

**Fifth International Conference on
Asynchronous Learning Networks**

The For-Profit Option

Dancing with New Partners

Strategies for Financing Distance Learning Initiatives

Institutional Revenue Sources

- Tuition

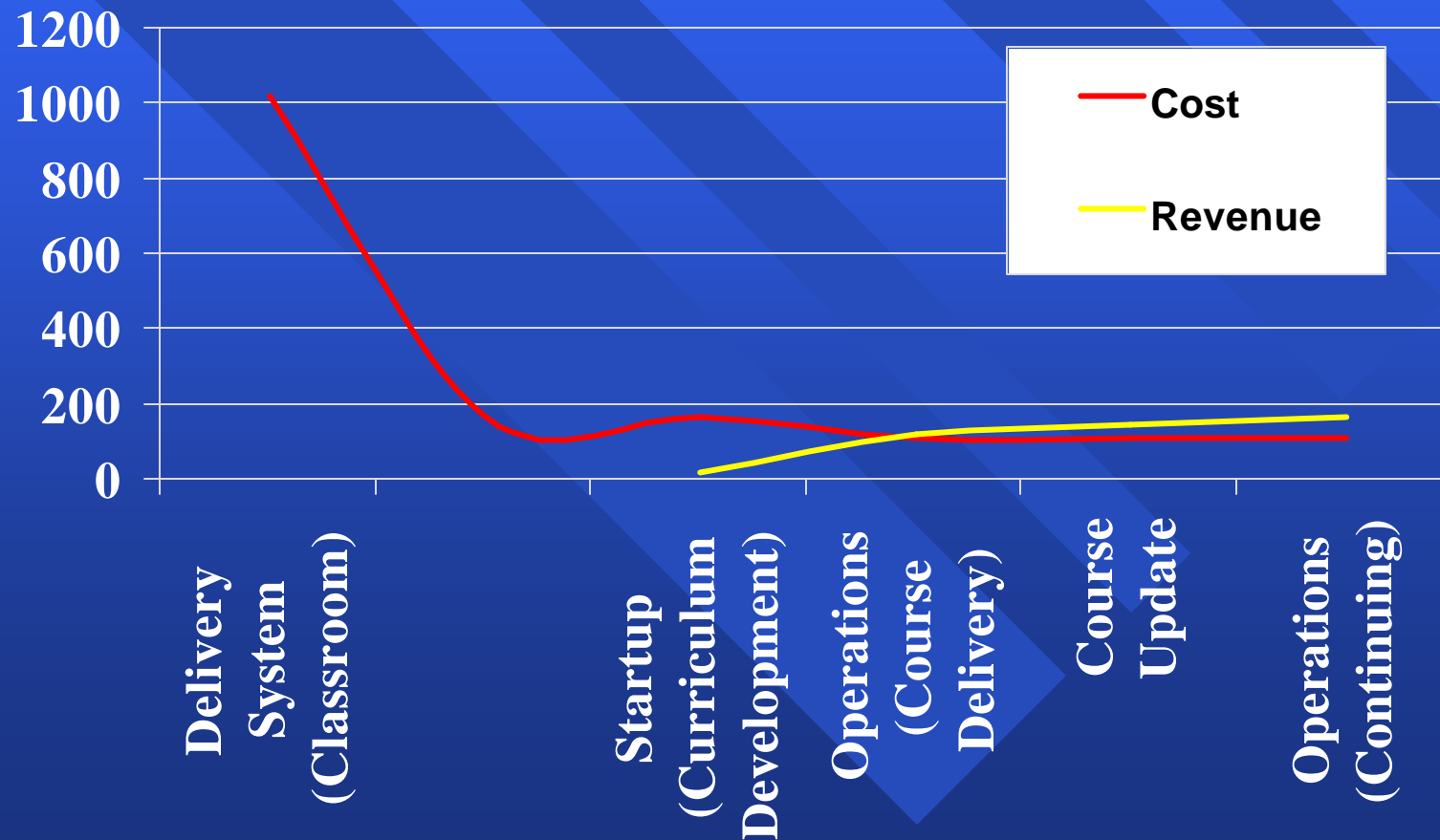
- Debt

- Gifts and Grants

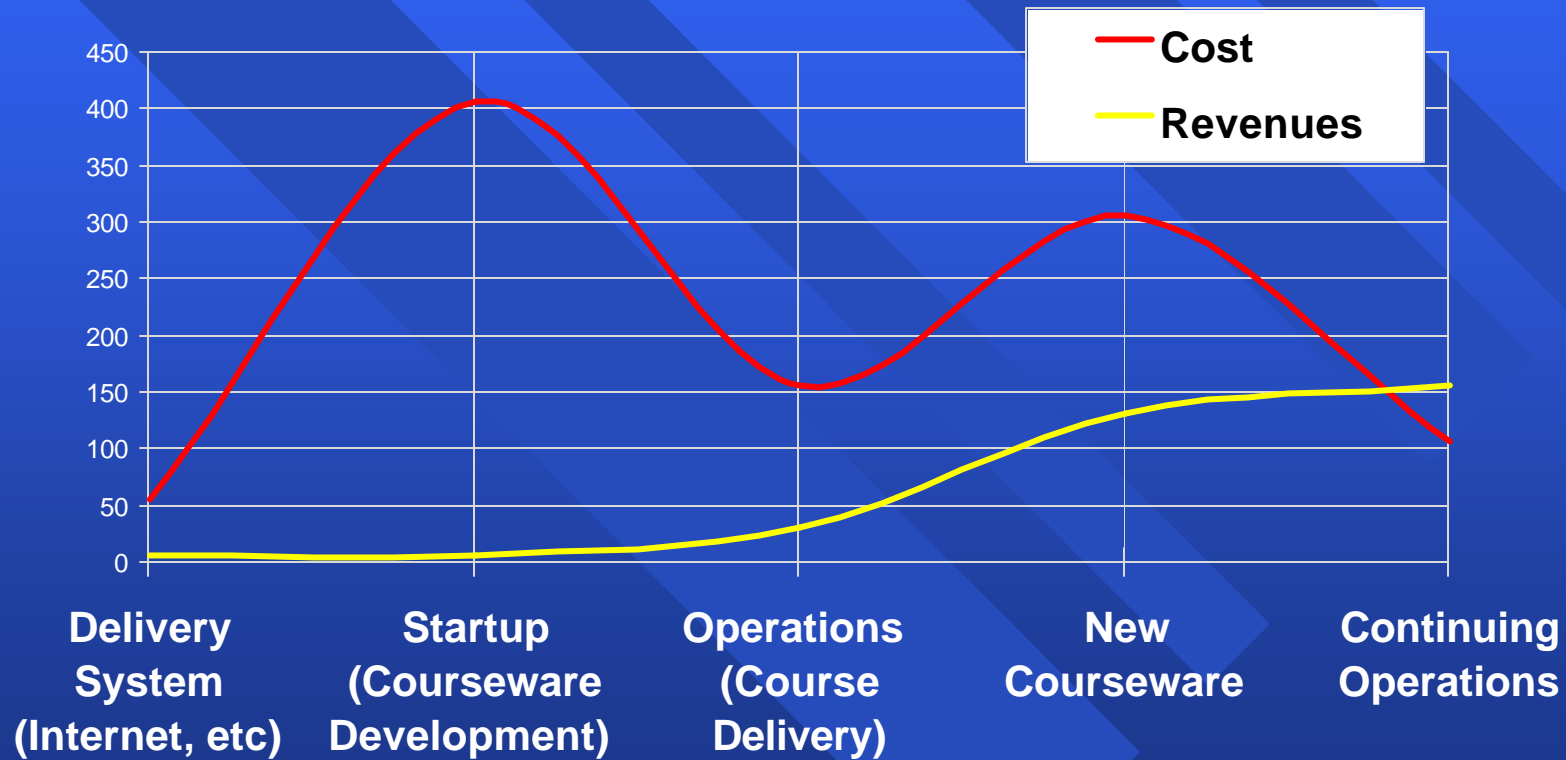
...in other words:

- Earn it,
- Borrow it,
- Beg for it.

Traditional Economic Model



Technology-Mediated Economic Model



Capital Needs of Technology-Mediated Model

- Capitalize *high initial cost* of courseware development.
- Provide *working capital* for delivery system.
- Capitalize *continuing* cost of courseware *redevelopment* and *upgrading* of delivery systems.

Meeting the Need for Capital

- For non-profit and public institutions,
 - we *rent* it
- For the rest of the world
 - they *create* it

Renting Capital

- Borrow the use of someone else's *money*
 - “debt”
- Borrow the use of someone else's *facilities, equipment and personnel*
 - “outsourcing”

Build It and They Will Come

For Profit Entity

Builds

Facility

For Profit Entity

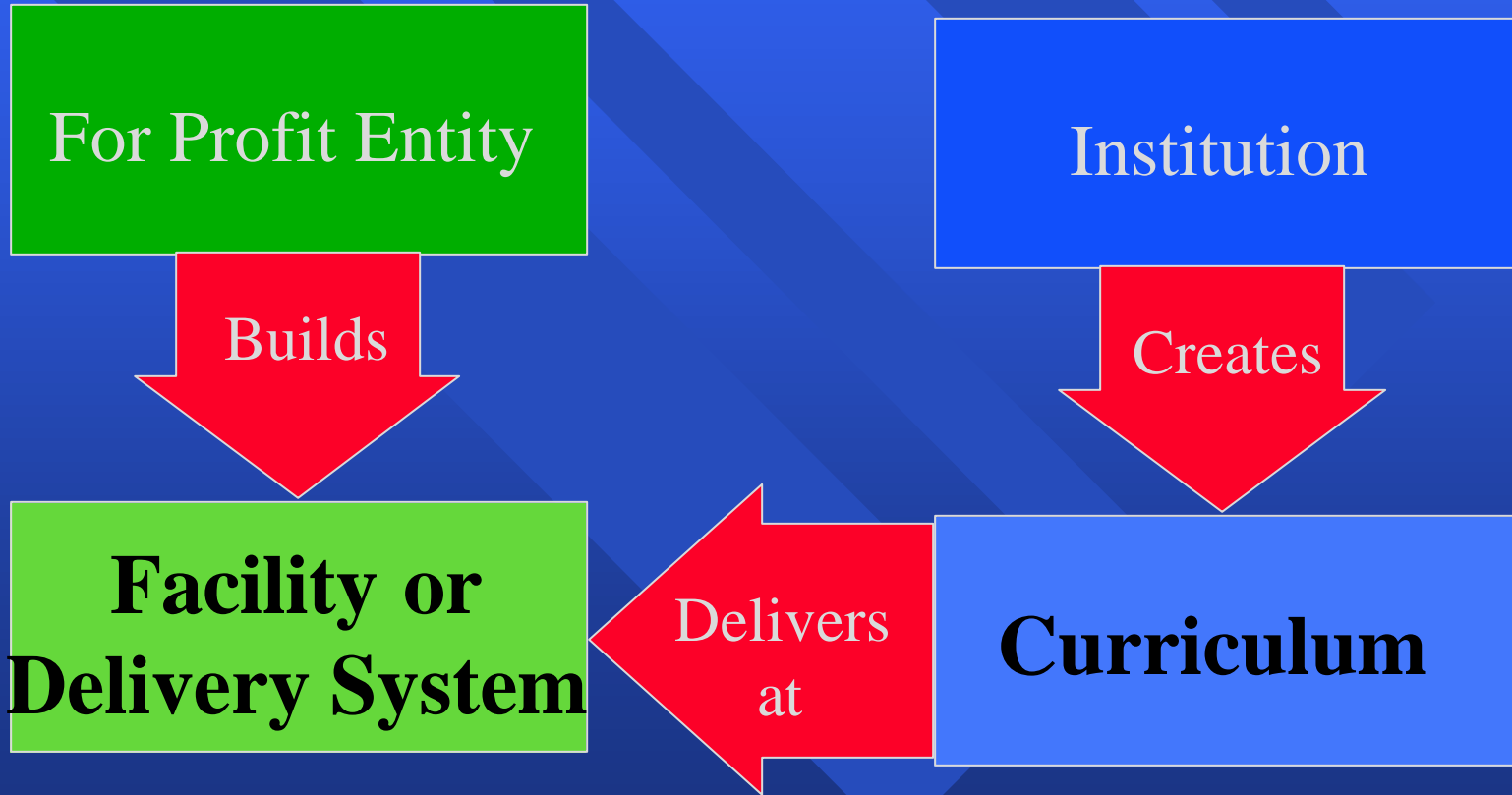
Builds

**Facility or
Delivery System**

Institution

Creates

Curriculum



“Cloning the Superprof”

For Profit Entity

Creates

Curriculum

For Profit Entity

Creates

Curriculum

Adopted by

Institution

For Profit Entity

Creates

Curriculum

Adopted by

Institution

Delivered Via

Delivery System

For Profit Entity

Creates

Curriculum

Adopted by

Institution

Delivered Via

**Evaluates Student
Performance**

Delivery System

**Awards Academic Credit
or Credential**

(c) 1999 Dow, Lohnes & Albertson, pllc

Economic Benefits to the Institution

- ***Earned Revenue***: Income stream from credit enrollments.
- ***Rental Revenues***: Royalty stream from use of *brand* (i.e. institution's name and logo) and license revenue from use of courseware.

...But

- ***no*** share in the ***appreciated value*** of the services entity,
- and ***no*** opportunity to ***monetize*** that value.

New Economic Premise

- Identify the *value proposition* of the learning service.
- Use *other people's money* to provide capital.

i.e. access the capital
marketplace by selling
an equity interest

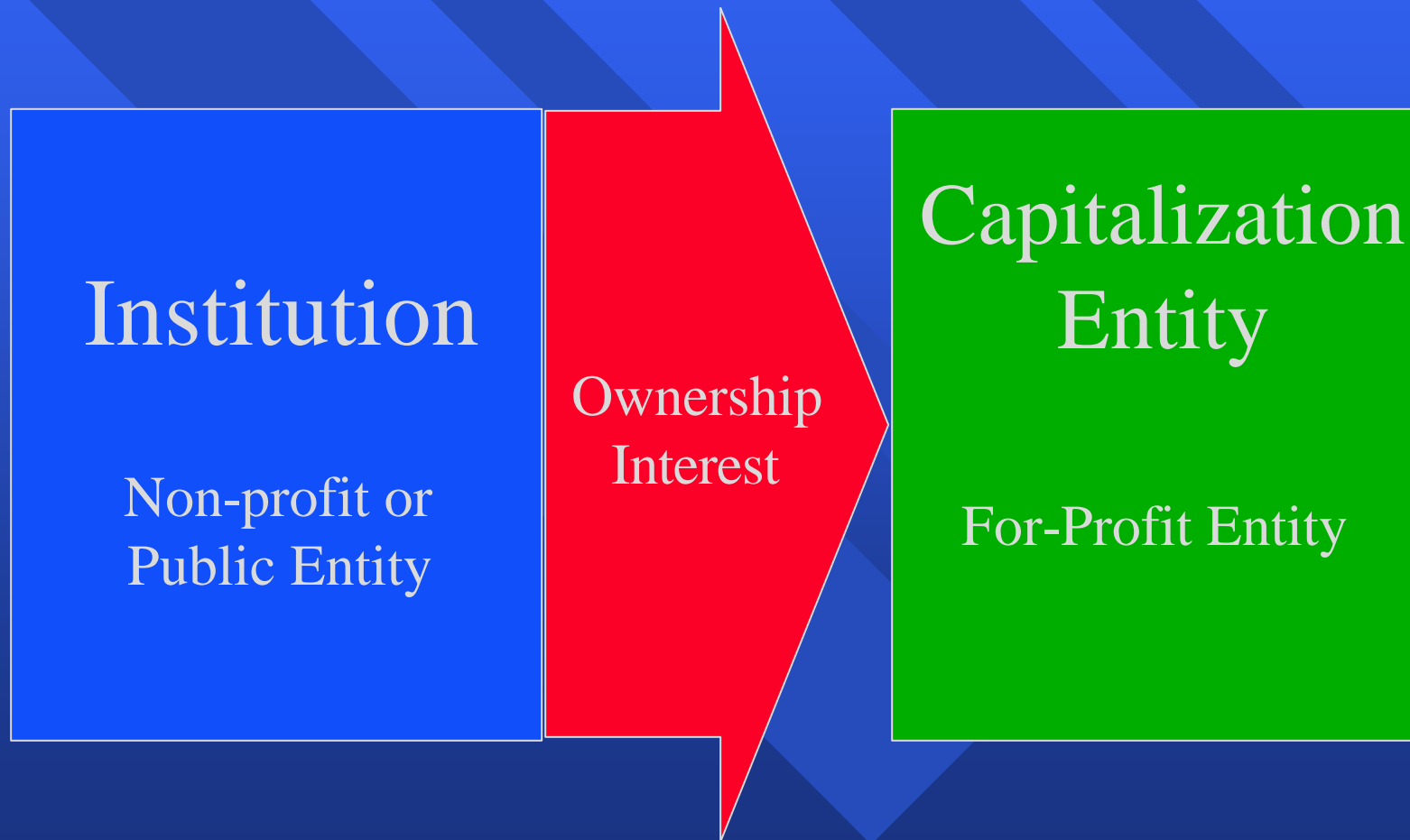
...but non-profit
institutions cannot create
capital, right?

...wrong!

The Need is For
Organizational Strategies to
Allow For Capital Creation

...Consistent with
remaining a university!

The “Standard Model”



Fundamental Premises of *Any* Capitalization Structure

- *Academic control* remains with the Institution and the faculty.
- The structure does not affect *accreditation* and *licensure*.
- The “capitalization entity” is essentially *transparent* to learners.

Characteristics of the Capitalization Entity

- The Institution's *intellectual property* rules do not necessarily apply to the capitalization entity.
- The institution's *compensation* rules do not necessarily apply to the capitalization entity.

Models for the Creation of Capitalization Entities

Dividing the Baby

Institution

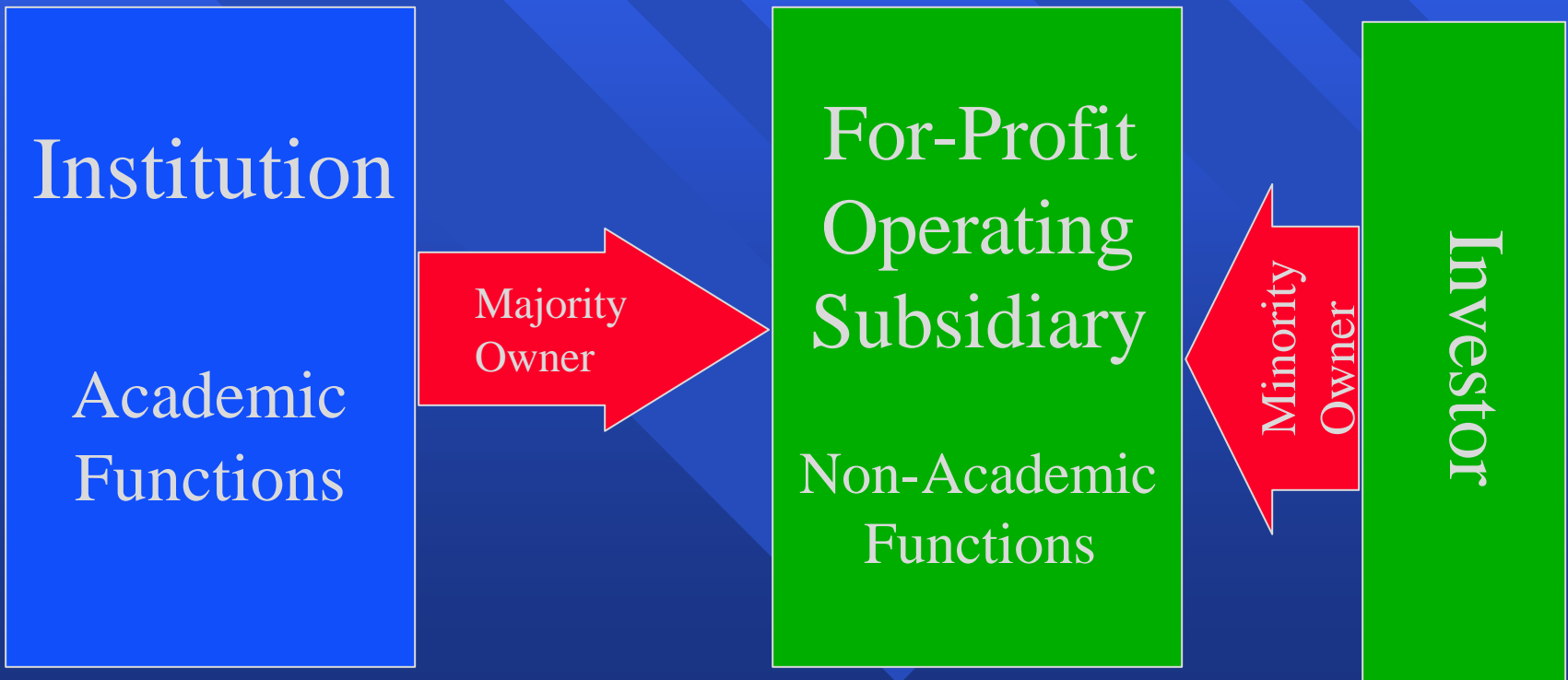
Institution

All
Academic
Functions

Creates

For-Profit
Operating
Subsidiary

All Non-
Academic
Functions



Creating a Clone

Institution

Institution

Creates

Special Purpose
For-Profit Entity

\$

Parenting a Child

Institution

**For-Profit
Partner**

Institution

For-Profit
Partner

Ownership
Interest

Ownership
Interest

New For-Profit
Venture

Hiring a Nanny

Institution
A

Institution
B

Institution
A

Shared Governance

Institution
B

Shared Governance

New Non-Profit Entity

Institution
A

Institution
B

Shared Governance

Shared Governance

New Non-Profit Entity

Ownership

New For-Profit Entity

\$

Immediate Economic Benefits to the Institution

- **Income** stream from credit enrollments.
- **Royalty** stream from use of *brand* (i.e. institution's name and logo).
- **License revenue** from use of courseware.
- Share of **net profits** of capitalization entity.

...and Long-Term Benefits

- Share in *equity appreciation* in capitalization entity,
- The opportunity to *monetize* a portion of that value,
- And the opportunity to *build endowment* with the remainder.

Striking the Balance...

- **What is needed...**
 - to achieve institutional mission
 - to compete
- **What is possible...**
 - within institutional constraints
 - within economic reality
 - within the marketplace

Dancing with New Partners

Michael B. Goldstein

Dow, Lohnes & Albertson

1200 New Hampshire Ave., NW

Washington, DC 20036

mgoldstein@dlalaw.com

202.776.2569

Fax 202.776.4569

www.dlalaw.com/education