

# North American perspective: Business models and practices for online learning in the United States

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*The rapid growth of online learning, including the growth in 'hybrid' or 'blended' combinations of on-campus and online, has created a complex organizational landscape in higher education in the United States (U.S.). In order to interpret and take action on business issues and benchmarks for online learning, you need to know where your organization fits in the landscape. There is a wide variety of descriptions of how higher education is adapting to the innovations of online learning and how new organizations are attempting to capitalize on the opportunities. This paper identifies four different business models and suggests three organizational approaches to implementation that are emerging from current research by Geith, Schiffman and Vignare (2005). This stage in the research provides insight into the organizational landscape that may be useful to you for identifying potential peer groups and models. Further research is needed before we have insight into the factors affecting their success.*

There are a number of organizational typologies, models of partnerships and alliances, and market segment classifications of the online postsecondary and e-learning markets. Three trends can be observed: (1) growth in for-profit providers and the global e-learning market; (2) growth in partnerships and alliances to create value; and (3) growth in innovative core 'production' methods.

To summarize the three trends and organizational responses, it is useful to use a 'value chain' perspective. A value chain is a list of major organizational functions, or processes, that operate together (like links in a chain) to achieve the goals of the organization. The goals of the organization are driven by its mission. Achievement of the goals is the value that is created. The value, driven by the mission, might be quality, access, enhanced brand, profit or any number of organizational outcomes.

For example, a typical value chain for a continuing education unit might link product design, development, delivery and maintenance in a chain that generates a reputation for quality and surplus revenues.

At least four online learning business models can be identified using value-chain analysis:

- **Traditional** organizations create value by conducting all of the key functions themselves. This is called an integrated value chain. Examples include many residential public colleges and universities that run their own online learning technology, production staff, bookstores, libraries, student services, help desks, etc.
- **Flexible** organizations create value by managing key functions through inter-organizational relationships, such as partnerships and outsourcing. This is called dis-integration of the value chain. Examples include colleges and universities that outsource their bookstores, use hosted solutions for online learning infrastructure, participate in consortia to reach new markets, or partner with learning centers to proctor exams and provide student support.

- **Specialized** organizations create value by focusing on a particular component or segment of the value chain such as student recruitment or content development. Examples include marketing consortia such as state virtual universities or content communities such as MERLOT, LON-CAPA or OpenCourseWare.
- **Customized** organizations structure their key functions, particularly their core 'production' processes, to create value for specific constituencies. Adult-centered competency-based universities such as Western Governor's University and Excelsior are examples, as are the student-centered, quality-controlled, personalized service designs of for-profits such as Capella University.

These four business models describe organizations based on how they configure their key functions to achieve their online learning goals. The models do not differentiate by market segment, or degree of virtuality, or by historic context, but by how the value chain of the organization is structured: integrated, dis-integrated with partners, specialized for a particular function, or customized for a particular constituency.

The organization's mission drives the structure of its value chain and its business model. For example, an organization such as UMass Online, with a mission to leverage online programs and reach more students in partnership with state universities, organizes its functions to focus primarily on market building, student recruitment and business planning. There are likely to be more than four business models that can be defined, and these may not be mutually exclusive, but these four provide large and different enough buckets to describe most of what we see in online learning in higher education in the U.S.

Today, the majority of accredited higher education institutions in the U.S. are using some form of online learning. According to the National Center for Education Statistics (Waits & Lewis, 2003), 56% of two-year and four-year institutions offered distance education courses in 2000-2001 (p. iv). Of these, 90% offered Internet courses using asynchronous computer-based instruction (p. v). Corroborating these findings and indicating continued growth is the 2003 National Sloan Survey of Online Learning (Allen & Seaman, 2003) using Spring 2003 data from 994 representative higher education institutions in the United States. Results indicate 81% of all institutions of higher education offer at least one fully online or blended course and 34% offer a complete online degree program. Sixty seven percent indicated that online education is a critical long-term strategy for their institution (p. 2).

We find that information on effective business models, business strategies, and effective practices for sustainable programs is lagging behind implementation, despite growth.

A recent exploratory study by Schiffman (2004) identified a number of current business concerns among innovators and early-adopters of online learning in U.S. institutions. The issues emerging included revenue distribution and generation, compensation, planning, course and degree regulation, marketing, student services, sources of capital, cost management and product development. These business concerns, even among institutions with a track record of successful growth in online enrollments, illustrate the varying forms online learning is taking in U.S. institutions. This variety is expected given the nature of the innovation and the diversity in mission and constituencies that are characteristic of the American system of higher education.

Regardless of the diversity of institutions and their variety of missions and business models, the business objectives for online learning are similar, with emphasis depending on whether they are non-profit or for-profit. Most are striving to achieve multiple competing priorities through online learning that include building the reputation of their brand, improving quality, improving retention, reaching new markets, containing or reducing costs, and creating surplus revenue.

Using the four business models, many U.S. institutions can be identified as using traditional, integrated processes, with a growing number becoming more flexible by participating in creative partnerships and alliances for marketing, content, student services and more.

Initial survey work with more than 100 institutions by Geith, Schiffmann and Vignare (2005) identified three organizational approaches that describe how traditional institutions have organized their online learning efforts. The three organizational approaches emerging from the findings to date are:

1. Direct (or overhead) funded units that are a service or support unit;
2. Self-funded units that are part of an academic college;
3. Self-funded, independent units;

There are also combinations of these three approaches, such as a unit that receives a small amount of direct funding and must self-fund the rest of its activities.

How an online learning unit is funded and how close it is to the academic core appears to have an impact on the level of control or influence it has over certain business-related and quality functions. The differences in the three approaches are reflected in the perceived levels of control over business decisions, student services and quality, and curriculum. For example, both types of self-funded units reported higher levels of control over business decisions than direct funded units. Business decisions included planning, the ability to remove products from the marketplace and marketing functions. Self-funded units that are part of an academic college reported the highest levels of control over student services. Direct funded units have the least control over curriculum and faculty decisions. It appears that the choice of organizational approach, unlike the business models, is not necessarily driven by mission as much as it is by implementation choice given the values and operating procedures of the organization.

The three organizational approaches are useful for identifying the differing contexts for the various business issues and concerns identified by Schiffman (2004). Issues such as marketing expenditures, program design strategies and faculty compensation are strongly impacted by the organizational and business context in which programs are developed and delivered. For example, an institution using online learning for professional development offered by a self-funded unit in its college of engineering will have different resource constraints and levels of control over business factors than an institution offering the same type of product through its direct-funded support unit.

The resources, processes and business models are quite different due to the organizational approach.

Understanding the organizational context is critical for meaningful comparisons. It is important to identify peers with a similar mission, a similar business model, and, in the case of a traditional or flexible business model, a similar approach to organizational implementation. Likewise, it is important to understand and identify these components for the organizations you are trying to emulate. The business model, strategies, processes and benchmarks will then be in a useful and appropriate context for action.

This paper briefly describes four business models observed for online learning in U.S. higher education: traditional, flexible, specialized and customized. Drawing on initial findings from exploratory research, the online learning business models for traditional and flexible organizations were further described as using one or more of three organizational approaches to implementation based on type of funding and proximity to the academic core: self-funded, independent units; self-funded units that are part of an academic college; or direct (or overhead) funded units that are a service or support unit. These models further our understanding of organizational and business approaches for online learning. The models also provide insight for identifying benchmarks within an appropriate context for your use. Decisions about the results of each model, and its success factors, require further research.

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