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The Past, Present and Future of American Proprietary Higher Education

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Outline

- Historical background
- The past decade
 - Case study: Apollo Group
- Recent trends
- Emerging trends
 - Case study: Laureate
- The Future



Colonial America

–A small group of colleges—including Harvard, Yale, and William & Mary—focused on classical curricula:

- Focused on disciplines identified in the Middle Ages, known as the trivium (grammar, logic, and rhetoric) and the quadrivium (arithmetic, astronomy, geometry, and harmonics)
- Ancient Greek and Latin



Colonial America

- A small group of colleges—including Harvard, Yale, and William & Mary—focused on classical curricula:
 - Professional studies focused solely on Divinity, Law, and Medicine
- Student seeking training outside this classical rubric pursued apprenticeships



19th Century

–Public criticism that colleges did not prepare graduates for careers in the 19th century's changing business and technological climate, thereby generating pressure for change

–In 1862 the U.S. Congress passed the Act Donating Land for Colleges of Agriculture and Mechanic Arts, also known as the Morrill Act, establishing colleges to enhance agricultural and industrial production



19th Century

–Although the new funds greatly expanded the number of colleges throughout the country, the new institutions tended to propagate preexisting pedagogical and curricular norms.

–Enrollments suffered as a result. For example, although the U.S. population grew by 23% in the 1870s, college enrollments grew by only 3.5% during the same period, despite the proliferation of institutions



19th Century

–Proprietary institutions often filled the gaps in curricula offered by religiously-affiliated colleges and the new emerging cadre of public universities

- Focus on professional training
- Serving disenfranchised groups excluded from the traditional higher education sector, including:
 - Women
 - Minorities
 - Disabled students (such as deaf or blind learners)
 - Workers seeking education in the evenings



19th Century

- During the second half of the 19th century numerous new colleges were established in the United States, including public, private non-profits (often religiously-affiliated), and proprietary institutions.
- This growth era, ca. 1865-1910, witnessed the establishment of hundreds of private institutions, many of which subsequently failed.
- While some failing colleges closed, others shifted from proprietary to non-profit status.



Late 19th/Early 20th Century

–Public universities and non-profit private colleges slowly expand curricula to include a wider array of fields, such as Accounting, Business Administration, Engineering, etc.

- Later, their enrollment policies became more inclusive as well

–For-profit institutions continued to open new markets by focusing on disciplines ignored elsewhere, such as Nursing, and by recruiting in under-served communities



20th Century

–A few leading proprietary institutions emerged, mostly focused on technical fields

- E.g., DeVry, founded in 1931, steadily grew to its current 73 campuses in North America

- focuses on traditional college-age students seeking a four-year Bachelors degree, mostly in technical fields

–Later, future market leaders establish new curricula and pedagogical models

- E.g., University of Phoenix, founded in 1976, focused on ‘working adult students’



Watershed moment: 1996

–The National Center for Educational Statistics changed its definition of higher education to include private for-profit institutions, making their students eligible for the same government-sponsored financial aid as students in public and private non-profit higher education (Title IV funding)

- New criteria: Institutions must offer an Associates degree or higher, be accredited by a body recognized by the U.S. Department of Education (DOE), have been in business for at least two years, and sign a working agreement with DOE



Watershed moment: 1996

–This caused a sea-change in the industry

- Only a few Title IV-eligible for-profit institutions in 1996
- By 1999, there were already 669 degree-granting institutions eligible for Title IV funding
- In 1991 DeVry, Inc., was the only accredited, publicly-traded HE company, but by 2001 there were 40 such companies



Watershed moment: 1996

–This change in funding possibilities fostered a massive growth in the number of for-profit institutions

- E.g., between 1992 and 2002 the number of two-year for-profits grew by 78% and the number of four-year for-profit institutions grew by 260%
- Enrollments grew by 128% between 1990 and 2000, from 213,000 to 486,000
- And yet, total enrollments remained comparatively low, accounting for only 3% of HE enrollments in the U.S.



Watershed moment: 1996

- University of Phoenix went public, bringing in a huge influx of investment capital
- The pace of growth and consolidation hastened, with a few market leaders quickly emerging:
 - Quest Education
 - Corinthian
 - Laureate (formerly Sylvan)
 - Apollo Group (the parent company of the University of Phoenix)



Watershed moment: 1996

–The high cost of traditional higher education, and the lure of new potential sources of revenue, attracted the attention of leading private universities that opened for-profit subsidiaries, E.g.:

- The New York University School of Continuing Studies
- Columbia University's digital media outlet: Morningside Ventures



Watershed moment: 1996

–Similarly, the College Board (a non-profit organization that administers most of the entrance examination in the U.S.) began to offer for-profit test preparation courses to compete with existing companies dominating that sector



Watershed moment: 1996

–Many similar ventures failed,
including:

- Virtual Temple University
- eCornell
- And most famously, the Fathom Consortium established by Columbia University (at an investment of \$25m)



The Past Decade

–During the past decade the industry has witnessed phenomenal growth in terms of

- Revenues
- Enrollments
- Range of degree programs
- Faculty size
- Geographic footprint



The Past Decade

–During the past decade the industry has witnessed phenomenal growth in terms of

- Academic credibility amongst
 - Students and their families
 - Employers
 - Peer institutions



The Past Decade

- **Case Study: Apollo Group**

- University of Phoenix was established in 1976 in San Jose, CA
- Failed to receive regional accreditation in California
- Relocated to Phoenix and received accreditation in 1978



The Past Decade

- **Case Study: Apollo Group**

- Innovative education model

- Focused on students 23 and older
- Convenient semester blocks and timing of class meetings
- Responsive customer service
- Low tuition costs
- Faculty mostly part-time, low cost



The Past Decade

•Case Study: Apollo Group

–Fast-growing footprint of suburban locations, with 72 sites in 38 states

–Enrollments:

- 100,000 in 2000

- 200,000 in 2004

- Seek 500,000 enrollments by 2010

–Established online degree programs in 1989; currently 70% of enrollments include at least some in-person instruction and 30% are entirely online



The Past Decade

- **Case Study: Apollo Group**

- Recent expansion into Canada (with locations in Calgary and Vancouver) and considering sites in Mexico and Brazil

- Received permission in 2004 to confer degrees in Beijing through its subsidiary Western International University



Recent Trends

–History repeating itself:

- For-profit providers continue to follow their traditional role of moving into under-served markets
- Including a renewed focus on Nursing—an area with high demand that traditional universities increasingly shun
 - DeVry and Education Management have begun buying private nursing schools
 - University of Phoenix received Nursing accreditation in 2005



Recent Trends

–History repeating itself:

- Growing criticism accuses higher education institutions of failing to meet the needs of students as they enter the 21st century marketplace, and doing so at highly inflated costs
- These criticisms reflected demand for new types of educational offerings, setting off regulatory changes and the recent rapid growth in proprietary higher education



Recent Trends

–Decline of the proprietary providers focused on the traditional four-year model: DeVry,

- In 1995 DeVry and Phoenix had equivalent enrollments and profits, with starkly divergent fortunes in the past decade
- Its critics argue that it spends too much on under-utilized facilities



Recent Trends

–Decline of the proprietary providers focused on the traditional four-year model: DeVry,

- DeVry sees its product as high quality, but costly
- Dramatic changes:
 - 41k students enrolled in 2001
 - Dropped to 39k by 2005
 - Resulting drop in profits from 17% of gross revenue to 11%
 - »Compared to 15-20% at competing institutions



Emerging Trends

–Federal legislation favorable to proprietary institutions:

- Legislation under consideration to force all accredited institutions in the United States to accept transfer credit from all other accredited institutions, based on the rationale that government financial aid is wasted if courses do not transfer with the student

–Considered a significant threat to revenue at traditional universities



Emerging Trends

–Federal legislation favorable to proprietary institutions:

- Recent elimination of the 90/10 rule requiring institutions to collect at least 10% of tuition and fees from non-federal government sources (thereby allowing for-profits to develop financial models built entirely on government aid, undercutting costs at traditional providers)
- Elimination of 50% rule requiring that no more than half of courses offered by an institution can be online



Emerging Trends

–Federal legislation favorable to proprietary institutions:

- Significant growth in lobbying in Washington on behalf of the proprietary education industry
- For-profit providers spent \$350k on lobbying in 2003-2004, with 2/3 of the funds focused on the members of the U.S. House of Representatives Higher Education Subcommittee and its chair, Rep. Howard “Buck” McKeon (R-CA), who is championing the transfer of credit bill

–\$70k of these fund came from Apollo and \$60k came from Corinthian



Emerging Trends

- Increasing scrutiny of proprietary higher education institutions over compliance with federal laws and procedures
- Some states, such as New York, are responding to charges of inconsistent quality in the proprietary higher education sector with increasing regulation.



Emerging Trends

–Public and private non-profits increasingly consider proprietary institutions current or potential future competitors and monitor their activities more and more closely

- Increasing credibility and prestige
- An emerging factor in planning discussions at elite universities



Emerging Trends

- Movement into international markets
 - Corinthian began to purchase campuses throughout the U.S, in the early 2000s, and simultaneously developed a significant presence in Canada
 - Laureate reorganized in 2003 to focus solely on higher education, with a heavy emphasis on international markets
 - Strategy: acquiring failing universities abroad and reorganizing their curricula and financial models



Emerging Trends

- **Case Study: Laureate**

- Founded in 1998 as Sylvan Learning Systems, Inc. and immediately acquired a national network of K-12 tutoring facilities from Canter, Inc.

- Acquired its first international higher education outlet in 1999: Universidad Europea de Madrid, Spain



Emerging Trends

- **Case Study: Laureate**

- Established Walden University in 2001, offering online degree programs
- Acquired 6 additional universities between 2000 and 2002 in Chile, France, Mexico and China
- Reorganized in 2003



Emerging Trends

- **Case Study: Laureate**

- Projected that growth potential in the K-12 market was 10-15% per year, whereas growth in the higher education market could be 20-25% per year with higher profit margins
- Spun off Sylvan and re-branded as Laureate, focused entirely on international higher education market



Laureate Campuses



BRAZIL
Universidade Anhembi Morumbi

CHILE
Universidad de las Americas, Chile
Universidad Nacional Andrés Bello
Academia de Idiomas y Estudios Profesionales

CHINA
Les Roches Jin Jiang International Hotel Management School

COSTA RICA
Universidad Interamericana de Costa Rica

CYPRUS
Cyprus College

ECUADOR
Universidad de las Americas, Ecuador

FRANCE
Institut Français de Gestion (IFG)
École Supérieure du Commerce Extérieur
École Centrale D'Electronique

HONDURAS
Universidad Tecnologica Centroamericana (UNITEC)

MEXICO
Universidad del Valle de México

NETHERLANDS
Laureate Online Education, B.V.

PANAMA
Universidad Latinoamericana de Ciencia y Tecnología (ULACIT)
Universidad Interamericana de Panama

PERU
Universidad Peruana de Ciencias Aplicadas

SPAIN
Les Roches Marbella
Universidad Europea de Madrid
IEDE, Institute for Executive Development

SWITZERLAND
Glion Institute of Higher Education
Les Roches Hotel Management School

UNITED STATES
Walden University

Emerging Trends

- **Case Study: Laureate**

- Enrollment growth:

–1999:	13,000
–2000:	53,000
–2001:	63,000
–2002:	75,000
–2003:	117,000
–2005:	226,000



Emerging Trends

- **Case Study: Laureate**

- Focus on buying struggling/failing universities in emerging-markets
- Seeks governments willing to provide a beneficial regulatory environment and tuition subsidies, while relieving governments of pressure to expand capacity to meet rising demand



The Future

–United States:

- More new proprietary institutions
- Continued increase in enrollments
- But, consolidation is already underway by market leaders
- Regulatory environment likely to increasingly favor for-profit model
- Unsustainable economic model of elite universities may stimulate competition



The Future

–International:

- Laureate expects continued rapid expansion – *coming to a market near you!*
- University of Phoenix is at earlier stage of international growth, but with huge potential
- Non-profit American colleges and universities are also developing campuses abroad
 - Mostly less prestigious institutions at present
 - Elite universities may soon enter this market



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The Future

–Likely drivers of change:

- Continued massification, particularly in Asia and Latin America
- Increasing competition between American, Australian, and British providers in emerging markets
- The distance learning/off-shoring nexus
- Potential loss of higher education's traditional monopoly on credentialing



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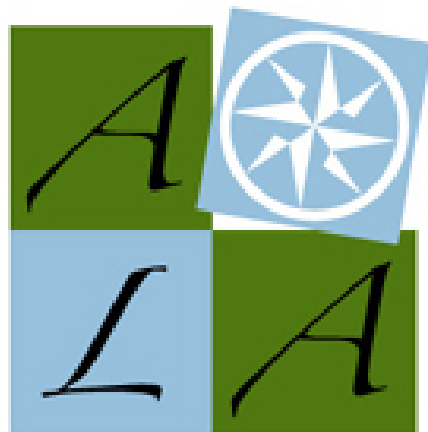
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