By Paul Belleflamme, 3 April 2013

Will we all soon be hooked on MOOCs? (2) Business models

This post is the second of a series of three posts written by Julien Jacqmin. Julien Jacqmin is a PhD student in Economics from the Economics School of Louvain, and is affiliated with the CEREC/Université Saint-Louis – Brussels. Julien's dissertation is on the economics of education/science and on higher education policy. As an expert on these questions, he is well equipped to analyze the ins and outs of MOOCs. The first post gives a broad introduction to MOOCs; the third post examines the educational side of MOOCs and reflects upon the future of MOOCs.

Source: www.rizomatica.net

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The main MOOC providers started up with funds provided by venture capitalists and/or universities. For example, Coursera raised more than $22 million in the venture capital market while both Harvard and MIT have each granted $30 millions to edX. With the forthcoming expansion of these platforms and the desire of these investors to get some return on their investment (for an example, see here), a business model will need to emerge in order to at least cover the costs of these MOOCs, without discouraging their users nor their content providers.

The major costs faced by the platforms are the bandwidth used to provide the course contents, the software engineering and the instruction costs. The instruction costs are very peculiar as they allow scale economies ad infinitum. If the course and the system provider are well designed, enrolling a new student is always possible and the cost is close to zero. Compared to a traditional university, there is no limited capacity due to the fixed size of the aula, and no congestion takes place when enjoying the videos of the classes taught. In addition to this, some of the platforms give out a share of their revenues to the universities providing classes.

So far, MOOC providers used different sources of revenues. These sources differ from institution to institution, and are far from allowing them to cover their costs, until now at least. They range from the possibility to pay to receive a certification, to have a secure assessment system, to get access to recruitment services and to make potential employers/advertisers pay to have information about students.

Which of these channels are the most promising in order to monetize this business? Right now, no clear monetization strategy seems to be able to bring enough revenues without creating major issues (even the leading provider Coursera has questions around this issue).

As for other multi-sided platforms, the main challenge faced by MOOC providers is to find the financing model that help them to encourage students, course providers and eventually other third parties (advertisers and/or employers) to join their educative platform.

The certification model

This method is already used by most of the MOOC providers. While it is true that MOOCs have impressive enrollment figures, they have at least as impressive drop out rates. As shown here, there are only few courses with drop out rates bellow 90%. It therefore shrinks considerably the base of potential fee payers. The same issue holds for a system where students have access to a secure examination system (i.e. have their exams be proctored). While private certification systems like TOEFL are profitable, their core business is to certify. On the contrary, the core business and main costs of MOOCs is to teach. Another issue related to this financing mode, and not the least, is the credibility that employers give to these certificates. In addition, as argued by Cantillon et al. (2011), a higher education financing system based on output (graduates) might also have a negative impact on the quality standard of classes in order to increase revenues. This can be problematic especially in the absence of a good accreditation system.

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The premium model

This financing approach would make MOOCs turn into MOCs by making them less open. This could be done by asking all students to pay a fee or by offering a premium access (with a one-to-one tutoring, assessment grading, etc.) only for those who want to pay. Several questions arise from this model. First of all, in a context with many MOOC platforms competing for relatively similar services and where the cost of switching from one provider to the other is small, competitive forces are likely to be fierce and make it difficult to sustain profits. Prices would also need to be important enough to compensate for the direct costs created by the additional service provided, as this would decrease considerably the scale economies of MOOCs. Another unknown is how it would impact the student decision to take part to these courses without knowing how their learning outcomes are valued on the job market.

The partnership model

Under this model, the platform sells services to traditional higher education providers. Two main types of collaborations could be used. In the first, MOOC platforms would sell their technologies to universities in order for them to complement traditional classes via blended learning methods. In the second, MOOCs would substitute traditional, tutoring or remedial classes. This would not substitute the whole traditional teaching program but only targeted parts where MOOCs are more effective, financially and pedagogically speaking. The main difficulty with this model is that universities need to be convinced enough such that it brings enough cash in for MOOC providers to be profitable…

The advertising model

Thanks to the huge amount of information transmitted on these learning platforms, potential advertisers could be interested to pay in order to put forward some of their products. It is rather difficult to assess how advertising could disrupt the learning experience of students and how it might make them reluctant to participate. However, too much corporate advertising would probably discourage professors to invest their time to design and teach classes without direct retributions!

The job matching model

These could be earned from both the students and the potential employers sides. The aim is to improve the information asymmetries between potential employees and employers, in exchange of a fee. As for certification fees, the high drop out rates and the market credibility of MOOCs are not important enough now to make this approach profitable. These services would also be limited to fields with high job prospects and very specific skills. I also wonder which help MOOC providers could give to students who have followed classes such as “Sports and Society” or “About Science & Cooking: From Haute Cuisine to Soft Matter”. Are there many employers looking for people who have acquired skills taught in these classes? I doubt so. This job counseling activity seems to me very different from the one pursued originally by MOOC platforms.

Looking at this typology, it is difficult to say precisely which of these models will emerge or if it will be a mixture of some of them. In my opinion, the one which stands out the most and which would help MOOCs sustain in the higher education landscape is the partnership model. Due to the quickly evolving environment of 2.0 technologies, higher education institutions don’t have the size, nor the knowledge, nor the flexibility to keep up with the educational possibilities that they can offer. It makes it too risky to produce this in house. MOOC platforms circumvent this problem. However, several conditions will have to be respected in order to make these partnership profitable for both parties in the long term. The main concern is the added value brought by these new technologies on the student’s learning outcomes.

Another issue of concern will arise when MOOC platforms will bypass universities and directly deal with professors for them to provide course contents (Udacity does so already). Until now, they have mainly dealt with partner universities who then asked professors whether they wanted to teach a MOOC. The reason is to be able to attach the credibility of the university to the course offered. Will MOOC providers still deal only indirectly with professors when their business will be more mature and their credibility proven? It is difficult to tell now but this could create tensions between universities and MOOC platforms as well as between professors and their alma mater!

(Read Julien's related posts on MOOCs here and here.)