

Global on-line distance education

A business primer for universities and business schools



March 2008

Contents

Foreword	2
Going global	2
Where is distance learning going?	3
The strategic significance of distance learning	3
Why develop a 'global business' in education based on distance learning?	4
The level of our ambition	4
Understanding costs	5
An effective marketing strategy	6
The revenue model for the business	7
Modelling reality	8
Initial investment	8
Other CAPDM papers	13

Foreword

Almost every university or college in the UK has a Strategic Plan that includes ambitions for growth (increased student numbers, particularly at postgraduate level), commercialisation, excellence in learning and teaching and in knowledge management, and, of course, to explore and exploit diverse modes of learning.

There are many possible tactics to meet the many objectives in these plans such as creating spin-out companies and commercial income streams, but one is the development of learning and teaching provision and infrastructure to exploit alternative learning opportunities, including distance and on-line learning.

This white paper examines the reasons why tertiary education providers should set up global distance education businesses, and the benefits of doing so. It finishes with a practical spreadsheet that can be used to model the realistic revenues from establishing a business based on a full Masters level programme and continuing professional development.

Going global

Distance and on-line education opportunities bring many benefits, including financial. In the 1960s business schools worldwide reacted to the business need for management education by devising the MBA programme. This is still an income, and reputation generator for most business schools, though many are finding it increasingly difficult to recruit. Expectations have changed, and increasingly more potential students would prefer education to fit into their lifestyle, not for them to have to fit into the restrictions of our institutions. Many of our business schools are now faced with attracting students who are working professionals into Masters programmes that demand a year of full time study. This is not sustainable as the only option to be pursuing.

Many UK universities have now embraced distance learning as an essential option for teaching postgraduate students. Some have taken a tentative step into this, but have not addressed the issues of scalability and commercialisation. High quality, high volume education is possible but it needs a formal footing, including the development of a highly advanced knowledge management infrastructure, high quality learning materials, and innovative and flexible approaches to student administration. With the right model, a good product, and attractive market characteristics substantial additional income streams can be generated.

On-line distance learning is not an option for some universities, programmes and business schools. For success, there must be a mix of ambition (e.g. to be a global educator), motivation and capability. Most universities have the raw capability to take this path, but probably not the coherence and capability to manage and deliver. The overall benefits are not necessarily just financial. There is the potential of building a strong research base – in education, knowledge management and e-commerce – as well as an improvement to the quality of the student learning experience.

Where is distance learning going?

Demand for, and implementation of, distance learning is increasing worldwide. People today are very comfortable with it and are more accepting of it because of the Internet. In the US, overall online enrolment rose from 1.98m in 2003 to 2.35m in 2004. The number of internet users surpassed 1bn in 2005, and is expected to reach 2bn by the year 2011, with much of the future use coming from countries such as China, India, Brazil, Russia and Indonesia

Demand for a diversifying and broadening base of CPD is similarly increasing. In 2007, the OECD highlighted that only 10% of UK firms currently interact with universities, and that the majority of these links focus on big business and a few hi-tech fields. With services now accounting for 70% of the OECD workforce, there is a widening demand for service-oriented CPD. Cultural industries are becoming a major driver globally, accounting for 7% of GDP and growing at 10% annually.

Historically, delivery of distance learning has been of variable quality due to inadequate use of technologies and low levels of investment and commitment. Today's technologies allow us to deliver quality distance learning that is highly effective and meets the demand and expectations of students.

The key to success in distance learning today is content quality and effectiveness of the overall learning and teaching processes. Whether used in a 'mixed learning' environment or on its own, distance learning is going to become an important option in the near future.

Distance learning will become an important option in the very near future.

The strategic significance of distance learning

Distance learning is the only way for many students across the world to access education, and the number that want this access is increasing rapidly.

There is also a growing requirement for supplementary education via distance learning, either as part of a learning programme or for extended learning (e.g. for professional development).

The UK and, in particular its universities, are in a strong position to deliver the distance learning programmes that people require, if only because of language.

The universities have the subject knowledge, the expertise in teaching and learning and the computing/communications technologies and skills to deliver distance learning programmes of the highest quality.

Some commercial enterprises have spotted this opportunity, but it is the universities themselves that are in the best position to take the broader initiative for themselves, and for the UK.

Implementing high quality distance learning programmes brings many potential benefits to a university:

- It can enhance the university's reputation;
- It can generate substantial additional funding that can be used to support a wide range of university activities including research, department development and new teaching programmes;

- It builds on-going relationships with individual students and student groups for both on-campus and off-campus programme participation in the future;
- It builds an 'asset base' of teaching materials that helps the university maintain educational standards and deliver both on-campus and off-campus programmes on an on-going basis, without interruption;
- It helps university staff to develop the advanced teaching skills and disciplines that are becoming an essential requirement in today's digital world.

Why develop a 'global business' in education based on distance learning?

Students will sign up for programmes that they can trust, programmes with good credentials and a solid reputation for delivery.

They will therefore be more inclined to commit to a programme with a provider that is an 'established name', with a well organised distance learning programme.

The programme management and delivery processes must be reliable and flawless. When a system is in place that works well, it works well for everyone, and you can run as many programmes for as many students as you want.

The incremental cost of taking additional students onto a distance learning programme is low compared to the development cost. So the more students you have registered, the more programmes you will be able to fund and the more effective you will be at delivering education to the world.

A global business in education is built gradually over a period and relies on having an effective market strategy.

The level of our ambition

Distance learning experts are easy to find. Successful distance learning developments are less common.

The Scottish Funding Council has pointed out that Scottish tertiary education institutions are generally at the 'cottage industry' stage of development in e-learning, and in distance learning in particular. There is generally no institutional drive or approach, but there are many pockets of interest, innovation and piecemeal development. Most universities are developing a number of smallscale distance programmes but few are developing large-scale, incomegenerating programmes as yet. Most who would claim to be doing this have reached a relatively low upper level that they can support.

This begs an important question: is distance learning seen as an off-campus extension of the limited class sizes taught on-campus, or is it seen as a departure that takes our education globally and educates large numbers of students? The former will maintain traditional cost bases, limits the numbers of students that can be supported, brings in minimal income and is heavily reliant on staff time. Distance and on-line learning presents an opportunity to

innovate, to make education more appropriate for changing lifestyles, and to generate new income streams.

It is important to ask whether the institution is looking to educate 5, 50, 500 or 5,000 students on a distance programme.

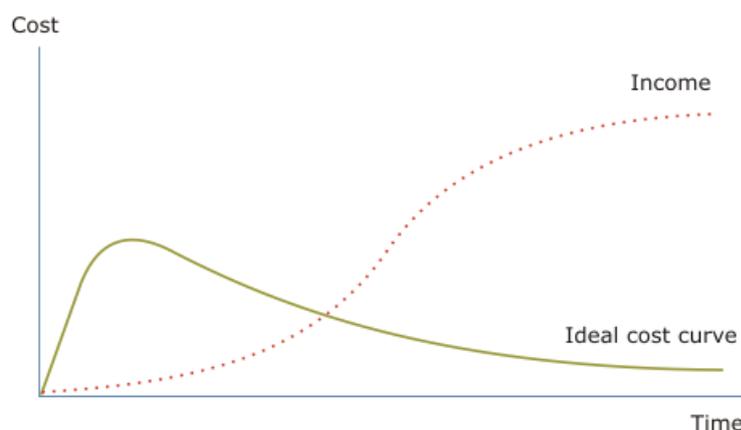
Understanding costs

Developing new programmes takes time, effort and a level of investment. You may already have all the knowledge and experience needed to develop distance programmes with the minimum of effort – and hence, cost. The success of a programme, however, is not its launch but its continued successful operation.

There are many parameters to success. Financial viability is an obvious priority, but the initial and continued support and interest of staff is vital. It is essential that the demands and the rewards of the programme are attractive to staff involved in its operation. Launching any programme, but especially a distance programme, exposes an institution. It must ensure that the quality of the programme is unassailable; it has to ensure that the necessary support is offered to the students, and it has to ensure that the legal commitment it is entering into with the student can be honoured over its lifetime (which may be lengthy, depending on regulations).

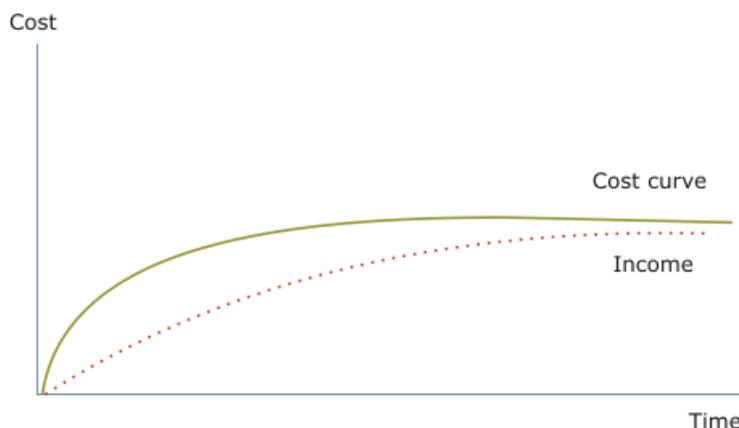
Costs must be controlled. They are heavily influenced by decisions about the business and operating model, and pedagogical choices. Choices in the latter category can be subjective and ill-informed. Distance and on-line education represents a departure from the on-campus norm and should be seen as merely an extension of on-campus practices.

The ideal profile is one where income obviously exceeds costs, but also one where the costs are controlled, particularly during periods where the overall offering undergoes improvement and revision. It must also be a model where operational problems are minimised through effective administrative support and through motivated staff involvement.



Ideal programme revenue profile where income exceeds costs

The worst case is where the income never exceeds unnecessarily high costs. This can be due to a combination of poor marketing, lack of desire to increase student numbers, lack of commitment (particularly to the long term) and poor designs and use of technology.



Worst case profile with high costs and flat income growth

Is it worth it? The answer has to be 'yes' for many reasons. It represents part of the future of education, it can be financially lucrative, it can help to change the culture of the university to that of a true knowledge institution, it can enhance the visibility and reputation of an institution globally, and it can add significant quality to many programmes.

An effective marketing strategy

Suppliers of distance learning programmes must have an effective market strategy. Without this, any distance learning programme will struggle to succeed – and there have been many examples of this. The following summarises the reasons why an effective market strategy is important.

- Distance learning programmes are only successful if sufficient students enrol for the programme. 'Sufficient' in this case is enough to:
- Pay for the cost of developing the programme
- Provide some return on this investment
- Pay for programme administration
- Generate sufficient funds to support ongoing programme development.

Most programmes that fail do so because of lack of funds due to insufficient students.

As with all teaching, distance programmes are based on a partnership between students and the programme providers. Forming that partnership involves a number of steps:

- Introduction
- Familiarisation
- Bonding
- Formalisation of the partnership

In this relationship it is the students that choose their partner. They choose from available programme providers and, for distance learning programmes, there can be many to choose from. They also choose whether to enrol for a programme in the first place (i.e. whether to undertake any form of programme) and what form of partnership they want – e.g. distance learning or on-campus. What is going to make them choose your institution? Being 'you' is not enough. Having the best options for students who can, and will, make a choice is essential.

The revenue model for the business

The second part of this paper examines the business modelling spreadsheet CAPDM uses to model the revenues and returns to the various stakeholders of the new distance education business. This spreadsheet is available from here:

[BusinessPlan.xls](#)

There are two programme variants modelled in the spreadsheet but with broadly the same structure. They are:

1. a pure CPD offering;
2. a full Masters level programme assuming nine 20 credit modules.

There are obvious variables for numbers of students but the spreadsheet includes a number of inputs, as follows:

- **Module Cost:** this is either the cost of a course or of a CPD module
- **Selling Cost:** We assume a top-sliced margin to cover costs of sales or to allow a discount. This may be zero. This leaves a net income from a module.
- **Sales & Marketing:** a separate allowance for sales and marketing, e.g. for advertising. It is common to use a percentage of the net income to cover this.
- **Authors:** in our experience it is essential to motivate the people who will input to a sustainable business. This is basically a royalty payment available as long as the party is involved with the business.
- **Fulfilment:** a percentage to cover ongoing content management and delivery, and to ensure that the best options are available for the product in the long term.
- **Reinvestment:** no business should be seen as a one-off or as being static. This is a percentage set aside to maintain the course or programme, and to enable reinvestment to be made in other programmes

The final percentage is the return either to the CPD business, or to a combination of business school and university in the MSc case. CPD is of direct interest to the business schools as this income tends to belong to a business school, and not necessarily shared with the University.

We have included illustrative figures in each of these categories, and in **Part I** of each spreadsheet we have plotted this against the potential numbers of students. Note that this table assumes all students spending on all courses within the same year, which is never the case.

Modelling reality

In Part II of the CPD model and Part III of the Academic model we have included a more realistic student numbers projection, including a *drop out rate* and an *average time to complete*. We have kept these low, but do bear in mind that the large Heriot-Watt distance eMBA programme runs with about 8,500 current students (though not all students progress through to doing the full 9 course MBA), and has about 1,500 new students each year (many of whom buy only one course). We have also, obviously, assumed that courses are available singly, i.e. that the programme is *sold modularly*.

In **Part II** of the Academic model, we have included two entries that provide a separate income stream, other than that from direct sales of modules.

There is good sense in having a separate fee for assessment (examination). Students often need resits or they may register for an exam and not appear. Each of these cases, plus the initial exam fee, should be separated. In a university environment this money will go straight towards the running costs of the programme, particularly assessment administration, and there is good sense in keeping it separate from the income streams that will go to the business school.

The *Tuition* line assumes that there is no face-to-face tuition offered as default, but that it may be something that some students want. Again, in our experience, this can be a profitable and separate business that could be organised by third party providers. There is, however, a QAA requirement that there is an approval process put in place by the University but this can still be a useful strand to the product offering. We have put a low figure in there, but a real figure will depend entirely on what a local market will bear.

The figures can look good at this level, but there is a lot of work goes into getting to this stage.

If MSc courses are well structured and highly modular then that provides a starting point for everything, including the CPD. Ideally, the CPD modules should be a clone of the MSc courses, offered without assessment in a pure CPD case (though the delivery platforms may track progress) and with assessment to be exactly in line with the needs of the MSc programme. This latter situation offers the potential of students starting out with CPD modules, but being able to translate success in them to enter a full MSc programme, i.e. an implementation of a prior accreditation scheme.

Initial investment

In both models, we have included a sum for the initial investment in the development of the programme materials. This is not strictly necessary, as programmes can be authored and produced in a variety of ways.

One successful programme we are aware of was authored at no cost, as the authors agreed to waive all short term payments in lieu of long term royalties. This worked because the programme leader, an author himself, was well respected and able to command the necessary commitment from all parties to drive the programme through to success.

Other programmes are funded by either expecting authors to develop materials as part of their normal academic duties (usually a costly management approach), paying authors the full amount for their authoring

effort (requiring a deep pocket), or some combination of both with an element of reward sharing.

However the authoring work is funded for the programme, it rapidly becomes apparent that clear *Author agreements* are critical to the sustained success, and in keeping programme management costs down.

Apart from covering the obvious life-event issues that are likely to arise in the duration of a long programme, a key component of this agreement is its ability to motivate authors to continuously improve their materials on reasonable timescales, and to exploit new delivery technologies and designs as they are adopted for use in the programme. Sharing a programme's success is a strong motivator for all stakeholders.

Ideally, Author agreements will also ensure that all intellectual assets are always readily available to the institution, which is then able to continuously manage, cherish and exploit them over many years of programme development and growth, as people come and go.

The initial investment required for the production of the programme materials can also be achieved in a number of ways. The figure of £8000 to produce one distance learning module has been used to illustrate a typical professional production cost excluding authors fees. This sum includes the necessary professional workflows to publish multiple high-quality course components in print and online, and represents an average of content complexity, interactivity and density.

This cost can be reduced by choosing to license 3rd party materials from commercial academic publishers or bodies instead. This option can speed up the time to market for some programmes, but usually comes at a price well beyond the book fee. It tends to reduce the flexibility and consistency of the resulting programme materials, as adaptation of the original content is generally not permitted. In addition, even paying an average book fee of say £30 rapidly mounts up when a programme becomes successful, and this is money that is lost from any system reinvesting the programme revenues into growing the institution's own digital knowledge repository. Even developing study guides that wrap around publishers' texts will require the development of a professional style and production capability for the programme's in-house materials, and it is often more cost effective to have the same capability produce all materials for the programme.

Another way to defer initial production costs is to take up the offer that many commercial eLearning or training systems providers are offering that tie you into their platforms and channels for delivery. This can be a good option for small institutions or departments unable to manage the programme development and delivery process themselves, but it is not an asset building approach in the longer term.

In CAPDM's experience, the highest returns from successful distance higher education programmes, are made where the value of the programme materials is recognised from the start, and where an investment strategy is used to establish flexible, reusable, standards-based materials assets that can be delivered in a blended way over many years. Such an approach also tends to simplify the programme management, giving more control to managers to adapt and develop the programme independently of third party copyright licensors, business partners and proprietary technology vendors.

CPD Business Model

=Change!

=Calculate

=Assume

Part I Direct Business

			No. of Students							
			100	500	1,000	2,000	4,000	6,000	8,000	10,000
Module Cost:	£100		£40,000	£200,000	£400,000	£800,000	£1,600,000	£2,400,000	£3,200,000	£4,000,000
Selling Cost:	10.0%	£10	£4,000	£20,000	£40,000	£80,000	£160,000	£240,000	£320,000	£400,000
Net Income:	£90		£36,000	£180,000	£360,000	£720,000	£1,440,000	£2,160,000	£2,880,000	£3,600,000
	<i>from which</i>									
Sales & Mtk:	15.0%	£14	£5,400	£27,000	£54,000	£108,000	£216,000	£324,000	£432,000	£540,000
CPD Business	50.0%	£45	£18,000	£90,000	£180,000	£360,000	£720,000	£1,080,000	£1,440,000	£1,800,000
Authors:	10.0%	£9	£3,600	£18,000	£36,000	£72,000	£144,000	£216,000	£288,000	£360,000
Production:	15.0%	£14	£5,400	£27,000	£54,000	£108,000	£216,000	£324,000	£432,000	£540,000
Re-Investment:	10.0%	£9	£3,600	£18,000	£36,000	£72,000	£144,000	£216,000	£288,000	£360,000
Total:	100.0%									

Part II	Total No. Modules:	4
	Years to Complete:	1

Example: Assumptions about Sales

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Sales:		250	275	303	333	366	403	443	
% Growth Rate	10								
Effective No. Students:		250	275	303	333	366	403	443	
INCOME	Gross:	£100,000	£110,000	£121,000	£133,100	£146,410	£161,051	£177,156	
	Net:	£90,000	£99,000	£108,900	£119,790	£131,769	£144,946	£159,440	
	CPD Business	£45,000	£49,500	£54,450	£59,895	£65,885	£72,473	£79,720	
	Investment:	-£8,000	-£5,000	-£9,900	-£10,890	-£11,979	-£13,177	-£14,495	-£15,944
RETURN	Net:	£70,000	£89,100	£98,010	£107,811	£118,592	£130,451	£143,496	
	CPD Business	£25,000	£39,600	£43,560	£47,916	£52,708	£57,978	£63,776	

Discount Rate: 5.00%

NPVs

£605,089
£258,664

MSc Business Model: Single Supplier

=Change!

=Calculate

=Assume

Part I Direct Business

Module Cost (Gross):		£800
Selling Cost:	20.0%	£160
Net Income:		£640
<i>from which</i>		
Sales & Marketing:	20.0%	£128
University	25.0%	£160
School	25.0%	£160
Authors:	10.0%	£64
Fulfilment	10.0%	£64
Reinvestment:	10.0%	£64
Total:	100.0%	

No. of Students (assuming a one year spending pattern)

	100	200	400	600	800	1,000	1,500
£240,000	£480,000	£960,000	£1,440,000	£1,920,000	£2,400,000	£3,600,000	
£48,000	£96,000	£192,000	£288,000	£384,000	£480,000	£720,000	
£192,000	£384,000	£768,000	£1,152,000	£1,536,000	£1,920,000	£2,880,000	
£38,400	£76,800	£153,600	£230,400	£307,200	£384,000	£576,000	
£48,000	£96,000	£192,000	£288,000	£384,000	£480,000	£720,000	
£48,000	£96,000	£192,000	£288,000	£384,000	£480,000	£720,000	
£19,200	£38,400	£76,800	£115,200	£153,600	£192,000	£288,000	
£19,200	£38,400	£76,800	£115,200	£153,600	£192,000	£288,000	
£19,200	£38,400	£76,800	£115,200	£153,600	£192,000	£288,000	

MSc Business Model: Single Supplier

=Change!

=Calculate

=Assume

Part II Indirect Business

Assumes students study 3 modules per year, and separate assessment charges

Modules per year:	3							
Assessment Costs:	£65 per module	£19,500	£39,000	£78,000	£117,000	£156,000	£195,000	£292,500
Tuition:	£50 per module	£15,000	£30,000	£60,000	£90,000	£120,000	£150,000	£225,000

Example: Assumptions about Student Numbers

Part III	Total No. Modules:	9 (not used)							
	Years to Complete:	3							
	Drop Out Rate:	30%							
			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
	Annual Intake:		20	50	50	50	50	50	50
				14	10				
					35	25			
						35	25		
							35	25	
								35	25
									35
	Effective No. Students:		20	64	95	110	110	110	110
	INCOME	Gross:	£48,000	£153,600	£227,520	£262,800	£262,800	£262,800	£262,800
		Net:	£38,400	£122,880	£182,016	£210,240	£210,240	£210,240	£210,240
	RETURN	Gross:	£48,000	£153,600	£227,520	£262,800	£262,800	£262,800	£262,800
		Eff. Net:	£42,240	£135,168	£200,218	£231,264	£231,264	£231,264	£231,264
		University	£10,560	£33,792	£50,054	£57,816	£57,816	£57,816	£57,816
		School	£10,560	£33,792	£50,054	£57,816	£57,816	£57,816	£57,816
		Authors:	£4,224	£13,517	£20,022	£23,126	£23,126	£23,126	£23,126
		Fulfilment	£4,224	£13,517	£20,022	£23,126	£23,126	£23,126	£23,126
		Reinvest:	£3,840	£12,288	£18,202	£21,024	£21,024	£21,024	£21,024
	Discount Rate:	5.00%							
	Initial Investment:	-£72,000							
	NPVs								
		£1,114,564							
		£972,176							

Other CAPDM papers

CAPDM has a number of other white papers and monthly briefing papers which can be downloaded from our [website here](#) :

White papers:

“An introduction to distance learning” - a primer for tertiary education providers.

“Surmounting the barriers” - a paper to help your institution get started with distance learning.

“Market strategies for distance learning programmes” - a paper for higher education providers.

Monthly briefing papers:

- **“March 2008 - Learning Objectives and Competency Frameworks”**
- **“February 2008 - Assessments, Learning Objectives and Progress Reports”**
- **“January 2008 - The need for a new publishing workflow”**
- **“December 2007 - Computer Aided eAssessment”**
- **“November 2007 - DL - the future of Professional Development?”**
- **“October 2007 - VLEs - the student view”**
- **“September 2007 - Cost-effective production of learning materials”**
- **“August 2007 - Improving student retention”**
- **“July 2007 - Sustainable programmes”**
- **“June 2007 - XML opens doors”**
- **“May 2007 - Distance learning or blended learning? - Focus on the customer”**
- **“April 2007 - Treat all Students as Distance Learners”**
- **“March 2007 - Avoiding the VLE trap”**