INSIDE
HIGHER ED

A Tipping Point for OPM?

> With so many online program management companies offering similar services, many market observers agree: something's got to give.

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Ten years ago, just three or four companies existed to help universities start online programs. Now by some counts, roughly three times that many are working with colleges -- striving, and sometimes struggling, to expand their businesses.

Is a shakeout in the offing? Most analysts and observers say yes, given the number of providers, the lack of differentiation among many of them and growing qualms from some college officials about the industry's traditional business model of revenue shares and long-term lock-ins. The latter has spawned even more competition, from a new set of companies charging fees for specific services, rather than the bundles that the OPMs have historically used.

"I think there is a roll-up coming in the OPM industry," said Joshua Kim, director of digital learning initiatives at the Dartmouth Center for the Advancement of Learning (and an *Inside Higher Ed* blogger). "There are just too many players."

Even several leaders of OPM companies agreed that consolidation in the industry is likely, noting that it is a typical phase of any maturing market -- but none volunteered themselves to be among the ones that won't survive.
But James Sparkman, co-founder of Alpha Education, a consultancy that helps universities choose OPM companies to partner with, doesn't think a shake-up is coming any time soon. Continuing movement by colleges into online education -- and the fact that most of the institutions just now going online are latecomers likely to need outside help -- will ensure demand for partnerships with revenue-share OPM companies for the foreseeable future, he said.

"Universities continue to look to these partnerships as a catalyst for innovation," said Sparkman, adding, "I don't see demand letting up at all."

A Changing Landscape

On-campus enrollment may be flat or declining at many institutions, but online, student numbers are growing. Opinions about the quality of online education are slowly improving, and now just under 30 percent of students studying on campus take at least one class online.

To launch a successful online degree, institutions need expertise in instructional design, must be skilled in identifying areas where there is student demand, and must have enough funds to develop and market the program, which several sources said could cost upward of $1 million each.
For institutions that don't have this expertise, or cash, working with a traditional OPM can be an attractive option, as risks and costs are shared. The OPM company typically invests capital up front to develop the program, receiving a share of the tuition revenue over several years to recoup its investment. As these companies often take 50 percent or more of the tuition revenue, they have a financial incentive to do a good job marketing the program and enrolling students.

A recent Eduventures report, "Expanding the OPM Definition," explored how the OPM market is changing and expanding. Writing about this report in a blog post, Howard Lurie, principal analyst of online and continuing education at Eduventures, said that offering full up-front investment (as companies like 2U, Academic Partnerships and Pearson Online Learning Services do) is a model that has "staying power."

Many institutions are happy with these arrangements, said Lurie. But as online learning has become mainstream, more institutions have built in-house capacity, and are turning to "fee for service" options for help in specific areas such as online marketing, enrollment or instructional design. This arrangement offers greater flexibility for the institution, and shorter contracts, said Lurie. But he views the emergence of fee-for-service options as an "evolution, not a rejection, of the OPM model." (Many of the fee-for-service companies have been founded by people who cut their teeth at traditional OPMs, including John Katzman, who founded Noodle Partners after co-founding 2U, and Paxton Riter, founder of iDesign, who was a senior official at Academic Partnerships.)

The Eduventures report found that two- and four-year institutions with more than 300 fully online students had higher online enrollment rates when they worked with an end-to-end OPM partner than those that did not. The report, which was based on IPEDS data between 2012 and 2015, as well as proprietary survey data, concluded that these OPM providers had provided an "enrollment bump" to many schools. But the proportion of institutions working with OPM partners remains unclear.

Kim Taylor, founder and CEO of Cluster, previously founded a company called Ranku that helped institutions identify which online programs they should launch or expand. Before Ranku was acquired by Wiley in 2016, Taylor said, she commissioned research that indicated that less than 10 percent of all online programs were launched with help from an OPM partner. Riter estimates that about 20 percent of four-year institutions are working with a partner to deliver online programs, a number that he thinks may expand to 50 percent in the next few years.

Number of Partners and Online Programs for a Selection of OPM Providers:

Company Name	**Institutional Partners**	**Online Programs**
2U	34	58
Academic Partnerships	> 60 (U.S. only, 30 non-U.S. partners managed by sister companies.	> 650
Collegis Education	~ 20 (All U.S.)	Not disclosed
Helix Education	7	96
HotChalk	Not disclosed	Not disclosed
iDesign	25 (All U.S.)	~ 40
Keypath Education	> 20	> 80
Learning House	26	> 460
Noodle Partners	12	24
Pearson Online Learning Services	40 (U.S. only, more outside U.S)	> 300

Synergis Education	6 (All U.S.)	21
Wiley Education Services	35 (three of these non-U.S.)	250
Note: The following companies did not respond to requests for data prior to publication: All Campus, Apollidon, Everspring, Extension Engine, Highereducation.com, Meteor Learning & Orbis.		

Taylor observed that even the biggest OPM companies run only a few hundred programs, which, she said, "is not really that big when you think about it." But Sparkman said that being a small OPM is not necessarily problematic, as some OPM companies only have a handful of university partners and are running "a nice little business."

Counting the number of OPM companies is difficult because the definition is changing, said Riter. Phil Hill, co-founder of Mindwires Consulting and co-publisher of the *e-Literate* blog, counted 27 companies in his spring 2018 analysis of the market, including massive open online course providers like Udacity and Coursera. The Eduventures report counted 33, but Steve Hodownes, CEO of Orbis Education, said he believed there to be more than 40.

In a blog post, Hill described the OPM market as "chaotic and messy." Companies like Bridgepoint Educationand Kaplan, as they refashion themselves to spin off their degree-granting activities into nonprofit institutions, are trying to enter the space, and are being closely observed by potential competitors. In an interview, Hill said he anticipates that only OPM companies that are "very specialized" will survive and thrive.

Kim agreed, adding that more differentiation would help universities figure out who they should be talking to when looking into working with an OPM. Some companies have already found a niche and are doing well, said Kim. Orbis Education, for example, has specialized in health care, and 2U -- which just raised another $350 million and is widely viewed as in a league of its own in terms of OPM viability -- is known for working with elite institutions.

Consolidation on the Horizon?

Ryan Craig, co-founder and managing director of higher education investment firm University Ventures, thinks that too many OPMs are focusing on the same area -- graduate degrees at four-year institutions.

Steve Fireng, founder and CEO of revenue-share OPM company Keypath Education, and previously CEO of Embanet, an OPM company that was acquired by Pearson in 2012, agreed that the market could be more differentiated. He thinks consolidation is likely, but it would require some kind of trigger -- what that might be, he isn't sure.

Fireng said that many companies, including his own, are having conversations about mergers as a way to expand their business. With more competition, it's getting harder to find new institutional partners, and the cost of launching online programs is going up as student acquisition costs increase, he said. “Everybody is wondering how to get to scale,” said Fireng. “Consolidation is an evolution that a lot of industries go through, and we’re probably at that point.”

Taylor, like Craig and Fireng, thinks consolidation is likely, but warned that mergers are tricky. Several companies have already tried to merge unsuccessfully but have not disclosed this publicly, she said. Furqan Nazeeri, a partner at fee-for-service company Extension Engine, said that venturebacked OPM companies are under pressure from their investors to grow, making consolidation a more likely option for these companies.

Not surprisingly, some of the people most confident that traditional OPMs will struggle are people with a vested interest -- those running fee-for-service companies that compete with those who work through revenue sharing. Riter, whose fee-for-service company specializes in instructional design, said he thinks there is "only a finite number of institutions" that will continue to seek out the revenue-share model, "and many of them are already doing it."

Katzman of Noodle Partners, a company that offers OPM services for a fee, predicts a stark future for companies that fail to move away from revenue-share deals because of growing dissatisfaction with that business model. He compared revenue-share OPMs to the businesses in the early 2000s that built websites for millions of dollars. At the time, they were the only people who knew how to do it, but as more workers learned HTML, these companies went from "very valuable to pretty much out of business" in a very short span, he said.

"The notion that a decade from now, universities are going to be paying half or two-thirds of their revenue for some marketing and tech services is ridiculous," said Katzman.

Some companies, like Wiley Education Services, have started to offer more flexibility in their finance models -- offering revenue-share, fee-for-service and hybrid deals. But for many revenue-share incumbents, "change will come hard," said Lurie. "They won't change until they start seeing an erosion of their market share," he said. Asked whether he thinks this is likely, Lurie said simply that it is "possible."

But Keypath's Fireng disagrees. He thinks there will still be institutions in the future that will want the full service and up-front investment that a revenue-share OPM partner provides.

Whether colleges decide to go with a fee-for-service OPM, a revenue share, or a hybrid deal will depend on how much money institutions want to invest, what expertise they have in-house and how big they want their programs to be.

Universities that want more than 300 students enrolled in a program will need "significant capital infusion," said Fireng. For universities that want to go big online, "the tuition-share model works really well," he said.
There is, of course, a fourth option open to schools that want to launch programs online -- going it alone.

“I think the future is that schools will go online by themselves,” said Taylor. “If you’re not using an OPM, you don’t have to grow as big.” The programs may not be great, she said, but they might be “good enough” to attract a sustainable number of students -- especially if the institution has a strong local brand. Even online, people like to study near where they live, said Taylor.
But Riter says that few institutions are equipped to go it alone. “Do I see many universities that are equipped like a Southern New Hampshire to go it alone? No, I don’t."

The Long Game

There are three factors that Taylor thinks will help OPMs to survive going forward. One is finding a “point of view,” said Taylor -- a distinctive mission or niche. For example, 2U is a revenue-share OPM that has established itself as a “premium option." Two is owning the technology end-to-end -- enabling the

OPM to create a truly streamlined experience. Three is being “really, really good at program selection,” said Taylor.

But Chip Paucek, co-founder and CEO of 2U, believes that the single biggest factor determining the future success of OPM companies is the quality of the product they produce, regardless of how universities pay for it. Whether companies offer revenue-share, hybrid or fee-for-service deals, they all bear responsibility for the reputation of the institutions they work with. "It's all about quality and whether you can deliver it or not," he said. Paucek added that 2U has a 10-year track record of excellence, with a strong focus on student retention, as well as student enrollment. "It's a shared success model," he said.

Looking forward, OPM companies may look to build on their partnerships with universities by moving into new areas, such as career services, or international student enrollment, said Sparkman. Riter sees a role for fee-for-service OPMs as “consultants” that can help universities build their own capabilities in-house.

Amy Shackelford, director of student services at Blackboard, and Craig, agreed that they would like to see OPMs align themselves more closely with work-force needs -- offering non-degree-level certifications. Arguably, 2U has already started moving in this direction with its acquisition of GetSmarter, said Sparkman.

"At the end of the day, what OPMs really are, are change enablers," said Sparkman.

https://www.insidehighered.com/digital-learning/article/2018/06/04/shakeout-coming-online-program-management-companies