

Higher education

The attack of the MOOCs

An army of new online courses is scaring the wits out of traditional universities. But can they find a viable business model?

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DOTCOM mania was slow in coming to higher education, but now it has the venerable industry firmly in its grip. Since the launch early last year of Udacity and Coursera, two Silicon Valley start-ups offering free education through MOOCs, massive open online courses, the ivory towers of academia have been shaken to their foundations. University brands built in some cases over centuries have

been forced to contemplate the possibility that information technology will rapidly make their existing business model obsolete. Meanwhile, the MOOCs have multiplied in number, resources and student recruitment—without yet having figured out a business model of their own.

Besides providing online courses to their own (generally fee-paying) students, universities have felt obliged to join the MOOC revolution to avoid being guillotined by it. Coursera has formed partnerships with 83 universities and colleges around the world, including many of America's top-tier institutions.

EdX, a non-profit MOOC provider founded in May 2012 by Harvard University and the Massachusetts Institute of Technology and backed with \$60m of their money, is now a consortium of 28 institutions, the most recent joiner being the Indian Institute of Technology in Mumbai. Led by the Open University, which pioneered distance-learning in the 1970s, FutureLearn, a consortium of 21 British, one Irish and one Australian university, plus other educational bodies, will start offering MOOCs later this year. But Oxford and Cambridge remain aloof, refusing to join what a senior Oxford figure fears may be a “lemming-like rush” into MOOCs.

On July 10th Coursera said it had raised another \$43m in venture capital, on top of the \$22m it banked last year. Although its enrolments have soared, and now exceed 4m students, this is a huge leap of faith by investors that the firm can develop a viable business model. The new money should allow Coursera to build on any advantage it has from being a first mover among a rapidly



growing number of MOOC providers. “It is somewhat entertaining to watch the number of people jumping on board,” says Daphne Koller, a Stanford professor and co-founder of Coursera. She expects it to become one of a “very small number of dominant players”.

The industry has similar network economics to Amazon, eBay and Google, says Ms Koller, in that “content producers go to where most consumers are, and consumers go to where the most content is.” Simon Nelson, the chief executive of FutureLearn, disagrees. “Anyone who thinks the rules of engagement have already been written by the existing players is massively underestimating the potential of the technology,” he says.

Certainly, there is plenty of experimentation with business models taking place. The MOOCs themselves may be free, but those behind them think there will be plenty of revenue opportunities. Coursera has started charging to provide certificates for those who complete its courses and want proof, perhaps for a future employer. It is also starting to license course materials to universities that want to beef up their existing offering. However, it has abandoned for now attempts to help firms recruit employees from among Coursera’s students, because catering to the different needs of each employer was “not a scalable model”, says Ms Koller.

For Udacity, in contrast, working with companies to train existing and future employees is now the heart of its business model. It has tie-ups with several firms, including Google. It recently formed a partnership with AT&T, along with Georgia Tech, to offer a master’s degree in computer science. Course materials will be free, but students will pay around \$7,000 for tuition. EdX is taking yet another tack, selling its MOOC technology to universities like Stanford, both to create their own MOOC offerings and to make physically attending university more attractive, by augmenting existing teaching.

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Alison, an Irish provider of free, mostly vocational education founded in 2007, before MOOCs got their name, is generating plenty of revenue by selling advertising on its site. “Ads propelled radio and TV, why not education? There is a lot of misplaced snobbery in education about advertising,” says Mike Feerick, Alison’s founder.

Another important category of MOOC providers are publishers, says Rob Lytle of the Parthenon Group, a consultancy. He says firms like Pearson (part-owner of *The Economist*) that run educational businesses such as textbook-publishing may thrive by offering free MOOCs as a way to get people to buy their related paid content.

Besides the uncertainty over which business model, if any, will produce profits, there is disagreement over how big the market will be. Some see a zero- or negative-sum game, in which cheap online providers radically reduce the cost of higher education and drive many traditional institutions to the wall. Others believe this effect will be dwarfed by the dramatic increase in access to higher education that the MOOCs will bring.

Mr Feerick predicts that the market will be commoditised, spelling trouble for many institutions. But Anant Agarwal, the boss of EdX, reckons the MOOC providers will be more like online airline-booking services, expanding the market by improving the customer experience. Sebastian Thrun, Udacity's co-founder, thinks the effect will be similar in magnitude to what the creation of cinema did to demand for staged fiction: he predicts a tenfold increase in the market for higher education.

Sceptics point to the MOOCs' high drop-out rates, which in some cases exceed 90%. But Coursera and Udacity both insist that this reflects the different expectations of consumers of free products, who can browse costlessly. Both firms have now studied drop-out rates for those students who start with the stated intention of finishing, and found that the vast majority of them complete the courses.

Besides LearnCapital, a Silicon Valley venture firm, and the World Bank's International Finance Corporation, the participants in Coursera's \$43m fund-raising included Laureate, an operator of for-profit universities. Doug Becker, its boss, reckons that many established universities will soon offer credits towards their degrees for those who complete MOOCs. He thinks this will drive a dramatic reduction in the price of a traditional higher education, that will reduce the total revenues of existing providers by far more than the revenue gained by the start-ups. Still, if MOOCs reduce the cost of higher education by one-third, as he predicts, yet only earn for themselves 1% of that benefit, that would "still be a very nice business," he says.

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