Education Advisory Board | Business Affairs Forum

Top 10 Mistakes in Working with Third-Party Vendors for Online Programs

Tips on Structuring Partnerships to Protect Revenue and Minimize Risk

Education Advisory Board

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Launching Online Programs with Third-Party Vendors

This brief features the Education Advisory Board's top lessons in evaluating vendor partnerships to launch and support online programs, and tips for avoiding common pitfalls. For self-evaluations of your campus's needs, vendor reviews, evaluation scorecards, and more, see EAB's larger toolkit, *Evaluating and Implementing Partnerships with Online Program Enablement Vendors*.

Colleges and universities of all types are expanding their online education efforts for a broad range of reasons, including flexibility, retention, and cost savings. Our focus in this brief is on those that are launching fully online degree programs primarily to **grow enrollments** and **generate revenue**—often the only kinds of programs that third-party support vendors are interested in supporting.

Major Investments Required to Grow Online

Institutions Often Not Ready to Build (or Pay for) the Array of New Infrastructure Required

Administrators are finding that expanding online and hybrid programs requires new infrastructure, new staff, new policies, and new institutional competencies. These include market research, labor market demand analysis, LMS, instructional design, faculty training, marketing and recruiting, enrollment management, 24/7 help desk and technical support, online student support services, and ongoing retention supports.

In the face of these new requirements to grow online programs, institutions typically face two kinds of challenges:

- **Lack of upfront capital**
- **Lack of in-house expertise**

While neither challenge is insurmountable, institutions or deans may find it difficult to raise funds or hire staff at the rate or quantity desired. If not managed well, programs witness delayed program launch, slow rate of enrollment growth, and weakened competitiveness, enough to threaten the viability of new online programs.

In the past two decades, a variety of private sector solutions has emerged to meet the need for online program support, as startups and established players alike have sought to enable (and ultimately profit from) the growth of online offerings at traditional non-profit colleges and universities. Some of these vendors provide so-called "turnkey" service—a full suite of supports including everything from instructional design and market research to recruiting and retention services. Other vendors provide specialty services within a specific niche, such as online branding, and often operate on a fee-for-service model.

Mistake #1: Sacrificing Too Much Revenue to Vendors

Third-Party Online Enablement Vendors Enable Speed and Scale, But at a Price

The top misstep we encountered in our research was schools and institutions sacrificing too much tuition revenue to vendors compared to services received. This most often stemmed from the belief that partnering with a vendor was a way to generate "free money"—no upfront cost or risk paired with years of enrollment growth and revenue inflows from new online programs. Leaders that believed that they would be unable to launch a financially sustainable program without outside assistance were willing to give up a substantial portion of revenues to vendors in return for guaranteed growth and a seemingly effortless launch. The result: schools sharing 60-80 percent of tuition revenues back to vendor partners.

While some vendor-heavy revenue splits may be justified by a comprehensive service package, our research suggests that many institutions are sacrificing too much revenue to vendors for two reasons: an overvaluing of vendor services that could have been provided in-house for similar or lower cost, and an undervaluing of the institution's brand power.

We urge members to move away from the perspective that working with a vendor can be a source of "free money," and instead recognize that vendor partnerships are just one option for building an online program. The pros and cons of other paths (such as building an internal Continuing and Online Education unit, or contracting with multiple fee-for-service providers) should be weighed against the financial implications of partnering with a full-service, revenue-share vendor.

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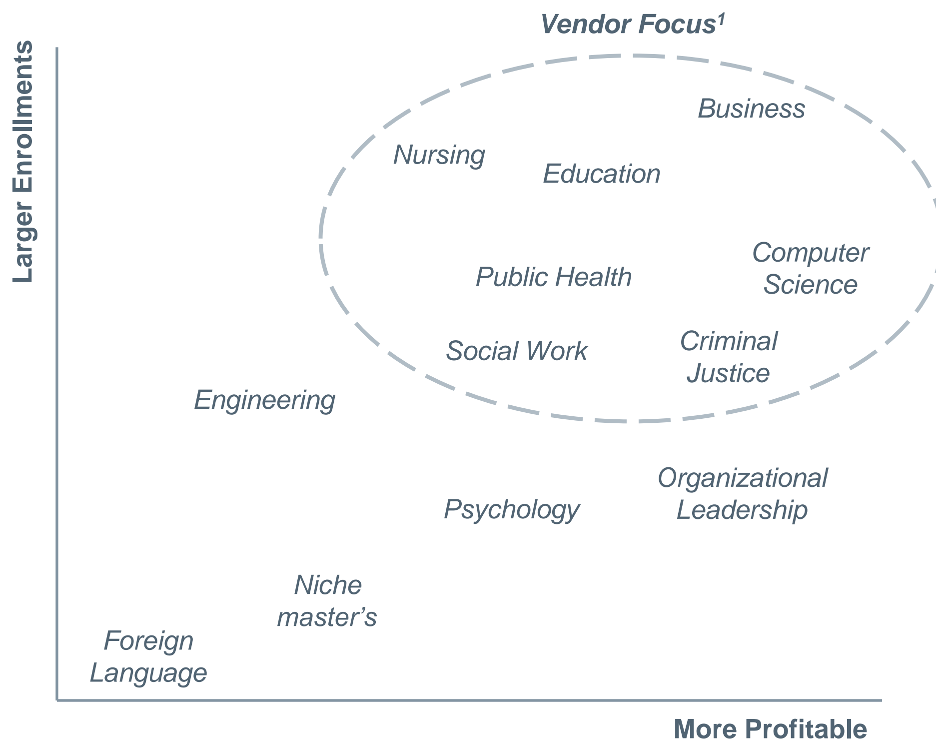
Mistake #2: Seeking Vendor Partnerships on Low-Appeal Programs

Vendors Prioritize High-Growth, High-Margin Online Master's Programs

It is no secret that third-party enablement vendors are motivated by increasing enrollments and, ultimately, maximizing tuition revenue. Therefore, nearly all vendors are highly selective in the types of online offerings they are willing to support. Vendors are typically unwilling to support individual online courses (not part of a full program), online certificate programs, or (at least for now) online undergraduate programs. Instead, they are overwhelmingly focused on online graduate degree programs, particularly high-growth, mass-market professional master's degrees like nursing, business, computer science, and criminal justice. Institutions seeking help from an enablement vendor outside those areas rarely receive it, or pay a higher premium.



1) Program rankings are illustrative.

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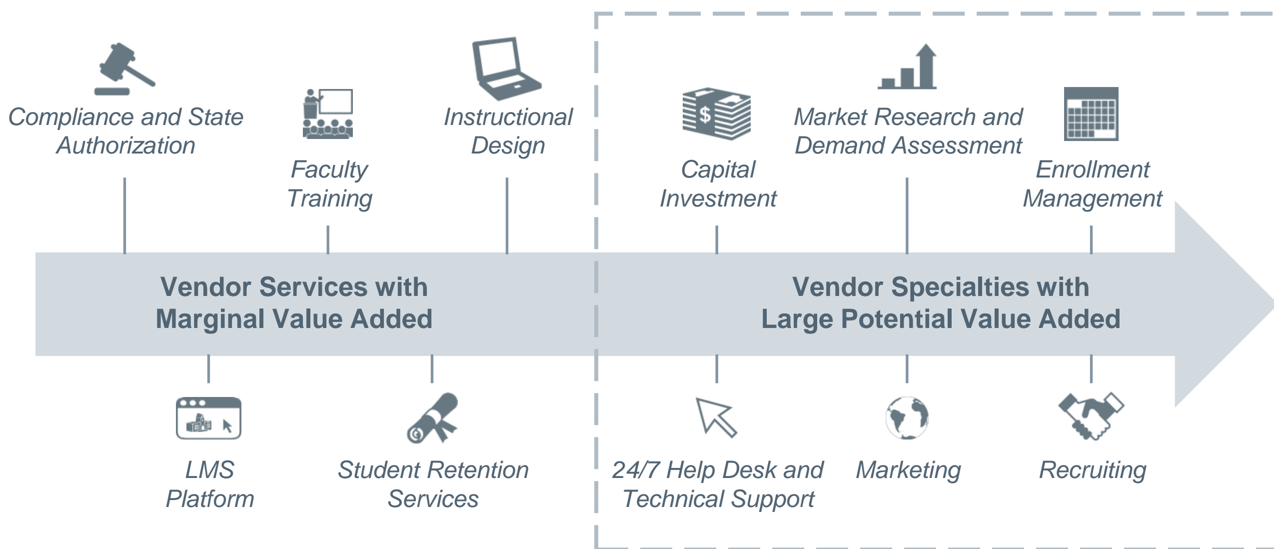
Mistake #3: Purchasing a Full "Turnkey" Service Package

Select Only the Services for Which Vendors Can Offer Superior Value

In the early days of the online enablement industry, clients faced an all-or-nothing decision: sign up for a complete menu of services in return for a significant cut of revenue, or build an entire program support infrastructure themselves. With the addition of several new competitors in the market, however, vendors have begun to compete by offering more tailored service packages. Institutions often have their own established capacities in instructional design, student retention, strategic investment funds, and other areas, reducing the need for vendor support and, as a result, increasing the revenue share that they are able to retain from the vendor.

Below, we outline which functions institutions should strongly consider building in-house: areas like interstate authorization and faculty course design training for which most institutions already have some in-house infrastructure, and for which vendors cannot typically provide significantly greater value. Some vendors will also push the unique functionality of their proprietary LMS—but EAB research found little evidence of vendor superiority or increased client satisfaction around LMS alone.

On the other hand, online enablement vendors possess significant advantages in areas like marketing, recruiting, and enrollment management due to their scale and accumulated expertise. Vendors operating on a revenue split model are dependent on filling (virtual) seats, and therefore have invested heavily in state of the art search engine optimization, website design, Customer Relationship Management (CRM) platforms, lead generation portals, and more, which are typically difficult and expensive to replicate at an individual institution. Finally, institutions that lack the upfront capital to launch a new online program have found the vendors' ready access to funding and assumption of most financial risk to be critical to success.



Mistake #4: Buying Vendor Services Already Available on Campus

It's Unnecessary to Outsource Everything—Match Services to Institutional Needs

With an array of services to choose from, and major revenue implications depending on which are included or excluded from a vendor contract, it is imperative for deans and administrators to carefully consider which services their school or campus needs most . Since every institution has its own unique mix of target markets, existing infrastructure, and revenue goals for new and existing online programs, the answers will vary. For guidance on how to evaluate the need for a vendor partnership, and in what areas, see EAB's *Build vs. Buy Self-Diagnostic*.

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Mistake #5: Evaluating Vendor Partnerships Without Central Oversight

Central Administration Must Have a Seat at the Table

School and department autonomy at most institutions means that the ultimate decision on whether to work with an outside vendor rests with the deans and faculty. Online enablement vendors have benefitted from the decentralized governance of their client institutions, typically targeting individual deans who may not know the extent of their campus's capabilities and are attracted by the ability to launch new programs without having to request upfront investment from their institution.

A completely decentralized decision process can lead to suboptimal revenue splits, duplicated services, and legal and financial risks for which individual deans may not be prepared. Institutions with a more centralized process for considering a partnership and vetting candidates see several benefits:

- **Reduced Risk**: Involving the Provost, CFO, and General Counsel allows for careful vetting to prevent the kinds of unfavorable intellectual property and penalty clauses that still appear in some contracts.
- **Increased Leverage**: Instead of allowing vendors to pick off individual programs one by one (with relatively poor revenue splits for each program), institutions looking to launch several online programs in the near future should present a united front to leverage a better revenue split.
- **Optimized Service Bundle**: Individual deans may not be fully aware of the array of online program support infrastructure already present at the institution. Involving the Provost, Director of Academic Technology, Director of Marketing, and others ensures that programs are not paying for services to which they already have access.
- **Increased Marketing Power**: For institutions looking to grow multiple online programs, there are significant benefits to presenting the institutional brand as a whole in marketing efforts. Presenting multiple programs to a vendor as a package deal enables them to coordinate branding efforts much more effectively. In fact, our research suggests that the most mature online providers tend to shift their marketing budgets from program-specific efforts to university branding as they grow.

Mistake #6: Not Soliciting Multiple Bids

With Growing Competition in the Industry, Negotiate Aggressively on Revenue Splits

The proliferation in recent years of vendors with largely similar service offerings means that price competition has increased significantly. While contracts that sent 80 percent of tuition revenue back to the vendor were once common, a 50/50 split is now the norm, with even better splits available for narrower service packages. In addition, most vendors also have wide operating margins, and since they vet programs carefully, they bear little risk of financial loss—both reasons to drive a harder bargain.

Use a formal RFP to solicit multiple bids (ideally three or four) and encourage competitive offers. One particularly effective method is to use a points system whereby the vendor offering the best price scores additional points in the RFP process.

Mistake #7: Accepting a Static Revenue Split Over Time

Revenue Share to the Institution Should Reflect Changing Enrollments and Service Bundles

While it is critical to push for a good deal initially, later renegotiations can be equally important. As the institution builds more infrastructure in-house (for example, around instructional design or student support services), and expands online student enrollments, vendors are more receptive to renegotiating terms. Given the increased number of vendor options, vendors are much more sensitive to the threat of clients switching to other providers than in the past.

The most client-friendly contracts include a formal mechanism that automatically improves revenue share over time based on enrollments, number of programs, and any changes in service needs, guaranteeing a more equitable revenue split while removing the need to actively renegotiate.

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Mistake #8: Locking in Academic Restrictions that Limit Enrollment Growth

Utilize Key Levers to Secure a Better Deal—If Appropriate to Mission

While using tactics like RFPs and renegotiations are important to securing a beneficial deal, institutions possess other, more powerful negotiating levers that give vendors what they want most—increased enrollments:

- **Raising Section Caps**
- **Reducing Selectivity**
- **Increasing Number of Online Programs**

Each of these options, while effective in securing better revenue splits from vendors, have significant implications for the institution's quality and mission. For example, some institutions and individual schools may find that course caps that still make sense for face-to-face instruction can be raised for online courses without harming quality, by utilizing automated assessments or asynchronous components. Others may feel strongly that adhering to existing course size standards is essential to maintaining quality, particularly in subjects that require frequent instructor-student interaction. The critical questions to ask before entering a vendor partnership are, "What are we willing to do to grow, and what tradeoffs are we willing to make within our instructional model?"

Mistake #9: Agreeing to Overly Restrictive Contract Terms

Watch for Deal Breakers that Make Exiting a Contract Prohibitively Difficult

While most vendor partnerships have been overall successes, some institutions have had to terminate contracts early for reasons including poor service quality, questionable recruiting tactics, and unmet enrollment goals. To prepare for the worst, institutions should, in advance, ensure their ability to leave a contract. Here are the top contract terms to avoid:

- **Premature Contract Termination Penalties**: Some clients, upon deciding to leave a vendor partnership early, have discovered onerous penalties like multi-year teach-out clauses or continued revenue splits even after vendor services have ceased. While our research has shown that early terminations are rare, and that vendors will try to address service problems to save the contract, it is essential to have a feasible "exit ramp" if the partnership is not working as planned.
- **Intellectual Property Co-Ownership**: Make sure that contract language assigns full and undisputed ownership over all course contents to the relevant instructor, school, or the institution (depending on institutional precedent). Some clients have been unpleasantly surprised to learn that their vendor partner could potentially forbid them from re-offering online courses without permission for years after the end of a contract, sell the course modules, or ask the institution to "buy back" its own courses.
- **LMS Inflexibility**: Ensure that at the end of any vendor contract, it will be technically feasible to transfer content built in the vendor's LMS to another LMS. Vendors may try to use the "stickiness" of their LMS to discourage clients from considering other partners or pulling support in-house.

For advice on writing a contract that minimizes risk, see EAB's *Contract "Must-Haves" Checklist*.

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Mistake #10: Thinking Short-Term About a Long-Term Partnership

Treat the Vendor Relationship as a True Partnership, Not an Outsourced Operation

Since partnerships may ten years or more, it is critical to consider not just revenue splits but overall cultural fit and faculty approval. Faculty at some client institutions report how important it has been to work with a vendor that has previously partnered with similar institutions (e.g., faith-based).

In addition, unlike some outsourcing options, working with a vendor to support online programs requires constant attention and scrutiny. Clients report needing a dedicated point-person to handle day-to-day questions from the vendor and to instill accountability (for example, approving new marketing campaigns and ensuring ethical recruiting practices in vendor call centers).

Lay the Groundwork Now for Eventual Insourcing

Ultimately, we believe that institutions should view vendor partnerships as temporary arrangements on the path to in-sourcing (with the possible exception of marketing and recruiting, where we still see significant vendor advantages). Most institutions partner with vendors to overcome short-term capital or expertise shortfalls—challenges that can be overcome as time passes and online program revenues accumulate.

Leaders considering pulling more services in-house should lay early groundwork to ensure a smooth transition later. Contacts who have fully in-sourced after a vendor partnership stress the importance of setting up parallel, internal capacities even as the vendor is still providing services (for example, hiring in-house instructional designers or online retention specialists). The overlap, while potentially expensive, is absolutely critical to ensuring that in-house employees are fully prepared to take back ownership at the partnership's conclusion. Another option is to transition from the full turnkey vendor to an interim selection of niche, fee-for-service vendors in marketing, recruiting, enrollment, etc. While switching to multiple vendors can lead to coordination challenges, contacts report the benefits of weaning the campus off of a single provider on the way to full program independence.

See EAB's *Sample Insourcing Plan* for tips to prepare your campus for moving online support functions in-house.

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