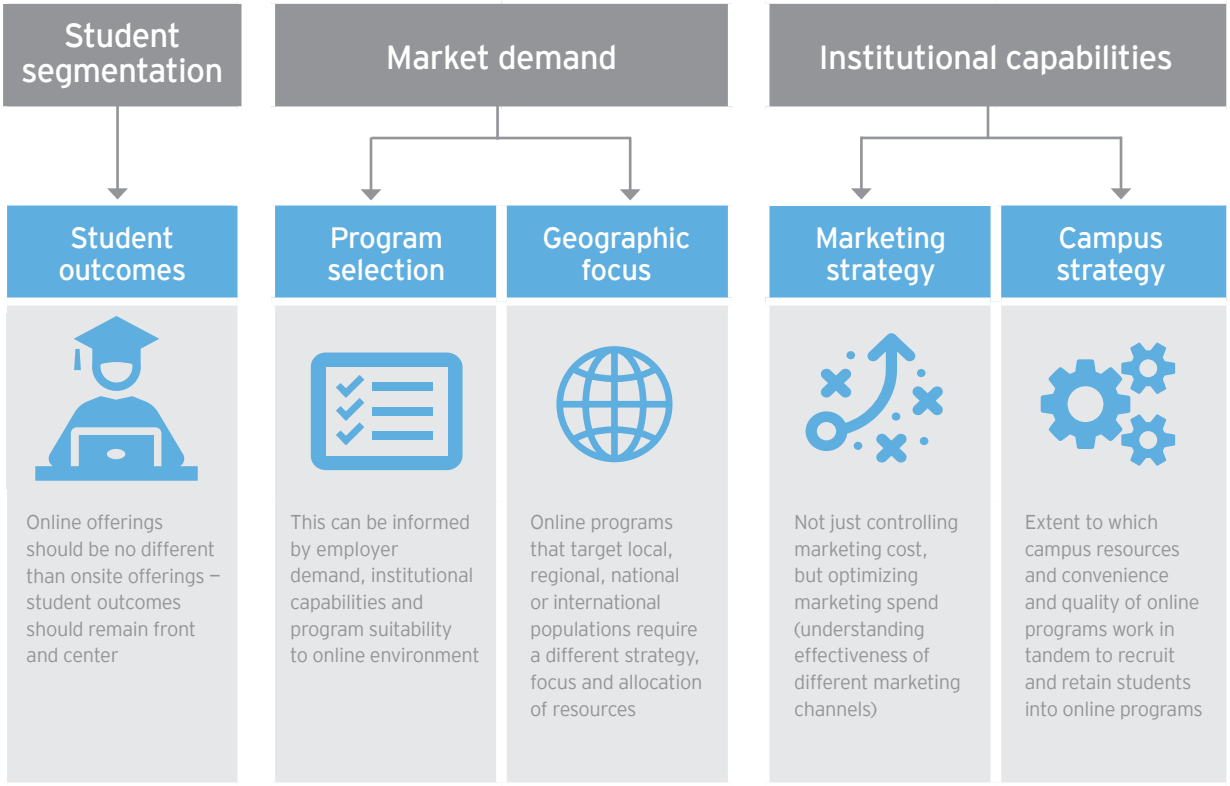
The three major considerations

- Five key components of an online growth strategy
- Three institutional characteristics to cultivate
- Building in-house or through a partner

Five key components of an online growth strategy

As institutions examine how best to enter the online space or improve their online offerings, they will need to have a steady focus on deeply understanding the student segments they intend to serve, the market demand for the programs they intend to offer, and the capabilities, within the institution or provided by partners, that are needed to both deliver and scale offerings effectively. As illustrated in Figure 6 below, there are five key components of the online growth strategy for institutions to design when embarking on an effort to either launch or improve their online offerings.

Figure 6: components of an online growth strategy



Student outcomes

Ultimately, institutions of higher education are responsible for educating and graduating students and preparing them for success post-graduation. In that sense, **online offerings should be no different than onsite offerings – student outcomes should remain front and center**. Not every student succeeds in an online setting, as a recent study from the Brookings Institute underscores.[5] Students who are the least prepared often find online courses particularly challenging. Given the growing diversity of the student body, institutions are bound to have an academically and demographically diverse student population enroll in their online programs. Therefore, they need to be cognizant of the additional, differentiated support many students will likely need to succeed in an online setting. Students who have a positive experience (are successful in their coursework, graduate in a timely manner and establish personal connections with the institution) are much more likely to advocate for the institution they attend and act as a free "marketing engine" with high conversion rates. Even more important, students who graduate with a degree and a job from a predominantly online program legitimize that program. Nothing speaks louder than a graduate with a job.

Program selection

Institutions must carefully consider which programs to bring to market. Some criteria that institutions can use to evaluate program fit include:

- Does the institution have strong existing capabilities in this area and a reputation in the market on which it can build?
- Does the program have strong job prospects?
- Does the program lend itself to a positive online experience?
- Can the program be delivered without a cost-prohibitive on-campus component?

The program strategy should also be clear: is the institution looking to offer an online version of an existing campus-based program? Or does it want to introduce an entirely new program to a new market? These two approaches have distinct strategies dependent upon where the institution stands in the program development cycle and how adjacent the program is to the institution's perceived core strengths.

Geographic focus

A robust geographic analysis is important even in an online expansion which – in theory – transcends traditional geographic boundaries like city, county, state or even national borders. An online program that targets a local or regional student population requires a different strategy, focus and allocation of resources than an online program that aims to recruit a national or even international population. In either scenario, the program analysis and strategy need to incorporate both the competitive landscape and the labor market in the area that the programs will serve. Geographic analysis is particularly pertinent for hybrid programs. It needs to be clear to institutions, but more importantly to prospective students, how they will practically complete the in-person component of their program.

[5] https://www.brookings.edu/research/promises-and-pitfalls-of-online-education/

Marketing strategy

Tracking effectiveness of different recruitment and marketing channels, the cost per lead by channel, or application enrollment trends should all be part of routine marketing tactics. While the tracking of metrics helps benchmark costs and measure effectiveness, it ***does not attract students***. Successful institutions not only effectively control their marketing costs but also deeply understand how each type of marketing aligns with overall goals, and why the specific communication medium used (e.g., TV, radio, internet, social media) is the right choice for the targeted region. This in turn requires sophisticated marketing teams and customer relationship management (CRM) systems that track individual student data and have the ability to assess effectiveness and return on investment at the channel level.

Campus strategy

Students tend to have an emotional attachment to a campus. Even if they choose not to enroll in an onsite program, the knowledge that the campus exists and provides a wide range of services creates for students a sense of security and belonging. It conveys that the institution has roots and is here to stay. While many students might prefer to do their schoolwork remotely and in an asynchronous fashion (e.g., after work hours for those who are working part or full time), they still appreciate the idea of a physical campus where they can interact with students and professors and use facilities and resources to which on-campus students have access (e.g., advising, financial aid, gym, dining options, entertainment). Providing these services conveniently and effectively to a "24-7" population of students is a challenge that cannot be overlooked by historically "9-5" campuses.

Three institutional characteristics to cultivate

Figure 7: the characteristics of institutions with successful online programs

Even the best strategy will fail if the institution isn't ready, willing and able to handle the online expansion. Institutions that have been successful in growing their online education presence tend to demonstrate three characteristics:

Leadership-backed

Widespread acceptance and backing of an online strategy from university

Student-centric

Ensuring that the online/hybrid program is as responsive to student needs and as engaging as possible (e.g., number of starts per year, course duration options, fast professor response time, intentional focus on engagement)

Strong infrastructure

Robust technology infrastructure that supports the scale of online services

Build strong university leadership support:

All successful online programs have strong leadership buy-in, support and focus for the effort. This can come through university leaders and administrators who are willing to rethink how things are traditionally "done" or through targeted hiring of leaders with relevant experience outside of higher education. While university leadership is a critical component of success, building faculty support and enthusiasm is just as important. Faculty will have to reevaluate and potentially modify their teaching practices to fit the online delivery model. This is a common source of tension. To overcome these challenges and take advantage of potential opportunities, institutions need to:

- Build a business case for online, rooted in facts, that incorporates external market trends and showcases the institution's strengths and capabilities in the context of the overall market
- Highlight the benefits to students (e.g., convenience, personalization of learning, potentially deeper engagement, better ability to track student performance and offer targeted supports thanks to connecting different parts of the technology ecosystem)
- Highlight the benefits to faculty (e.g., experimenting with new methods of pedagogy)
- Provide appropriate incentives for faculty to participate (e.g., resources and training to enable faculty to teach online effectively, financial incentives)

For online endeavors to be successful – to reach scale and have successful student outcomes – university administration and faculty need to work hand-in-hand and embrace the need for change.

Ensure that a student-centric approach is at the core of all efforts:

Student demands have grown and become more nuanced as online education has become more readily accepted. Online programs have long been synonymous with two key things – convenience and responsiveness. Both are elements of experience that traditional institutions have not been particularly good at delivering. Online students now demand courses with multiple starts during the year, as well as atypical durations and meeting frequencies. They might "stop out" for one or more periods throughout the year, whatever most conveniently suits their schedule. This stands in stark contrast to traditional students, who generally progress steadily through their degree according to a traditional semester-based calendar. Online students are also growing accustomed to rapid responses from faculty and staff; they expect a response to emails and inquiries within 24 hours at most. These changing expectations have placed greater demands upon both faculty and staff and have pushed institutions toward a more customer service-oriented model.

As students demand more of their experience, they often desire a way to interact with the online community that goes beyond posting on a discussion board. Creating this community atmosphere while still offering the flexibility of an online degree is another place where institutions can offer a differentiated student experience.

Invest in a robust technology infrastructure:

Effectively meeting student needs through online or hybrid programming requires a number of technology changes not only in the course pedagogy itself but in all of the support surrounding it. The technology to support the online student experience can be the most costly aspect of online delivery. Traditional higher education core technology systems (e.g., student information, CRM, legacy ERP and learning management systems (LMS)) do not always effectively interact with one another or cater to the needs and non-traditional timelines of online students. Converting traditional on-campus coursework into an online modality can also be challenging, as pedagogy that works in the classroom is not always suited to online. Ensuring that the development of an institution's technology matches the scale of its online enrollment (and recognizing the investment needed) is crucial.

Building in-house or through a partner

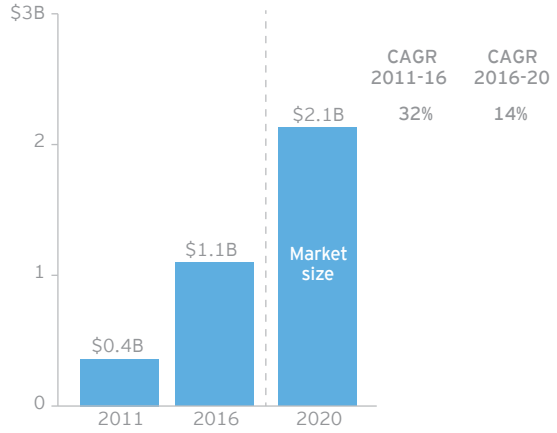
As institutions examine how best to enter the online space or improve their existing online offerings, one of the most critical questions that comes up is quite simply "How?" The various methods can be distilled into two paths – building the capability in-house or going to market with a partner.

Building in-house tends to be attractive to universities and faculties who are somewhat nervous of the move to online, as they are able to retain complete control over all aspects of the program and the pace of change. However, this process is often slow and ultimately may not result in the best possible online experience for the student, or in the optimal scale for the institution to make the program economically viable. It is also often seen as a cost rather than an investment, frequently resulting in incremental rather than wholesale or holistic changes that may be needed to achieve scale. In that sense, the "do it in-house path" can become a self-fulfilling prophecy in terms of suboptimal scale.

One option for going to market with a partner is using online program managers (OPMs). Most OPMs offer strong lead generation and marketing capabilities, market research support, instructional design capabilities, LMS and 24/7 tech support. The value of OPMs is generally well-understood by institutions, particularly by small and medium-sized schools which often don't have the investment capital, internal resources or in-house expertise necessary to launch online offerings on their own.

OPM contracts are often structured as revenue-share agreements (often a 50% revenue split), though institutions have significantly more bargaining power at contract renewal time. Fee-for-service (unbundled OPM) models are also available, though they are less common and require up-front capital investment by the institution.

Figure 8: online program managers' estimated total revenue



Source: Eduventures; company websites; company financial statements; Capital IQ; Parthenon-EY analysis; Parthenon-EY interviews

The choice of OPM depends on the institution's goals and positioning in the market. Choosing the right OPM is critical, as these are long-term relationships that ultimately need to align with the institution's mission, goals and values.

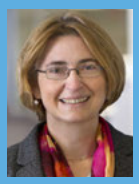
Conclusion

Having online offerings is no longer a "nice to have" or an experiment in pedagogy. In today's challenging and increasingly competitive marketplace, it has rapidly become a "must have." However, simply having these offerings does not guarantee growth in enrollments. Quality online offerings that meet student needs for service and flexibility are required to maintain or grow share in today's higher education market.

In general, institutions successful in online are responsive, have a strong technical infrastructure and enjoy leadership backing for these innovative efforts. They have considered student outcomes, geographic focus, appropriate programs, marketing strategy, and campus strategy when designing their programs, and they have carefully considered the decision to build or partner for online capabilities.

The transformation involved in migrating offerings online should not be underestimated. It should also not be treated as an insurmountable barrier — in fact, institutions ignoring the move to online could face tough consequences. **Ultimately, transformative growth in online is not just an option, it is an imperative.**

Parthenon-EY Education practice contributors



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