



University.com: The Changing Economics of Higher Education

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Every Monday morning, 3,600 professors, standing at 3,600 lecterns, teach 3,600 versions of introductory microeconomics. Repeat the task 3,600 times and not automate it?

It's nothing you'd bank on.

Or is it?

Adult education is big business - \$330 billion a year. It just hasn't acted like it. Until now. The Internet is changing the economics of higher education in the same way it changed the economics of retail trade. The chief problem with making a business of higher education is that instruction is costly.

The Industrial Revolution did little to improve the production and distribution of knowledge. Ergo, while the cost of higher education has skyrocketed, universities have historically lost money on instruction, while keeping afloat with government subsidies and alumni donations.

Today, the Web is threatening to make higher education profitable. The Internet addresses two of the highest-cost items faced by the old world of education: physical infrastructure and tenured faculty.

New York University, one of the nation's largest providers of adult education, kick-started a for-profit Internet division last year. The goal: Create courseware that can be licensed to other universities, as well as used internally to lower instruction and infrastructure costs.

Insiders claim that NYU started its own courseware

company because it was miffed at a no-name, for-profit university that academics have enjoyed ridiculing for the last 23 years. The school in question is the University of Phoenix, a division of the Nasdaq-listed Apollo Group (APOL) and a company with \$2.3 billion in annual revenues.

Phoenix, once ridiculed as the McDonald's of Higher Education, is now America's largest private university, with 66,000 students in 32 states, Puerto Rico and London. Originally a vast chain of strategically located commuter campuses for thirty-something adults, Phoenix has lately zeroed in on Internet-enabled distance-degree programs in business, education, health care and information technology.

The Internet isn't just another educational technology; it's a disruptive technology. Academics envisioned the Net as another tool - the next filmstrip. But this assumption misses the transformational trend. The Internet will transform education the way Henry Ford's assembly line changed automobile manufacturing. The Internet can provide standardized courses, reach global markets, allow for rapid updating with new knowledge, eliminate Ivory Tower overhead, and replace tenured faculty with less costly freelancers.

It used to be that if you wanted an MBA you had to live near a physical campus and pay the sticker price. Now, many educational institutions offer an amazing array of campus-free diplomas. Shop for a MBA online and you will find dozens of options with prices ranging from \$4,950 to \$82,500.

Consumers think that higher education costs too much and delivers too little. On the Internet, the customer pulls the strings. Offer enough people a choice of 50 virtual MBA programs, instead of two within driving distance, and see what happens. Amazonian selection will create a commercial marketplace where one failed to exist before.

Brands known for their professional certification power are now becoming universities. Stanley Kaplan, the test-preparation company owned by the Washington Post, last year opened its own virtual law school.

And Kaplan is not alone.

Sylvan (SYLN) Learning Systems, a company that once simply tutored kids on taking exams, has plans to buy a 54 percent interest in Spain's largest for-profit university, Universidad Europea de Madrid, for \$51 million. Why Spain? Sylvan sees an emerging middle class there that will soon demand as much continuing education as Americans.

On the Net, education is a process, not a place. What is learned is more important than where it's taught. With online learning, people can get training and educate themselves, rather than waiting for faculty to write a costly, multiyear prescription.

The Internet will offer a chance to make real profits from education, while offering students a choice about who will educate them and at what price. There's big money for universities that understand that the Net is more than a 21st-century equivalent of the filmstrip.