Business Models and Funding Sources for Online and Distance Education

In this report, The Hanover Research Council discusses common business models and funding sources for online and distance education. We begin with an introduction to the climate surrounding distance education, discussing the strengths and weaknesses of available scholarly literature and highlighting the current state of demand for online and distance programs. The next section focuses on common business and funding models in distance education. This is followed by a discussion of key issues affecting the long-term sustainability of distance education, supplying tips and strategies for solidifying the long-term future of a distance program. The final section summarizes useful program profiles at universities and colleges throughout the United States, focusing on the way that each program produces content, funds expansion, and allocates responsibility for the implementation of online and distance education programs.
Distance Education – The Current State of Research and Demand

Distance Learning and the Economy: High Demand, Low Resources

Like many other sectors of higher education, the current economic recession has forced distance education into a challenging situation: demand is at an all-time high, but it is difficult to acquire the necessary resources and funding. Demand has increased for higher education as a whole, but online and distance education has grown even more rapidly. According to a 2008 report published by the Sloan Foundation, “Online enrollments have continued to grow at rates far in excess of the total higher education population.” The report estimates that over 3.9 million students were taking at least one online course in the fall of 2007, representing a 12% increase over the previous year – which dwarfs the 1.2% overall growth rate in the higher education sector. The Sloan report also suggests that institutions of higher education across the board believe that “negative economic news is good news for…online enrollments.” Rising fuel costs and high unemployment were also seen as contributing factors that could increase demand for online programs in the short-term.

However, in order to continue this rapid growth, online and distance learning must receive continued support from key university stakeholders. Based on an August 2009 study commissioned by the Association of Public and Land-Grant Universities, “When asked about how their campus structures the financing of online learning, institutional participants often commented that securing and distributing financing was the most pressing issue they faced in developing and sustaining online learning programs.”

Significant support is increasingly difficult to find as colleges and universities – especially in the public sector – face increasing economic pressures and must make difficult decisions in the face of scarce resources. Endowments are shrinking, state appropriations are being cut, and grant money is drying up. In California, for example, funding for public higher education has been slashed by 20% over the last year. California State University (CSU) is a compelling example of a system that is...
suffering from the current cutbacks. A $564 million state funding reduction has forced CSU to cut enrollment by 9% (40,000 students) over the next two years, even as applications for fall 2010 admission increased 53% since the previous year.⁶

Distance and online learning, however, can serve as a way for institutions to increase efficiency, cut costs, and add new revenue streams. According to a 2008 report administered by the American Association of State Colleges and Universities (AASCU) and SunGard Higher Education, more than 50% of surveyed institutions noted using contingent faculty and online learning to reduce operating costs.⁷ Survey participants included 114 AASCU member institutions, most of which are regional state colleges.

However, distance education cannot be viewed as a silver bullet guaranteed to reduce cost and add new revenue streams in any situation. As we proceed with our discussion, we examine key variables that affect the sustainability and profitability of distance learning programs at institutions across the country.

### Academic Study: Little Coverage and Even Less Consensus

The rapid growth of online learning has to a certain extent outpaced academic study of best practices in the field. According to Vignare, Geith, and Schiffman, “There are very few detailed, descriptive studies focused on the business models, strategies and effective practices of online education in U.S. degree-granting institutions.”⁸ In another study, Schiffman points out that there is still a critical need for practical guidance on issues like “revenue distribution and generation, compensation, planning, student services, course and degree regulation, marketing, sources of capital, cost management, and product development.”⁹ The effects of the current recession have also complicated the picture for researchers, causing many to question or alter their underlying assumptions about the market and profitability of distance education.

Although there is still a critical shortage of coverage in this area – and even less consensus regarding the “best” way to fund and organize online and distance offerings – the case studies and articles that do exist can provide a useful starting point in identifying the key issues faced by universities aiming to expand into the distance education market.

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Section One: Business Models and Fiscal Plans for Online Learning

Access vs. Quality

According to Miller and Schiffman, institutions typically begin online learning programs for one of two reasons:

1. To extend access to degree programs to new off-campus students

2. To improve the quality of teaching for existing students on campus\(^\text{10}\)

Institutions looking to increase access tend to separate their online learning programs from their general academic offerings by developing continuing education or distance education programs. These programs are often staffed independently of the other academic colleges in the institution, and are organized either as for-profit subsidiaries within the not-for-profit university or as a cost-recovery center with varying degrees of central subsidy. In both of these models, the expectation is that operational costs will be recovered through tuition and contracts.

Colleges and universities looking to enhance the quality of their current offerings tend to fold their distance learning programs into the work of the Provost’s office or within individual academic programs. Cost recovery for these programs is achieved through the normal academic budget. Table 1 summarizes the differences between programs that are implemented primarily to facilitate access and those that are established mainly to enhance quality.

<table>
<thead>
<tr>
<th>Primary Goal</th>
<th>Organizational Location</th>
<th>Leader(s)</th>
<th>Cost Recovery</th>
<th>Example(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access</td>
<td>Distance Education or Continuing Education</td>
<td>Separate university administrators</td>
<td>Revenue from tuition and contracts</td>
<td>New York University, Penn State’s World Campus, and the University of Maryland University College</td>
</tr>
<tr>
<td>Quality</td>
<td>Provost’s office or individual academic units</td>
<td>Provost’s office or faculty in individual academic units</td>
<td>Normal academic budget</td>
<td>University of Illinois</td>
</tr>
</tbody>
</table>

Source: Miller and Schiffman\(^\text{11}\)

Miller and Schiffman: Three Online Business Models

Miller and Schiffman identify three business models pertaining to online course offerings: two “access” models and one model centered on quality enhancement.

Access Model #1 For-Profit Subsidiary Model

According to Miller and Schiffman, the creation of a for-profit subsidiary within a nonprofit institution is “the model with the highest risk for long-term success.” Many for-profit programs have failed due to a lack of sustainability. The demise of these programs can be linked to many factors, including failure to find avenues for growth or the failure of the market to materialize. Colleges and universities typically will not support these programs with internal investments because they are not seen as key to the core mission of the institution. This approach requires significant effort in bridging the for-profit model of the online learning sector with the non-profit model of the parent institution.

Access Model #2: Cost-Recovery Model

In this model, the distance education program operates within the administrative structure of the institution but on a separate budget. It has the goal of fully recovering costs through new tuition revenue generated by students, and is financially responsible for paying for faculty time and effort. This is the most common model chosen by institutions that have a previously established commitment to distance education. Again, the separation of this program from an institution’s main educational offerings may lead to difficulty in enrolling mainstream students in distance education courses.

Quality Model #3: Enhanced Academic Program

This model is most frequently used by institutions looking to enhance their current offerings to improve course quality, minimize the need for duplicate courses, address large classroom sizes, and stem drop-out rates. According to Miller and Schiffman these programs face three key challenges:

11 Ibid.
12 Ibid., p. 16
13 Ibid.
1) How to sustain the cost of online learning within the existing tuition stream

2) How to move from the limited scope of an innovation...to a broader institutional strategy; and

3) How to organize centralized support services for development and delivery so that all academic units have appropriate access to online learning.14

The institution must address issues of intellectual property along with process issues such as reserving funds from tuition, finding grants and appropriations for growth, and the development, maintenance, and assessment of online courses.

Which Models Are Most Common?

A 2006 survey conducted by Vignare, Geith, and Schiffman asked colleges and universities to identify the business model and funding arrangement that best described their distance education programs. Table 2 presents the models identified by the 128 respondents.15

<table>
<thead>
<tr>
<th>Which business model best describes your current online learning operation?</th>
<th>%</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent unit that is self-funded</td>
<td>19.5%</td>
<td>25</td>
</tr>
<tr>
<td>Independent unit that is overhead-funded</td>
<td>7.0%</td>
<td>9</td>
</tr>
<tr>
<td>Independent unit that is for-profit</td>
<td>0.8%</td>
<td>1</td>
</tr>
<tr>
<td>A college, department, or school within the university which is self-funded</td>
<td>22.7%</td>
<td>29</td>
</tr>
<tr>
<td>A college, department or school within the university which is overhead-funded</td>
<td>33.6%</td>
<td>43</td>
</tr>
<tr>
<td>Other</td>
<td>16.4%</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total Respondents</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>128</strong></td>
</tr>
</tbody>
</table>

Source: Vignare, Geith, and Schiffman16

Respondents to the survey were fairly evenly split between self-funded organizations (54 of the 128 respondents or 42.2%) and those receiving overhead funding (52 of the 128 respondents or 40.6%). Less than one percent of respondents identified their online units as for-profit. A significant percentage, 16.4%, classified their online offerings as “other” – most of these respondents indicated that their institutions were “a mixture of business models.”17 Figure 1 below illustrates the distribution of these models.

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14 Ibid., p. 17
15 The 128 responses came from 110 institutions. The distribution of the survey sample by Carnegie classification was: Doctoral (31%), Master’s (24%), Baccalaureate (22%), Associates (17%), and Specialty (2%). See: Vignare, Geith, and Schiffman. “Business Models for Online Learning: An Exploratory Study,” op. cit. p. 55.
16 Ibid. p. 57.
17 Ibid.
Figure 1: Distribution of Online Learning Business Models

- Independent unit that is self-funded -- 19.5%
- Independent unit that is overhead-funded -- 7.0%
- Independent unit that is for-profit -- 0.8%
- A college, department, or school within the university which is self-funded -- 22.7%
- A college, department or school within the university which is overhead-funded -- 33.6%
- Other -- 16.4%

Source: Vignare, Geith, and Schiffman\(^{18}\)

\(^{18}\) Ibid.
Section Two: Distance Education Sustainability and Growth

Established distance education programs must find ways to maintain stability, create a return on investment, and scale for growth. This section examines some of the concerns that institutions face when considering growth strategies, best practices for financial sustainability, methods of estimating program costs, and price setting.

Institutional Concerns for Growth

According to Miller and Schiffman, “many of the most important short-term concerns are administrative…[but] other issues strike at very important academic issues.”19 Table 3 presents some of the key challenges that the authors identify with regard to the expansion of distance education:

Table 3: Administrative and Academic Challenges for Distance Education Expansion

<table>
<thead>
<tr>
<th>Administrative</th>
<th>Academic</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Funding course development</td>
<td>- Fully recognizing faculty contributions when their individually authored content is shared by other faculty</td>
</tr>
<tr>
<td>- Supporting the new needs for technical help and other student support issues</td>
<td>- Championing a new pedagogy</td>
</tr>
<tr>
<td>- Ensuring a flow of resources back to academic units that take faculty members from their regular teaching to reach out to online learners</td>
<td>- Effectively assessing and evaluating all aspects of the performance of online courses</td>
</tr>
<tr>
<td>- Deciding which services should be supported centrally and which should be provided locally</td>
<td>- Holding faculty members accountable for their use of online materials in a blended environment</td>
</tr>
<tr>
<td>- Managing the breakdown of traditional areas of administrative authority and “turf” as innovation diffuses throughout the institution</td>
<td>- Ensuring curricular coherence across sections of a course or across campuses</td>
</tr>
</tbody>
</table>

Source: Miller and Schiffman20

Financial Sustainability

In a 2007 article published in the Online Journal of Distance Administration, Meyer, Bruwelheide, and Poulin drew upon the combined expertise of experienced online administrators to draft a series of ten principles that facilitate the financial sustainability of online programs.21 These principles are summarized below.

20 Ibid.
Principle #1: Know your market.

Knowing the market allows administrators to determine the feasibility of a given program, expected enrollment levels, and how to make the program more appealing. In reality, “knowing the market” encompasses knowledge of several markets, including the following:

- **The job market**: What are graduates of the program qualified to do? What skills are growing in importance in the job market?

- **The student market**: How many target students are there? What kinds of programs are they interested in? Where are these students located? What skills do they have? What kinds of computer equipment are they able to access?

- **The market competition**: Which institutions offer similar programs? How are these programs delivered? What do they cost? What is their enrollment like? How much time is required to complete these programs?

- **The markets within your institution**: How does your program fit in with others offered by your institution? Does it compete with other internal programs?

- **Your competitive advantage**: How loyal are your students? Are there new competitors in your field? How do students base their decisions? Price? Focus? Delivery? Format?

Principle #2: Know your costs.

Administrators must create a process for identifying and estimating costs including those associated with instruction, academic support, and student services. Knowing the full costs will allow the administrator to improve efficiencies through scalability, technology, and labor changes.

Principle #3: Determine a price.

With cost information assessed, administrators can make decisions regarding what levels of enrollment are needed and to what extent other revenue sources are required. Price setting requires detailed knowledge about available state subsidies, grants, and students’ ability to pay.

Principle #4: Negotiate with the institution.

Institutional agreements should cover program revenue, the percent of royalty payments, indirect cost recovery, and distribution of revenue to faculty, the program, the departments, and others. Cross-institutional programs must also
distribute responsibilities for financial aid, student records, course transfers, and charges.

**Principle #5: Observe good financial management rules.**

Budgets must be established and monitored according to good accounting principles.

**Principle #6: Develop and implement marketing.**

A marketing plan is essential to reaching the target audience, and should be based on known market demands. Routes to contact prospective students will depend upon the program being offered but can include professional associations, employers, and agencies.

**Principle #7: Have a web identity.**

The program’s online presence constitutes its public representation and should provide extensive information about the program (content, requirements, cost and financial aid, etc.), student and applicant responsibilities, and program contact information.

**Principle #8: Identify and develop good faculty, including adjunct faculty.**

A successful program will deliver a quality learning experience, which is heavily dependent on faculty. Faculty should be interested and engaged in online learning, and are often co-designers of such courses.

**Principle #9: Improve retention.**

Online programs typically have greater drop-out rates than traditional higher education, so programs should implement useful screening methods and admissions criteria, provide student orientation programs, encourage student-faculty interaction, and design high quality courses.

**Principle #10: Improve courses or programs.**

Programs must retain and recruit students and faculty, so continuous assessment of student learning is a priority.\(^{22}\)

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\(^{22}\) Ibid.
Next, we take a closer look at two of the principles listed above that are notably integral to ensuring the financial sustainability of distance programs: “Knowing your costs” and “Determining a price.”

**Program Costs**

It is imperative to have an accurate understanding of the current costs of a distance education program so that reasonable projections of future costs can be established. As a distance program grows, all other operations must scale along with it. This includes faculty, materials, registration, support staff, and course quality.\(^{23}\)

Programs must be careful to accurately estimate the costs of developing an online course. Underestimation can jeopardize the long-term growth of a program or even compromise its sustainability. Important factors that affect the costs of an online program include the choice of media and technology, materials and equipment, staffing costs, and course design and production expenses, including time management, resource assignment, formative evaluation, and quality control.\(^{24}\)

There are a number of commercial off-the-shelf cost estimation tools available, but there is a notable lack of publicly available information about best practices for cost estimates. The Center for Learning Technologies at Old Dominion University (ODU) developed a “web-based cost estimation program based on expert evaluations and...years of experience in designing hybrid, synchronous, asynchronous, CD-ROM, two-way video, and online courses.”\(^{25}\)

ODU’s Asynchronous Cost Model (ACM) is intended to help instructors and programs by establishing a framework (through an interactive spreadsheet) for cost estimation.\(^{26}\) According to Stuart, He, and Abdou, the categories covered by the ACM include:

- Instructional design, interface, text, graphics (clean presentation, graphic library, and original artwork), photographs, animation (Flash/2-D, 3-D and simulation), audio (background, voiceover, sound effects, and transcription), video (encoding for streaming, studio/post, and location/post), assessment, learning management systems (LMS), and deliverables (VHS tape, CD-ROM and DVD-ROM).\(^{27}\)

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\(^{25}\) Ibid.

\(^{26}\) The Asynchronous Cost Model is available online at preweb.clt.odu.edu/cost

\(^{27}\) Ibid., pp. 1-2.
Another model for developing and implementing online degree programs comes from MSU Global, an “entrepreneurial business unit” of Michigan State University that works with academic partners “to develop and market online institutes, programs, and services.” The Business Planning and Costing Model (BPCM) is divided into five templates (concept development, proposal formulation, internal approval, implementation, and evaluation) and a Program Costing Model (PCM). The PCM is a cost-planning model that uses an Excel spreadsheet format based on projections over four years that fall under the categories of gross revenues and fixed and variable costs.

**Determining a Price – Alternative Fee Structures**

Once institutions determine the cost of their program, they must find ways to meet that cost. Aside from securing external grants from foundations or federal programs and funding from the home institution, one innovative way of ensuring the financial sustainability of distance programs concerns price setting. According to the August 2009 study commissioned by the Association of Public and Land-Grant Universities (APLU), cited earlier in this report, a common strategy that institutions have pursued is the creation of alternative fee structures for students in online courses. These may include technology fees or entirely different tuition structures for online students.

Some institutions charge technology fees to online students (or all students) to facilitate technology improvements across campus, including technology purchases that support distance education programs. Other institutions maintain separate tuition structures, typically referred to as “e-rates,” that are used to defray the costs of supporting specific online courses or programs. Such rates often provide individual departments with an important tool in recovering costs, particularly when responding to program growth or contraction. One participant in the APLU study explained the benefits of these tuition structures in the following manner:

> Any time you have a completely online program, the students pay the increased cost, and tuition dollars come back to the department. It is expensive to gear up. [Also,]…once you start online, you don’t know from one semester to the next if you are going to have 30 or 300 students. However, when the word is out there and somebody does a good job marketing a program, you may be able to gear up in a hurry and have to have the funds available in order to do this. You cannot wait for the next budget cycle to do it.

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For more information about the BPCM see: www.sloan-c.org/effective/details5.asp?CE_ID=59
31 Ibid., p. 25.
The extent technology fees or alternative tuition structures are used by academic institutions as evidenced in an October 2009 study conducted by the Western Cooperative for Educational Telecommunications (WCET) and The Campus Computing Project. The 2009 “Managing Online Education Survey” gathered responses from 182 administrators from two- and four-year public and private postsecondary institutions in the United States. The study found that at nearly one half of the institutions, online students pay higher tuition than on-campus students. Further, “in some instances students in online programs may confront tuition charges that are 10 percent more than the tuition paid by students in parallel on-campus programs.”32 By contrast, a third of institutions (31 percent) stated that they charge the same tuition for online and on-campus students, while one fifth (20 percent) indicated that students in online programs are charged lower tuition.33

With regard to additional fees, nearly a fifth of respondents (19 percent) indicated that their institutions impose “a one-time registration fee” for online students. Among all participating institutions, this fee averaged $232, spanning from an average of $51 at public master’s colleges to an average of $1,316 at private universities. The study also highlighted other fees pertaining to online students, including: special charges for individual courses (27 percent), technology resources/services (24 percent) and course materials (18 percent).34

33 Ibid.
34 Ibid.
Section Three: Distance Education Program Profiles

The following case studies provide details of the business and fiscal models of a variety of distance education programs. The cases include independent units that are self-funded, colleges or schools within universities that are self-funded, and a subsidized service unit within a university that is overhead funded. The examples in this section are drawn from George Lorenzo’s 2006 article titled “Business Models for Online Education.” We provide updated information on these units where available. Note that fall 2008 student population figures were pulled from the National Center for Education Statistics’ Integrated Postsecondary Education Data System (IPEDS).

Profile #1: Colorado State University

<table>
<thead>
<tr>
<th>Location</th>
<th>Fall 2008 Student Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fort Collins, Colorado</td>
<td>28,882</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type</th>
<th>Fiscal Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carnegie Class</td>
<td>Doctoral/Research Universities—Extensive</td>
</tr>
<tr>
<td>4-year public and above (Land Grant)</td>
<td></td>
</tr>
<tr>
<td>Distance Education Unit</td>
<td>Self-Funded Independent</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colorado State Continuing Education: <a href="http://www.learn.colostate.edu">www.learn.colostate.edu</a></td>
</tr>
</tbody>
</table>

Source: George Lorenzo. “Business Models for Online Education.” pp. 69-71 and IPEDS.

Business Model

Colorado State University’s Division of Continuing Education (DCE) is a “self-supporting unit that develops and delivers distance education degrees and certificate programs, credit and noncredit courses, and custom training for businesses and industry.” DCE serves about 13,000 students each year in both its traditional (face-to-face) and distance education programs.

Al Powell, a program director at the time of Lorenzo’s 2006 article (now Director of Learning Technologies for DCE), describes the DCE’s business model as being centered on “targets of opportunity.” These targets can be industries or state agencies needing specialized training, academic departments seeking to enhance their reach to new audiences, or graduates of community colleges aiming to complete a four-year degree.

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35 We chose to exclude three additional case studies included in Lorenzo’s study. The units featured in these case studies appear to have been significantly restructured or reorganized under other offices/departments since Lorenzo’s writing. See: Lorenzo, “Business Models for Online Education,” op. cit.
36 IPEDS. http://nces.ed.gov/IPEDS/
37 Ibid. “Business Models for Online Education,” op. cit. p. 69
38 Ibid.
When a new opportunity is identified, the program engages the relevant academic department and conducts market research to predict the success of the venture. DCE personnel also create a spreadsheet estimating the costs of development and delivery of the program, as well as the projected revenues.

Allocation of Responsibilities

Academic departments typically initiate requests for courses to be converted or developed for distance delivery and are responsible for establishing the curriculum. The DCE helps facilitate this process by providing suggestions regarding what could be covered in the course based on market research. The primary responsibilities of the DCE, however, include sales and marketing of the courses, as well as providing student registration services. The university provides technical support, while the quality control of course development is handled through a separate Office of Instructional Services. Finally, individual departments are responsible for hiring faculty, though the DCE will sometimes assist in faculty recruitment.

Structure of the Division of Continuing Education

According to the DCE website, the division currently employs 29 individuals, grouped into three sub-divisions: Enrollment Services, Administration, and Program Services. Enrollment Services, constituting the smallest sub-division, is staffed by two enrollment services representatives. Program Services is comprised of 10 program directors, managers, and assistants, as well as two directors of business development and a director of learning technologies. Finally, the Administration, led by an associate provost and director of administration, contains 11 finance, marketing, distribution, and information technology professionals.39

Fiscal Model

Under Colorado state law, most continuing education units operate as “enterprise units” that pay their own bills through tuition dollars.40 The money generated through tuition is split either between DCE and the department, or among DCE, the instructor, and the department. Faculty receive $3,000 in compensation as an incentive to develop online courses, however many faculty do not seek the full amount if their course requires only small adjustments for online delivery.

As explained by Powell, DCE program directors run their divisions as micro-businesses:

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39 “Staff Directory.” Colorado State University. http://www.learn.colostate.edu/contact/staff-directory.dot
40 Lorenzo. “Business Models for Online Education.” op. cit. p. 71
Rather than imposing a financial plan from the top, what [the DCE director] has done is told us that based on what our gross is, we know the percentage of overhead the university gets, and we know the percentage of overhead the administrative operations and continuing education get. For example, I have five different spreadsheets, and I can quote you percentages off any of them—one for the Agricultural Education degree I run, one for the Rangeland Ecology degree I run, etc. I have separate spreadsheets for online courses, correspondence courses and telecourses. So each program director knows exactly what their programs cost and knows exactly what percentage they are getting from any particular type of course. We all work under the directive that we bring these plans forward to the fiscal officer and the director. And every program that we have must be set up as a financially sustainable model.41

It appears that the DCE model has been successful. According to its 2008-2009 Annual Report, the division’s revenues increased by 20% over the previous fiscal year due to the addition of new programs and increased enrollments (primarily in online and distance degree programs).42 Based on this financial success, the division was able to “provide a dividend” from its fiscal year 2009 surplus (i.e., revenue exceeding internal needs). As an enterprise entity that intends to serve the colleges and administration of Colorado State University, the division distributed the dividend of approximately $750,000 to the rest of the institution.43

**Profile #2: Dallas County Community College District (DCCCD)**

<table>
<thead>
<tr>
<th>Location</th>
<th>Fall 2008 Student Population (7 colleges)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dallas County, Texas</td>
<td>68,228</td>
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<table>
<thead>
<tr>
<th>Type</th>
</tr>
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<tbody>
<tr>
<td>Carnegie Class</td>
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<table>
<thead>
<tr>
<th>Distance Education Unit</th>
<th>Fiscal Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>R. Jan LeCroy Center for Educational Telecommunications</td>
<td>Self-Funded College</td>
</tr>
</tbody>
</table>

Website
- Dallas TeleLearning: telelearning.dcccd.edu
- Dallas TeleCollege: dallastelecollege.dcccd.edu

Source: George Lorenzo. “Business Models for Online Education.” pp. 72-74 and IPEDS

**Business Model**

The LeCroy Center for Educational Telecommunications employs approximately 80 individuals who are responsible for administering two programs: Dallas TeleLearning and Dallas TeleCollege. Both of these programs provide distance education courses and services through the Dallas County Community College District (DCCCD). Pamela Quinn, President of the LeCroy Center, notes that the entire operation is self-sustainable.

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41 Ibid., p. 71
43 Ibid. p. 7.
sustaining. “The LeCroy Center does not receive tax dollars directly like a college,”
Quinn explains. “We have to be entrepreneurial to exist.”

According to the LeCroy Center’s most recently available annual report, the Center’s
yearly budget is roughly $9.5 million. Nearly half of the Center’s revenue is generated
through sales and licensing of courseware to other academic institutions. As
described below, tuition and fees are also collected through the Dallas TeleCollege.
Additional sources of revenue include grants from external agencies, charge-backs to
DCCCD colleges for services rendered, and auxiliary enterprises such as rentals of
facilities and technology.

Dallas TeleLearning

Dallas TeleLearning was one of the leading suppliers of programming for the Public
Broadcast System Adult Learning Service before that program ended. Since then, they
have diversified their products and services. In addition to being used by DCCCD’s
member colleges, courses are leased to other institutions across the country for an
annual fee. Courses can be delivered on broadcast or cable television, CD and DVD, or as a streaming
video and tend to serve as college credit-bearing transfer courses in general education areas, including
classes ranging from “English to Business to History and Health and Nutrition.”
These sophisticated
courses are developed in-house and can cost up to $1.5 million each. Despite the high
cost, Quinn explains that “The business plan we use for course development is very
high end and detailed, with the end result being a product that can be used by a lot of
institutions and then scalable within an institution. Multiple faculty can teach the
same course.”

Telecourses are made up of documentaries, professional interviews, narration, and
interactive learning activities combined with a standardized textbook. They are
typically developed by a team of script writers, producers, programmers, and
instructional designers – spearheaded by a faculty member from within the DCCCD
who takes a two-year leave to assist in the course development. According to the
institution, in exchange, the department loaning the professor receives the course at
no cost to offer to students and also benefits from a faculty member enriched and
rejuvenated by the travel and collaboration involved in course development. This
course development process generally requires a great deal of travel and
collaboration, as the development team can be required to interview experts from
across the country throughout the process – often meeting them in person.

44 Lorenzo. “Business Models for Online Education.” op. cit., p. 72
45 “Report to the Community.” R. Jan LeCroy Center for Educational Telecommunications, Dallas Community
47 Ibid., p. 73
Dallas TeleCollege

Dallas TeleCollege constitutes a separate operation, also directed by the LeCroy Center, which offers a full virtual campus to the DCCCD – all courses appear on an official transcript as being offered by one of the branches of DCCCD. The courses provided by the TeleCollege are equivalent to those offered onsite at the Dallas campuses. All tuition dollars generated by Dallas TeleCollege remain with the virtual campus, which is solely responsible for enrollment and program sustainability. As Quinn explains, “It is an internal process that puts us more on the entrepreneurial side. When you enroll students, you get money; when you don’t enroll students, you don’t get money.” The contact hours that are generated by TeleCollege students are allotted to the seven DCCCD colleges to report for state funding purposes.

Additional Revenue Streams

In order to ensure its long-term financial sustainability, the LeCroy Center continually seeks new revenue streams. The Center provides contractual support services including: leasing of conference rooms; downlink of teleconferences; lease of production facilities; use of instructional design and production staffing; delivery of educational programs; and educational telecommunication consulting services.

Profile #3: Duquesne University

<table>
<thead>
<tr>
<th>Location</th>
<th>Fall 2008 Student Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pittsburgh, Pennsylvania</td>
<td>10,106</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type</th>
<th>Carnegie Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distance Education Unit</td>
<td>Fiscal Model</td>
</tr>
<tr>
<td>School of Leadership and Professional Advancement</td>
<td>Self-Funded College</td>
</tr>
</tbody>
</table>

Source: George Lorenzo. “Business Models for Online Education.” pp. 75-77 and IPEDS.

Business Model

Duquesne University’s School of Leadership and Professional Advancement (SLPA) offers a Bachelor of Science in Professional Studies (BSPS). BSPS students may customize their learning program by selecting two concentrations from a variety of topics including behavioral science, computer technology, organizational leadership, professional communication, and security administration, among others.

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48 Ibid., p. 74.
49 Ibid.
50 “Accelerated Bachelor’s Degree at the School of Leadership and Professional Advancement.” Duquesne University. http://www.sites.duq.edu/leadership/bgps/index.shtml
The school also offers graduate instruction through its Master of Science in Leadership program. The program features optional concentrations in business ethics, community leadership, global leadership, information technology, liberal studies, and sports leadership. The school further offers noncredit programs including a paralegal institute, professional coaching certification program, executive certificate in financial planning, and nonprofit leadership institute, as well as customized training and on-site corporate programs.

According to Lorenzo, in developing its programming, SLPA first identifies a need in the continuing education market through close contact with industry professionals and focus group studies involving key stakeholders. With regard to policy, proposed programs require review by an academic council to determine feasibility and often may require state approval. SLPA then works with the budgeting office to ensure that the program will ultimately receive start-up funding.

In order to monitor program quality, the SLPA utilizes a faculty evaluation instrument called the Teaching Effectiveness Questionnaire (TEQ), in which students provide anonymous feedback on their instructors, as well as student satisfaction surveys conducted by Noel Levitz. As one SLPA staff member explains, “We try to get as much feedback as we can directly from the customer. And more important, we try to act on the issues that arise.” To this end, “team leaders” within each discipline work with current faculty and facilitate the recruitment of new faculty. Further, faculty are required to work at the pace permitted by new technologies, with online faculty contractually obligated to respond to students within 48 hours, post at least four substantive messages per week, and grade students’ work in a timely manner.

**Fiscal Model**

While limited information was available on the SLPA’s fiscal model, Lorenzo indicates that after three years a program is evaluated for fiscal feasibility – if a program has failed to generate some form of a profit by that point, it is cancelled.

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51 “Graduate Programs at the School of Leadership and Professional Advancement.” Duquesne University. http://www.sites.duq.edu/leadership/graduate/index.cfm
54 Ibid., p. 76.
55 Ibid., p. 77.
Profile #4: Georgia Institute of Technology

<table>
<thead>
<tr>
<th>Location</th>
<th>Fall 2008 Student Population</th>
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<tbody>
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<td>Atlanta, Georgia</td>
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<table>
<thead>
<tr>
<th>Type</th>
<th>Fiscal Model</th>
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</thead>
<tbody>
<tr>
<td>4-year public</td>
<td>Self-Funded Independent</td>
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</table>

<table>
<thead>
<tr>
<th>Distance Education Unit</th>
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</thead>
<tbody>
<tr>
<td>Georgia Institute of Technology Distance Learning &amp; Professional Education</td>
</tr>
</tbody>
</table>

Website
Georgia Institute of Technology Distance Learning & Professional Education: [www.cdl.gatech.edu](http://www.cdl.gatech.edu)
The Global Learning Center: [www.gatechcenter.com](http://www.gatechcenter.com)

Source: George Lorenzo. “Business Models for Online Education.” pp. 77-80 and IPEDS.

### Business Model

The Distance Learning and Professional Education (DLPE) program at Georgia Tech offers distance learning towards a degree, professional education, an ESL program, and conferencing and space rentals. Master's degrees are offered in aerospace engineering, environmental engineering, mechanical engineering, computational science and engineering, industrial engineering, medical physics, computer engineering, information security, and operations research. According to a 2008 annual report, the DLPE recently introduced a new Professional Master’s in Applied Systems Engineering (PMASE). Distance learning courses are delivered via the internet and students interact with faculty and classmates through email, telephone and threaded discussion.

### Allocation of Responsibilities

As explained in Lorenzo’s article, the DLPE is involved in all business planning and marketing functions. The program uses MSU Global’s Business Planning and Costing Model (BPCM), mentioned above, as a guideline for developing new courses. In terms of actual course delivery, the DLPE is responsible for recording, coding, digitizing and archiving live courses.

### Fiscal Model

According to Lorenzo, the DLPE keeps 79% of the tuition revenue generated by its distance degree programs; the remaining amount is primarily allocated to faculty as non-compensatory discretionary money. This money allows faculty to travel to

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conferences, hire graduate students, or buy equipment. The DLPE also tries to obtain grant and investment funding where possible, and is heavily committed to maintaining its Global Learning Center.\textsuperscript{60}

The Global Learning Center provides another example of how a distance learning program can diversify its funding streams. The Center is marketed as “a professional meeting and learning facility ideal for corporate meetings, conferences, and seminars,” featuring over “32,000 square feet of meeting space, including a wireless environment and the ability to send and receive programs from around the world from any meeting or conference room or amphitheater.”\textsuperscript{61} The Center brought in $2.6 million in gross revenue during fiscal year 2008.\textsuperscript{62}

As stated in its Annual Report, DLPE revenues totaled $22.3 million for fiscal year 2008 (excluding state funding). This figure includes $5 million from distance learning and $12.5 million from professional education. Ultimately, DLPE was able to return $8.5 million to Georgia Tech. As the vice provost explained, “We continued to return nearly $3 to Georgia Tech units for every dollar in state funds received.”\textsuperscript{63}

\textbf{Profile #5: University of Massachusetts Lowell}

<table>
<thead>
<tr>
<th>Location</th>
<th>Fall 2008 Student Population</th>
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</thead>
<tbody>
<tr>
<td>Lowell, Massachusetts</td>
<td>12,471</td>
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<table>
<thead>
<tr>
<th>Type</th>
<th>Carnegie Class</th>
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<tbody>
<tr>
<td>4-year public and above</td>
<td>Doctoral/Research Universities—Intensive</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Distance Education Unit</th>
<th>Fiscal Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Division of Continuing Studies, Corporate and Distance Education</td>
<td>Self-Funded Independent</td>
</tr>
</tbody>
</table>

Website
UMass Lowell Continuing Studies, Corporate and Distance Education: www.continuinged.uml.edu

Source: George Lorenzo. “Business Models for Online Education.” pp. 80-82 and IPEDS.

\textit{Business Model}

University of Massachusetts Lowell’s Division of Continuing Studies, Corporate and Distance Education serves approximately 20,000 enrollees annually.\textsuperscript{64} The division offers a variety of online degrees and certificates including undergraduate degrees in information technology, psychology, and liberal arts, as well as graduate degrees in business administration, criminal justice, and educational administration. Online certificate programs cover an extremely wide range of subjects, including website design and development, paralegal studies, security management and homeland

\textsuperscript{60} Ibid.
\textsuperscript{61} Georgia Tech Global Learning Center. http://www.gatechecenter.com/
\textsuperscript{63} Ibid., pp. 2 and 25.
\textsuperscript{64} Lorenzo. “Business Models for Online Education.” op. cit., p. 80.
security, plastics engineering fundamentals, clinical pathology, and foundations of business.65

The division’s business model is driven by Massachusetts-specific legislation that requires continuing education programs to be fully self-sufficient. As a result, the business plan includes development costs, forecasts for revenue, and predictions for return on investment. The rigorous planning process involves meetings with deans and departments, the identification of new markets, and projected costs for developing courses and supporting the initiative.66

Allocation of Responsibilities

The division is responsible for the business plan, but also for course development, faculty support and development, technical support for students, and marketing plans and services for the programs. It also participates in UMass Online, the online course portal for several University of Massachusetts institutions.67

Fiscal Model

As noted above, Massachusetts’ legal code requires continuing education to be self-supporting and operate at no cost to the commonwealth. Consequently, the Division of Continuing Studies is responsible for establishing tuition rates—these rates can be set based on market value but an effort is made to keep prices similar to those of state-supported programs. In addition, 10% of the division’s gross revenues are allocated to UMass Online.

According to Lorenzo, to achieve return on investment, the division aims to exceed a program’s break-even point by 15%. Ultimately, a given program is required to at least break even after three years (although factors such as how the program fits with the institution’s brand and mission can mitigate this rule).68

65 “Online Degrees & Certificates.” University of Massachusetts Lowell, Continuing Studies, Corporate & Distance Education. http://continuinged.uml.edu/online/CertDegrees.htm
68 Lorenzo. “Business Models for Online Education.” op. cit., p. 82.
Profile #6: University of Central Florida

<table>
<thead>
<tr>
<th>Location</th>
<th>Fall 2008 Student Population</th>
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<tbody>
<tr>
<td>Orlando, Florida</td>
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<table>
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<th>Type</th>
<th>Carnegie Class</th>
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<tr>
<td>4-year public and above</td>
<td>Doctoral/Research Universities – Intensive</td>
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</table>

<table>
<thead>
<tr>
<th>Distance Education Unit</th>
<th>Fiscal Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Administration: Information Technologies and Resources</td>
<td>Subsidized Service Unit – Overhead Funded</td>
</tr>
<tr>
<td>Primary Units:</td>
<td></td>
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<tr>
<td>Center for Distributed Learning</td>
<td></td>
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<tr>
<td>Course Development and Web Services</td>
<td></td>
</tr>
<tr>
<td>Research Initiative for Teaching Effectiveness</td>
<td></td>
</tr>
</tbody>
</table>

Website

Online@UCF: online.ucf.edu
Information Technologies and Resources: www.itr.ucf.edu
Center for Distributed Learning: www.online.ucf.edu/distributed.php
Course Development and Web Services: www.cdws.ucf.edu
Research Initiative for Teaching Effectiveness: http://pegasus.cc.ucf.edu/~rite/


Business Model

According to Joel Hartman, Vice Provost for Information Technologies and Resources at the University of Central Florida, Online@UCF can be described as an:

Activity of the institution – not an activity of a piece of the institution. All of the academic colleges to a greater or lesser extent are offering online programs and/or blended learning courses. So, you can think about this as a fully integrated activity that coexists alongside face-to-face delivery, and that involves the same academic planning procedures, and the same kinds of goals and strategies, although they tend to be different with online because of unique opportunities. It is the same faculty and the same programs, in most cases. It is a core business of the institution.  

Online@UCF is housed in the institution’s Center for Distributed Learning. The unit offers seven undergraduate degree completion programs, eight graduate degree programs and 12 graduate certificates, along with hundreds of courses each semester from nearly all academic areas.

According to the director of the Center for Distributed Learning, Online@UCF does not operate under a strict business model. Instead, it essentially follows a planning process whereby departments contact Online@UCF and then work together to develop a given online course. As explained by the director, “They [colleges or departments] contact me or get referred to me and I initiate the process of clarifying

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69 Lorenzo. “Business Models for Online Education.” op. cit., p. 84.
what it is they want to do, for whom, what’s the time frame, what are the courses involved, who are the faculty – and then we try to get them into the queue (for training and course development) so that their goals, plans, and timelines are met by our support services.”

Allocation of Responsibilities

Online@UCF coordinates program planning, internal and external relationships, accreditation, and policy. Each term, Online@UCF organizes a large meeting with all of the deans and senior staff of the UCF colleges to address departmental needs and inquiries. With the support of the Research Initiative for Teaching Effectiveness, a division of the Center for Distributed Learning, Online@UCF also collects data and generates reports to improve online learning initiatives. For example, in the past, Online@UCF staff have produced a document titled “UCF Access, Quality, and Efficiency through Online Learning” each term, providing details on the extent of online learning at the university. As noted by the director of the Center for Distributed Learning,

The idea is to share with them a spreadsheet in which all of the productivity data for each college is broken down by the different instructional modalities – everything from face-to-face to fully online courses and all the variations in between. Since it is broken down by college, they can look and see in their own college what percentage of their activity is in certain modalities, what the productivity levels are, and where those productivities are being gained.

Fiscal Model

Online courses are treated no differently than face-to-face courses at UCF in terms of funding. Departments receive funds from the overall institutional budget. Lorenzo explains that since the institutional budget is tied to enrollment growth, the university is extremely interested in accommodating student demand for courses, and Online@UCF has served as a “strategic resource for accommodating institutional growth.” Annual revenues from online students totaled more than $23.5 million for the academic year 2004-2005, representing a return on investment of nearly 10 to 1. This is in addition to an estimated $4.5 million saved by avoiding “brick-and-mortar” projects to accommodate enrollment.

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71 Lorenzo. “Business Models for Online Education.” op. cit., p. 84.
72 Ibid., p. 85.
73 Ibid., p. 86.
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