

# University of Tennessee System

## *Online Market Opportunity Assessment*

### *Huron Report*

*January 4, 2022*

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## PURPOSE OF REPORT

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The University of Tennessee System (“UT System” or “the System”) seeks to explore potential opportunities to expand its educational offerings through online modalities. The System aims to strengthen its standing as a leader in a rapidly changing marketplace for higher education, meeting the needs of citizens in the state of Tennessee and beyond.

System leaders recognize that the institution would likely benefit from initiating a partnership or alliance to achieve substantial and immediate growth in online education for two primary reasons. First, the UT System faces significant competition in online education by established institutions (particularly, from out-of-state providers that Tennessee residents can access). Second, leaders have determined that developing a significant online presence would require investments that may be cost-prohibitive and require more time than is desirable to remain competitive.

Given national and regional enrollment trends, the continued growth of online education, the COVID-19 pandemic, and recent mergers and acquisitions in the market, System leaders expressed interest in exploring options for entering the online education market via strategic alliance. As an initial step, the UT System engaged Huron Consulting Group (“Huron”) to conduct an assessment of the online education market.

This report summarizes Huron’s exploratory work, which is intended to inform UT System leadership’s decisions about the best means for accelerating growth in the online higher education market. This report includes the following sections:

- **The Market in Context** summarizes high-level trends of the national and online higher education market relevant to opportunities that the UT System may contemplate.
- **UT System Opportunities** summarizes Huron’s understanding of the UT System’s objectives, options for entry into the online higher education market, and key decision points.
- **Appendices** include (a) summary of the process for assessing potential partners and (b) case study summaries of recent online education market acquisitions.

## THE MARKET IN CONTEXT

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UT System leaders committed to exploring options for the System to establish a presence in the online education market. This exploration and any resulting decisions will occur in context of the overall online education market, the drivers of growth, and the rationale for entry. Summarized herein are key trends, market examples, and analyses that support the UT System’s rationale for considering the expansion of online education capabilities.

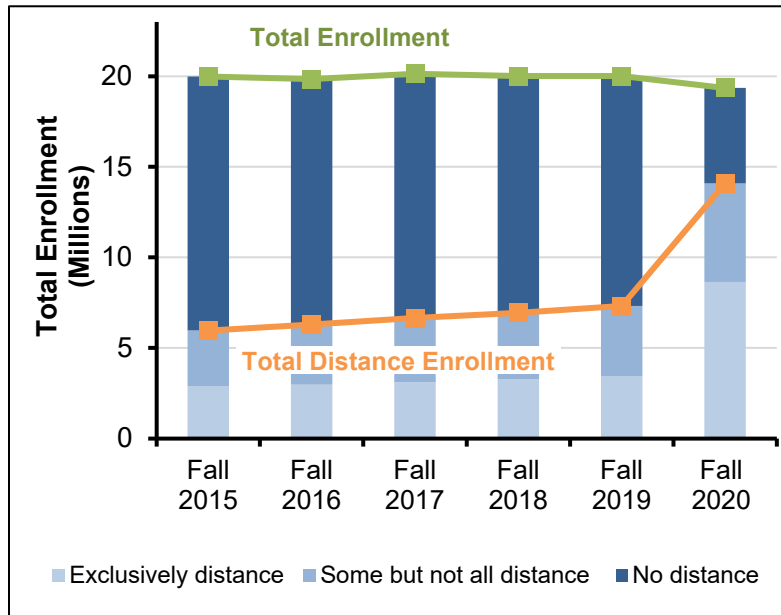
### National Higher Education Market

Even prior to the COVID-19 pandemic, the higher education industry faced several transformative challenges and pressures. Student demographics and needs have diversified due to an increased share of adult learners and a shrinking number of high school graduates entering the market. As such, the cost of serving and retaining an increasingly diverse population of learners has risen. Also, changes in funding models due to declining state and federal support and an increasing reliance on tuition revenue have put pressure on institutional leaders to prioritize sustainable financial strategies. Meanwhile, prospective students and their families are increasingly price sensitive, especially as alternative educational pathways have proliferated.

Amid these realities, traditional higher education institutions face increased competition from remote offerings, certification options, and innovative nontraditional offerings. The landscape of credential providers has been dynamic for several years and is becoming increasingly competitive as in-demand

work skills change within workers' lifetimes. The pace of this change has challenged universities to expand into educational offerings that are nontraditional in content, modality, and outcomes (e.g., certifications in lieu of degrees) as a means of linking learner skills and workforce needs.

**FIGURE 1: TOTAL ENROLLMENT BY LEARNER TYPE (FALL 2015 – 2020)**



Prior to the COVID-19 pandemic, institutional leaders were facing nontraditional education challenges amidst industrywide enrollment declines (total U.S. enrollments declined 3% from fall 2015 to fall 2020).<sup>1</sup> Although recent reports show graduate enrollment increasing (2.1% from fall 2020 to fall 2021) undergraduate enrollments have continued to decline, falling 6.5% since fall 2019.<sup>2</sup>

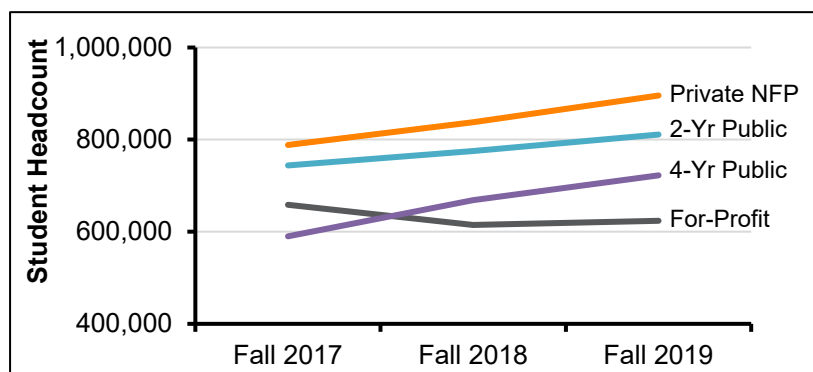
Despite overall declines, what growth is occurring has largely been driven by online enrollment (i.e., distance education or remote learning). Prior to the pandemic, the online market saw a 10% increase in the number of students enrolling in at least one distance education course

since Fall 2017. In Fall 2019, total enrollment in exclusively distance programs totaled over 3 million students—and an additional 3.9 million were enrolled in at least one distance course.

The COVID-19 pandemic necessitated immediate growth in remote learning. While the lasting impact of this rapid change has yet to be determined, in fall 2020 colleges and universities educated roughly two-thirds of students either wholly (45%) or partially (28%) in a virtual format. By contrast, in 2019 (before the pandemic) 63% of the 20 million students enrolled in higher education took no online courses at all.<sup>3</sup>

**FIGURE 2: EXCLUSIVELY ONLINE ENROLLMENT BY INSTITUTIONAL TYPE (FALL 2017 – 2019)**

In addition to an increase in overall distance enrollment in recent years, the distribution of students across different institutional sectors is shifting. Four-year public institutions are capturing an increasing share of exclusively online enrollment, while for-profits' share has declined (from 21% to 18%). The University of Arkansas' recent acquisition of for-profit Grantham University may signal a continuing trend (see case studies in the Appendices section of this report). An August 2021 article about that acquisition noted that online



<sup>1</sup> IPEDS Fall Enrollment; total distance enrollment represents any student taking more than one class via distance education at an institution receiving Title IV funding; does not include enrollment for alternative providers (e.g., bootcamps)

<sup>2</sup> Inside Higher Ed, [Enrollments Still Falling 2 Years Into Pandemic](#)

<sup>3</sup> Inside Higher Ed, [Detailing Last Fall's Online Enrollment Surge](#)



education “really is, from a mission perspective, the proper business of state institutions...this migration of for-profit schools into public universities is in the early innings of what we’re likely to see.”<sup>4</sup>

## Drivers of Online Education Growth

As evidenced above, the online education market is growing. The COVID-19 pandemic accelerated the adoption of online course delivery by forcing many institutions to transition to remote learning—a shift that had already begun before the pandemic. The initiation of Western Governors University in 1997, the launch of the primarily online Minerva University in 2014, and Purdue University’s acquisition of Kaplan in 2017 underscore that the market has been evolving for several years.

In recent years, online growth and competition have primarily resulted from four categories of activity: (a) acquisitions and mergers of online providers, (b) evolution of alternative credential providers, (c) creation of in-house online delivery capabilities, and (d) continued expansion of educational technology platforms.

- (a) **Acquisitions and Mergers:** As colleges and universities accelerate the adoption of online education, several have pursued acquisitions and mergers as effective options for market entry. The table below includes a representative sample of recent mergers and acquisitions.

**FIGURE 3: SAMPLE OF RECENT HIGHER EDUCATION ACQUISITIONS AND MERGERS**

Acquiring Entity	Acquired Entity / Partner	Transaction Date
University of Massachusetts System	Brandman University	09/02/2021
University of Arkansas	Grantham University	08/11/2021
University of Arizona	Ashford University	08/04/2021
Saint Leo University	Marymount California	07/29/2021
Southern New Hampshire University	Kenzie Academy	03/09/2021
Post University	American Sentinel	02/01/2021
Purdue University	Kaplan University	04/27/2017

- (b) **Alternative Credential Providers:** Higher education is seeing an expansion of offerings from non-degree-granting providers, including short-form bootcamps, massive open online course (MOOC) providers, and vocational training providers. Google, Amazon, and IBM have created their own credentials through online skill development and workforce-readiness training programs. Penn Foster, which provides a wide array of credentials, announced in October 2021 its intention to acquire healthcare-focused Carrus to accelerate middle-skills career development programs. Coding bootcamps offer similar, mid-career trainings within the tech industry. In many cases, alternative providers are aligned to the skill needs of particular industries and they offer career-aligned upskilling that benefit non-traditional, mid-career students.
- (c) **Internal Development of Online Capabilities:** Numerous institutions have opted to create their own internal capabilities for online course development and deployment. The University of Michigan, for example, launched its Academic Innovation Unit in 2014 to serve as the coordinating body across its various new education models, including Michigan Online. Other institutions, such as Rush University College of Nursing and Harvard Business School, have stood up internal online portfolios that receive similarly high rankings to their in-person offerings. In December 2021, Inside Higher Ed reported that the “University of North Carolina system is leveraging \$97 million in pandemic recovery funding to launch a nonprofit ed-tech start-up intended to bolster adult online education.”

The ability to provide education at scale is a benefit for institutions that are not bound by region. Institutions such as Western Governors University and Southern New Hampshire University have achieved nationwide scale, large enrollments, and growing recognition for their innovations in providing accessible education. Strayer University, for example, has an individual institutional

<sup>4</sup> Inside Higher Ed, [Arkansas to Expand Online With Grantham Acquisition](#)

structure within the state of Tennessee with more than 4,000 exclusively online students, as well as expansive enrollments across the country.<sup>5</sup>

- (d) **Educational Technology:** Partnerships between universities and educational technology providers are also growing. “Ed tech” refers to hardware, software, and content designed to enhance teacher-led learning in classrooms, as well as companies that provide online courses or educational technologies. During 2020-2021, the U.S. recorded tremendous growth in the number of ed tech companies due to high consumer demand for online and e-learning courses, improved access, affordability, and stronger ROI for postsecondary learning.<sup>6</sup> Per a report by HolonIQ, global ed tech venture capital funding totaled \$20.8 billion in 2021. An estimated 98% of U.S. universities have offered at least one online class since 2020, largely due to the pandemic.<sup>7</sup>

## The Tennessee Market

While national trends show a decrease in overall enrollment, Tennessee and the southern U.S. region are seeing an increase in potential students. The 2020 census showed that Tennessee had a 9% increase in population since 2010, bumping the state up one spot to the 16<sup>th</sup> most populous in the country. Similarly, the projected number of Tennessee high school graduates is expected to increase in the early 2020s and stay relatively consistent through the mid-2030s. The U.S. South region is projected to see the highest number of high school graduates. This presents a key opportunity for the UT System to be innovative in meeting the educational needs of its growing in-state and in-region populations.<sup>8</sup>

The UT System has potential to positively influence educational attainment among the Tennessee population. The state of Tennessee is currently below the national average for postsecondary degree attainment. More than 590,000 individuals in Tennessee have completed some college but hold no degree—and about 9% of those have at least two years of academic progress completed.<sup>9</sup> Additionally, about 40% of Tennessee high school seniors (20,000 individuals) take steps to enroll in college each year but do not follow through in the fall.<sup>10</sup> To address these realities, Tennessee legislative and executive leaders have pledged support for higher education through major state-wide initiatives, such as The Drive to 55 that aims to “equip 55% of Tennesseans with a college degree or certificate by 2025.”<sup>11</sup>

While major state-wide initiatives have spurred growth in overall degree attainment, this has not included substantial growth in online enrollment. Tennessee community colleges are the largest in-state providers of online courses, enrolling about 12,500 total undergraduates in exclusively distance courses in 2019. Of the students enrolled in exclusively distance education courses at a Tennessee institution, 83% are living within the state, suggesting that current Tennessee providers draw minimal interest from out-of-state students.

## The University of Tennessee’s Place in the Market

In light of industry trends and market developments, the UT System’s position and opportunity within the broader higher education ecosystem should include the following considerations:

- National enrollment and online course delivery trends prior to and following the COVID-19 pandemic indicate continued growth in demand for hybrid, distance, and fully online learning.
- The UT System’s online portfolio and presence in the online education market lags many of its peers. Currently, the UT System does not have a platform for greatly expanding online education, developing curriculum and credentials, or providing academic support for online learners.

<sup>5</sup> IPEDS Fall Enrollment

<sup>6</sup> [edSurge](#), [edSurge](#), [EDSCOOP](#), [CrunchBase](#), [Govtech](#), [Holon IQ](#), [EdTech Digest](#), [Medium](#), [Educationdata](#)

<sup>7</sup> [Toptal](#), [TechCrunch](#), [TechCrunch](#), [ThinkImpact](#), [Elitecontentmarketer](#)

<sup>8</sup> U.S. Census Bureau’s American Community Survey 1-Year Estimates, Knocking at the College Door, [Projections of High School Graduates](#), December 2020

<sup>9</sup> National Student Clearinghouse, Some College, No Degree Study 2019

<sup>10</sup> 2018-2019 Tennessee SCORE Stopping Summer Melt Report, 2021

<sup>11</sup> <https://driveto55.org/the-alliance/>

- Recent acquisitions (e.g., University of Arizona and Ashford University, University of Arkansas and Grantham University) have created competitive pressures to move into the online market.
- Tennessee's emphasis on postsecondary education attainment could align with a rapid expansion into the online education market by the UT System.
- The UT System is a nationally recognized institution with academic strengths that could be leveraged by acquiring or partnering with an established online provider(s).

## UT SYSTEM OPPORTUNITIES

Considering the current state of the national and online higher education markets, UT System leaders identified the need to explore the potential for a move into the online market. The goals and objectives are summarized in the following diagram of priorities.

**FIGURE 4: UT SYSTEM ARTICULATED PRIORITIES**

 <b>Enrollment Growth</b>	 <b>Expanded Capabilities</b>	 <b>Quality of Programs</b>	 <b>Quick Market Movement</b>	 <b>Opportunity for Innovative Offerings</b>	 <b>High Level of Impact</b>
The UT System needs to play a leading role in achieving the state "Drive to 55" goal and would like to scale online offerings nationally.	To be a strong online provider, UT must expand its current capabilities by building internally or partnering with an entity that offers robust capabilities.	Regardless of the path forward, the quality of UT's academic programming and brand trust should be preserved.	UT should move quickly to accelerate its presence in the online education market and position itself alongside the leaders in this space.	UT should consider opportunities to build upon established strengths or capture the market with new, innovative offerings.	There is a strong desire for the UT System to make substantial impact in these five areas with offerings that could redefine the online education market (both within TN and nationally).

Based on the priorities above, Huron partnered with UT System leaders to summarize the ecosystem of degree-offering institutions and alternative providers—some of which could represent potential partners for further exploration.

## Key Decision Points

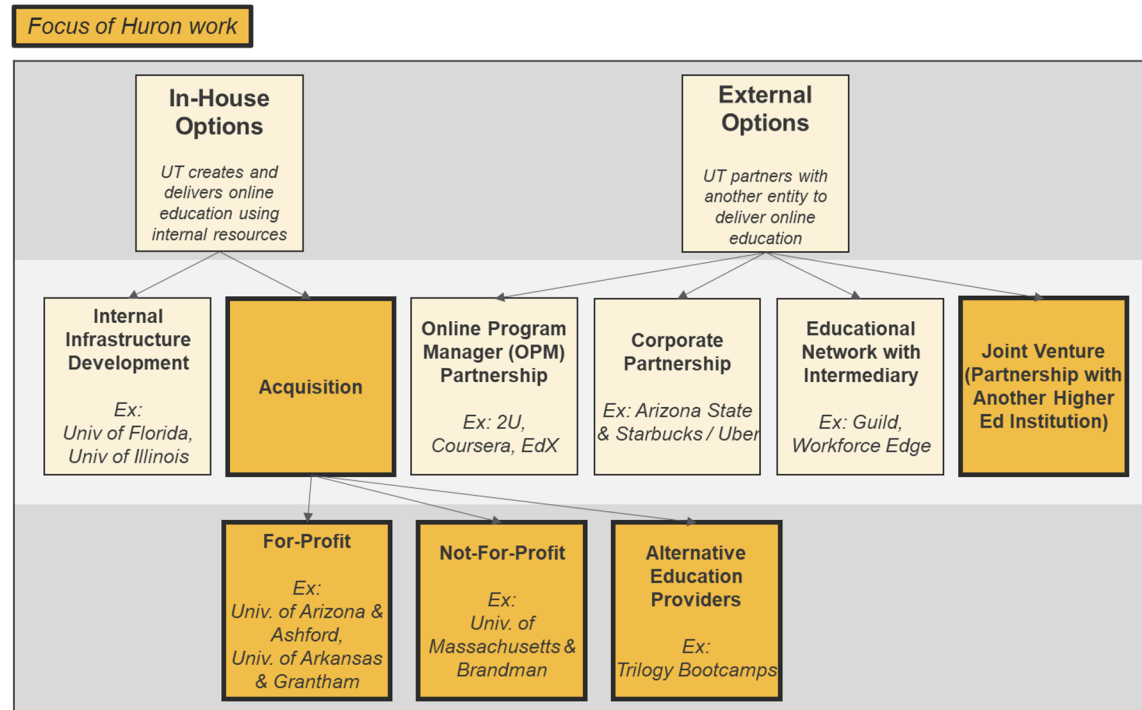
Decision about which model(s) to pursue and how to structure a partnership should be guided by the UT System's strategy and aspirations for online growth. Answering the following questions will help UT System leaders narrow options for entry models, evaluate the desirability of potential partners, and make key decisions in the partnership process.

- **Capacity:** What is the UT System's internal capacity (e.g., existing resources, capabilities) to develop and manage online offerings?
- **Curriculum:** What is the UT System's appetite to manage curriculum development and delivery?
- **Speed:** How quickly does the UT System want to expand its presence in the market?
- **Investments:** What upfront and ongoing investments (e.g., financial, personnel, resources) is the UT System willing to commit?
- **Financial Commitment:** What financial commitment does the UT System expect from a partner?
- **Gaps:** What current UT System gaps can a partner's investment or capabilities fill?
- **Culture:** Which institutions represent the best cultural fit for the UT System?
- **Opportunities:** What opportunities do different types of institutions create for the UT System?

## Models for Market Entry

To identify the universe of options that the UT System might consider for expanding into the online education market, Huron identified the prevailing models driving growth in online enrollment (outlined in the figure below). Based on our understanding of the UT System's appetite for growth and innovation and desire to move quickly in the market, the Huron team focused its initial work on acquisition and joint venture models. While the models illustrated below may represent the most likely options for the UT System, they are not mutually exclusive (i.e., multiple options could be pursued concurrently).

**FIGURE 5: MODELS FOR EXPANDING INTO THE ONLINE EDUCATION MARKET**



## Acquisition and Joint Venture Structural Options

Focusing on acquisitions and joint ventures as potential models, it is helpful to consider how each of these options might be structured within the UT System. The figure below summarizes three high-level structures by which the UT System could integrate an acquired entity or joint venture. These structures may vary based on the selected partner and the fit between the UT System and the partner.

**FIGURE 6: ILLUSTRATIVE STRUCTURAL OPTIONS**

Standalone	Hosted	Distributed
UT System Office administers the acquired entity or joint venture partnership as a standalone unit or initiative within the UT System	One UT System campus hosts and administers the acquired entity or joint venture on behalf of all campuses	Individual campuses manage and administer their offerings locally with some central support from the UT System Office

### Standalone

In this arrangement, the acquired entity or joint venture could function as a unique entity within the UT System alongside the current campuses. The UT System Office could act as the primary administrator of



the entity and manage all offerings. The entity could have status as its own unit or “campus” within the System. Recent examples of this structure include Purdue University Global and UMass Global.

### *Hosted*

In this arrangement, a single UT campus or the UT System Office could host the acquired entity or joint venture as a program or initiative on behalf of the System, but the entity would not have status as a standalone entity like other campuses. In one case, a single UT campus could host the initiative, manage all offerings, and provide administrative support. The initiative could report through that campus and require financial and staff resources from that campus. In another case, the UT System Office could host the initiative, funding all activities and administering all offerings on behalf of the System. Recent examples of this structure include the University of California’s UC Online initiative, which is hosted by the Office of the President and is open to students from all UC campuses.

### *Distributed*

In this arrangement, the offerings and activities of the acquired entity or joint venture partnership could be absorbed into individual UT campuses. Campuses could continue to manage and deliver their unique offerings and the UT System Office could provide administrative support via a “service center” model. Funding would likely be required from both the System Office and the individual campuses. This model is similar to UT’s current approach, in which offerings are primarily delivered by the individual campuses with support from the UT System Office.

## Defining the Market of Online Institutions

To identify potential partners, the UT System should consider size and a diverse set of institutional characteristics (e.g., mission, academic programs, financial health, online capabilities). The Huron team defined the market of online institutions—some of which could be potential partner candidates. These institutions include two primary groups:

- **Online Degree-Offering Institutions**, which are U.S. higher education institutions that offer a mix of formal credentials (including degrees) in an online format, and
- **Alternative Providers**, which are non-degree granting providers of online credentials (e.g., skill-specific bootcamps, professional trainings and certificates, vocational trainings).

The alternative providers include companies that provide online software development bootcamps, continuing education courses for working professionals, web development and data science courses, and other certification programs. This market includes members of the Council on Integrity in Results Reporting, programs accredited by the Distance Education Accrediting Commission (DEAC), and others.

## Online Degree-Offering Institutions

To define the U.S. market of online degree-offering institutions, Huron conducted a screening process of U.S. Title IV institutions recognized in the NCES’s Integrated Postsecondary Education Data System (IPEDS). Huron created a list of all institutions that had (a) at least 6,000 total students enrolled and (b) 50% or more of all students enrolled in exclusively distance education before the pandemic. **The list generated by this screening consisted of the 51 largest online degree-granting institutions, which are summarized in Figure 7 below.**

Note that the screening process did not capture an institution’s appetite for or ability to enter a partnership—the analysis is meant to serve as a summary of the online education market based solely on publicly available information. Inclusion in the list of does not imply these institutions are “on the market.” Additional research will be necessary to measure a selected institution’s appetite for partnership and to define the ideal partnership structure.

**FIGURE 7: LIST OF 51 DEGREE-OFFERING INSTITUTIONS WITH >6,000 STUDENTS AND >50% EXCLUSIVELY DISTANCE EDUCATION (PRE-PANDEMIC)**

Institution	Type (Affiliated Organization)	Fall 2019 Enrollment per IPEDS	% Exclusively Distance Education
Western Governors University	Private NFP	136,139	100%
Southern New Hampshire University	Private NFP	113,514	94%
Grand Canyon University	For-Profit per DOE [Publicly traded; Grand Canyon U Inc.]	96,211	78%
University of Phoenix - Arizona	For-Profit [Privately held; Apollo Educ Group]	94,724	99%
Liberty University	Private NFP	85,586	82%
University of Maryland Global Campus	Public [University System of Maryland]	58,281	80%
Strayer University - All Regions	For-Profit [Publicly traded; Strategic Educ Inc.]	55,779	98%
Walden University	For-Profit [Publicly traded; Adtalem Global Educ]	48,420	100%
American Public University System	For-Profit [Publicly traded; American Public Educ Inc.]	45,249	100%
Arizona State Univ Digital Immersion	Public	45,073	97%
Purdue University Global	Public	38,138	99%
Capella University	For-Profit [Publicly traded; Strategic Educ Inc.]	37,859	100%
Chamberlain University	For-Profit [Publicly traded; Adtalem Global Educ]	35,502	91%
Ashford University	[Acquired by University of Arizona]	32,620	100%
Colorado Tech Univ - Colorado Springs	For-Profit [Publicly traded; Perdoceo Educ Corp.]	27,232	96%
Eastern Gateway Community College	Public	25,648	94%
Excelsior College	Private NFP	25,245	100%
DeVry University - All Regions	For-Profit [Privately held; Cogswell Capital]	24,315	94%
Full Sail University	For-Profit [Privately held]	21,666	75%
Columbia Southern University	For-Profit [Privately held; Columbia Southern Educ]	20,034	100%
Ultimate Medical Academy - Clearwater	Private NFP	18,195	99%
University of the Cumberlands	Private NFP	16,966	56%
Lamar University	Public	15,460	54%
Wilmington University	Private NFP	14,730	57%
Embry-Riddle Aeronautical- Worldwide	Private NFP	13,773	82%
Colorado State University - Global Campus	Public	12,670	100%
Fayetteville Technical Community College	Public	12,021	58%
Bellevue University	Private NFP	11,637	90%
Park University	Private NFP	11,415	60%
Indiana Wesleyan University - Natl & Global	Private NFP	11,410	86%
Northcentral University	Private NFP	11,223	100%
Saint Leo University	Private NFP	10,912	59%
Coastline Community College	Public	10,822	81%
Post University	For-Profit [Privately held]	10,642	92%
Regent University	Private NFP	10,365	79%
Brandman University	[Acquired by University of Massachusetts]	10,231	80%
Thomas Edison State University	Public	10,227	99%
Maryville University of Saint Louis	Private NFP	10,013	61%
American InterContinental University	For-Profit [Publicly traded; Perdoceo Education Corp.]	9,952	100%
Columbia College	Public	9,913	59%
Rasmussen University - Florida	For-Profit [Publicly traded; American Public Educ Inc.]	8,808	70%
Louisiana State University - Shreveport	Public	8,579	74%
Colorado Christian University	Private NFP	7,587	51%
Trident University International	For-Profit [Publicly traded; Perdoceo Educ Corp.]	7,298	100%
American College of Financial Services	Private NFP	7,097	98%
Grantham University	[Acquired by University of Arkansas System]	7,079	100%
Aspen University	For-Profit [Publicly traded; Aspen Group]	6,893	98%
Concordia University - Chicago	Private NFP	6,205	58%
South University-Savannah Online	For-Profit [Privately held; Dream Center South Univ]	6,195	100%
American College of Education	For-Profit [Privately held; ACE Holdco PBC]	6,057	100%
Franklin University	Private NFP	6,031	100%

## APPENDICES

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The following appendices provide additional information to supplement this report.

- *Appendix I: Partner Evaluation and Screening Process*
- *Appendix II: Case Studies of Strategic Alliances*

### Appendix I: Partner Evaluation and Screening Process

The analysis herein represents an initial phase of collaboration between the UT System and Huron focused on assessing the online education market. We understand that the System seeks to expand its presence in the online education market and strengthen its overall, long-term competitive market position.

To identify potential partners for outreach, the UT System would need to conduct an additional level of research, analysis, and due diligence. For example, if the UT System is interested in pursuing a particular institution because of mission-alignment and strong existing capabilities, leaders will want to conduct a more intensive exploration of additional factors, including:

- The institution's **recent financial performance**, including operating results, balance sheet, debt obligations, and capital investments;
- The institution's **enrollment pipeline**, including applications, acceptance rates, and recent enrollment growth;
- The institution's **academic portfolio**, including disciplines, credentials, and modalities;
- The institution's **governance structures**, including its executive leadership, board, owners or affiliates, and state oversight bodies;
- The institution's **appetite for partnership**, either joint venture or acquisition; and
- The **most viable structure for the partnership**, including the standalone, hosted, or distributed model or an alternative structure.

Aligning these features with the UT System's goals, priorities, and financial realities will help to assess the appropriate partnership model (e.g., whether a potential partner is fiscally strong enough to enter into a joint venture or be acquired). To evaluate potential partners, variables to consider include:

#### **Criteria 1: Institutional Characteristics**

- a. For-profit or not-for-profit status
- b. Enrollment size and growth
- c. Distance education enrollment relative to total enrollment
- d. Student profile (e.g., Pell-grant recipients, regional or national focus)

#### **Criteria 2: Alignment with UT Goals and Objectives**

- a. Mission alignment with UT's strategy
- b. Graduation rate
- c. Reputation (e.g., rankings, corporate relationships, recent press, legal considerations)
- d. Accreditations
- e. Enrollment portfolio
- f. Fiscal health, including 4-year enrollment growth, total net assets, endowment assets

#### **Criteria 3: Academic Portfolio Offerings**

- a. Breadth and quality of online degree types
- b. Breadth and quality of online disciplines

#### **Criteria 4: Online Delivery Capabilities**

- a. Market research, marketing, and recruitment
- b. Content development
- c. Technology and infrastructure
- d. Student support services
- e. Management and monitoring

## Appendix II: Case Studies of Strategic Alliances

### *University of Arkansas System Acquisition of Grantham University*



Fast Facts	University of Arkansas	Grantham University
Type of Institution	Public University System	Private For-Profit University
Physical Location	Fayetteville, AR	Lenexa, KS
Acquired Online Enrollment Total	--	4,000
Accrediting Body	Higher Learning Commission	Distance Education Accrediting Commission (DEAC)

### Partnership Background

The University of Arkansas System announced the deal to acquire Grantham University in August 2021.

### Finances Overview

The formal sale price of Grantham's assets to UA was \$1—and reportedly does not include revenue sharing arrangements. However, it is unclear what commitments UA assumed in the transaction. UA will assume all Grantham assets, as well as 170 staff, 240 part-time faculty, current students, tuition revenue, and academic courses. The deal does not have a revenue-sharing agreement and Grantham owners will no longer control the university. Grantham will increase UA's online enrollment by 500%.

### Structure Overview

Due to the recent announcement of the acquisition, information on the partnership structure has not yet been made widely available.

### Academic Overview

Grantham University is an online university and its acquisition by the University of Arkansas will increase UA's ability to deliver online courses—Grantham will add 36 undergraduate credentials to UA's current 24. This will also allow UA to introduce online graduate credentials for the first time. As part of this deal, Grantham students will have the option to enroll in UA online and in-person courses. In addition to the growth of online degree offerings, Grantham was also an attractive option because its credentials align with workforce needs in the state of Arkansas.

### Considerations for UT

- As another public university system within the region, UT and the University of Arkansas System have attributes in common. UT could explore the details of this deal further as it considers partnerships of its own.
- The stakeholders involved in the Grantham deal are likely similar to those that would be engaged in a UT System partnership, including: Grantham Board, Level Playing Field Corporation (Grantham owner), and Distance Education Accreditation Commission (Grantham accreditor).
- This deal represents a larger trend in higher education in which public institutions seek to acquire online universities. As the market for these partnerships grow, UT should consider swift action.
- Grantham University's focus on adult learners, military service members and veterans aligned well with key student audiences within the state of Arkansas. UT may consider aligning its partnership with the state's growing populations or workforce demands as well.

*University of Arizona  
Acquisition of Ashford University*



Fast Facts	University of Arizona	Ashford University
Type of Institution	Public University	Private For-Profit University
Physical Location	Tuscon, AZ	San Diego, CA
Acquired Online Enrollment Total	--	35,000
Accrediting Body	Higher Learning Commission	Western Association of Schools and Colleges (WASC)

### Partnership Background

The University of Arizona announced a deal to acquire Ashford University in August 2021. Similar to the Arkansas and Grantham deal, this is another example of a public university acquiring a for-profit entity.

### Finances Overview

The deal anticipates that the newly created University of Arizona Global Campus (UAGC) will receive \$225M in revenue over 15 years and will be applied in the following ways: (a) first dollars cover AUGC academic expenses (e.g., faculty), (b) next \$25M go to AUGC (guaranteed for first five years), (c) next dollars cover Zovio OPM service, (d) up to 19.5% of tuition and fee revenue go to Zovio, and (e) remaining funds stay with UAGC.

### Structure Overview

As part of the contract, UAGC will operate as an independent, non-profit affiliate of the University of Arizona. An independent board will govern UAGC, of which Arizona will appoint 4/9 of the members. The Ashford president will serve as the UAGC president. Ashford's parent company, Zovio, will continue to provide several services, including recruiting, financial aid, counseling, information technology, and academic support.

### Academic Overview

The acquisition of Ashford by Arizona will provide Arizona with expanded online course delivery capabilities. As part of the acquisition announcement, Arizona indicated that Ashford would supplement Arizona's current mix of online bachelor's, master's, and doctoral degrees with a focus on nontraditional and underrepresented students.

### Considerations for UT

- Ashford has been accused of aggressive and dishonest recruitment tactics, including a pending lawsuit. If UT considers similar for-profit institutions, the System should monitor the legal, reputational, and public relations outcomes of the Ashford deal to inform its next steps.
- The financial details outlined in the deal may be helpful for UT, especially if they would prefer a long-term, multi-year deal in lieu of a large initial payment.
- The UAGC structure may be of interest to UT if the System is interested in acquiring an entity as a standalone unit within the UT System. Additional exploration of the Arizona and Ashford model would be informative as UT solidifies its desired structure.



*Purdue University*  
*Acquisition of Kaplan University*



Fast Facts	Purdue University	Kaplan University
Type of Institution	Public University	Privately-Held For-Profit (Graham Holdings)
Physical Location	West Lafayette, Indiana	Davenport, IA
Acquired Online Enrollment Total	--	32,000
Accrediting Body	Higher Learning Commission	Higher Learning Commission

### Acquisition Background

Purdue University announced a deal in 2017 to acquire Kaplan University. This acquisition was intended to provide Purdue with expanded online delivery and the announcement was one of the largest acquisitions in higher education to date.

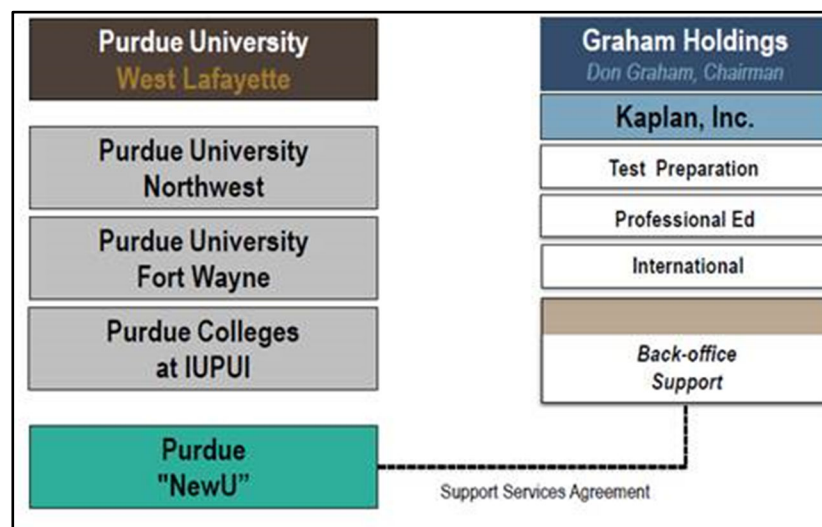
### Driving Forces

The driving forces for Purdue, as reported to its Board in April 2017 and shared online, were as follows:

- 1) There were millions of people *not* being served by the land-grant institution's current higher ed model;
- 2) The online education market is growing; and
- 3) Purdue determined that building a large online institution itself would be cost and time-prohibitive.

### Transaction Overview

Purdue paid \$1 to Graham Holdings for Kaplan University's academic assets (which was one of four lines of business within Kaplan Inc. owned by Graham Holdings company). The acquired university was initially known as "NewU" (later named Purdue Global). Meanwhile, Kaplan Inc. held onto its Professional Ed, Test Prep, and international lines of business—and created a Service Company for back-office support as illustrated below. Also, Purdue contracted with Kaplan Inc. for a 30-year support services agreement for Kaplan Inc.'s Service Company to provide IT infrastructure, marketing, and other administrative services. The agreement includes buy-out options for Purdue after year six.



### Agreement Overview

Per the agreement, Kaplan provides operational support to Purdue Global for an initial term of 30 years with a buyout option after six years. The operational support includes marketing, human resources, and financial aid administration. The agreement includes terms for Purdue to receive initial cash flows to cover direct expenses and additional amounts. Graham Holdings is reimbursed for its costs and receives a percentage of the institution's revenue after meeting certain conditions.

Major aspects of the agreement included the following:

- (a) **Service Fee:** Kaplan committed to provide services under a support services agreement. Purdue committed to pay an annual fee to Kaplan's Service Company based on a percentage of revenues for the NewU and other cash flow waterfall considerations.
- (b) **Cash Flows:** Cash flows were outlined in the agreement, including (a) an initial amount to Purdue's NewU to cover direct costs plus certain revenues; (b) amounts to Kaplan's Service Company for direct costs plus a percentage of revenue; and (c) remainder amounts to Purdue's NewU. The agreement included efficiency and revenue growth incentives for both parties.
- (c) **Adverse Impact Fee:** The agreement provided for an adverse impact fee payable to Kaplan's Service Company if Purdue takes actions inconsistent with the agreement.
- (d) **Cost Caps:** Caps were established on reimbursable direct costs as percentage of revenue (sliding scale based on size of revenue) for both Purdue's NewU and Kaplan's Service Company.
- (e) **Working Capital:** Agreement addressed Title IV receivables and tuition receivable on Kaplan's books as of agreement date, as well as working capital needs beyond the transaction date
- (f) **Buyout Options:** The agreement established terms for Purdue's option to buyout the service contract after year six (with buyout costs based on a percentage of revenue).

### Considerations for UT

#### *Positives:*

- As a landmark instance of a public institution acquiring a large for-profit, Purdue quickly established a national brand for their new Purdue Global organization.
- Purdue's acquisition allowed the institution to reach new student populations not formerly served by the land-grant institution, which seeking to protect the core university brand by establishing Purdue Global as a distinctly separate organization.
- Purdue only incurred an initial \$1 upfront cost and established a cash flow waterfall designed to protect the institution.
- The acquisition created significant financial upside potential.

#### *Challenges:*

- The deal has resulted in financial challenges, with significant expenses being incurred for marketing and student recruitment and Purdue Global reporting a sizeable loss in fiscal 2020 (followed by net positive results in fiscal 2021).
- The long-term student outcomes and enrollment totals for Purdue Global are not yet clear. Enrollments declined in initial years, though they recently increased.
- Purdue committed to a long-term services agreement with Kaplan Inc.
- Purdue faculty raised several concerns about quality, governance, and brand.

*University of Massachusetts System  
Acquisition of Brandman University*



Fast Facts	University of Massachusetts	Brandman University
Type of Institution	Public University System	Private Non-Profit
Physical Location	Boston, MA	Irvine, CA
Acquired Online Enrollment Total	--	10,000
Accrediting Body	New England Commission of Higher Education (NECHE)	WASC Senior College & University Commission (WSCUC)

### Partnership Background

The University of Massachusetts and Brandman University (BU) deal materialized over several years. UMass first hired consultants in 2017 to become “a bigger player” in the online market. In March 2019, UMass announced a goal of launching a fully online college. Shortly after, in June 2020, UMass announced the pursuit of a “strategic partnership” with BU, and in September 2021 a formal acquisition of BU was announced. Reports stated that UMass explored 100+ partner options and discussions took place over 2.5 years.

### Finances Overview

As part of the deal, BU will pay \$96M over 10 years to Chapman University, BU’s former owner. BU will pay \$37M to Chapman to buy its headquarters in California that will likely serve as the online education and global campus headquarters. Most payments will not begin until 6th year of the partnership. UMass does not owe contractual payments to any entity but will “support” payments if needed.

### Structure Overview

Similar to other recent acquisitions, BU will become UMass Global: a private “affiliate” of the public system that will operate in similar fashion to the other campuses within the system. Its leadership structure will be slightly different from other case studies, with UMass Global retaining an independent board of regents that includes representation from the UMass board. The current BU leadership team is involved in the new entity: the BU chancellor will lead UMass Global and the UMass board chair will chair the UMass Global board. UMass Global will retain its separate accreditation.

### Academic Overview

At the time of the acquisition, Brandman was a non-profit institution within the Chapman University System with an online enrollment of 10,000 from 45 states. Brandman also operated 25 physical campuses in California and Washington.

### Considerations for UT

- The deal is a recent and helpful example of a system similar in size to UT acquiring a private, online provider.
- UMass’ acquisition of out-of-state assets could provide a helpful reference point if UT considers acquiring a non-Tennessee entity.
- UMass’ structural details may be of particular interest to UT as they consider how to integrate an online entity within their existing system structure.
- The unique leadership and governance elements of the UMass and Brandman partnership could be a model for UT to consider, particularly if UT’s future partner seeks to retain some level of control.