Fall 2022 - Volume 25, Issue 3

For-Profit Online Performance through the COVID-19 Pandemic

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Abstract

The COVID-19 pandemic has had substantial impacts on all types of higher education institutions. The common thought is that the shift to online would be a benefit to existing online education providers. This paper examines the market as a whole, as well as the performance of publicly-traded online higher education providers against the market index of the Dow Jones Industrial Average, with the goal of identifying whether or not online providers were able to take advantage of the market conditions to exceed the performance of the market as a whole. Coupled with this investigation is the phenomenon of public institutions acquiring for-profit online providers and the implications of that emerging trend to the higher education market as a whole.

Introduction

The time period from 2020-2022 has perhaps been the most active period of change for online education in the history of the discipline. Online learning technologies and pedagogies have likely seen greater changes over similar time periods, but the penetration of online learning activity because of the COVID-19 pandemic was easily the greatest single shift ever seen. Coates and Hong (2021) reported that over 1.5 billion students at all levels were learning from home in 2020. The sheer number of students makes online activity throughout the pandemic a big change, but even with such a big change the recency of the events means that there has been a relative lack of research into what those changes are and what they mean (Abu Talib et al., 2021).

While hopefully the world is now moving beyond the worst impacts of the pandemic, the disruption, and its related responses, is probably going to have long-lasting impacts on higher education (Kelchen et al., 2021). These impacts are likely to be felt far beyond the walls and virtual spaces of universities. Because much of the world now operates as part of a knowledge economy, higher education directly influences economic development (Ngoc et al., 2021). Higher education as an industry sector itself also has the potential to impact overall economic stability, as in the U.S. market, "public and private nonprofit institutions alone employ over 3 million full-time equivalent staff, enroll nearly 25 million students, pull in over $600 billion in revenues, and carry over $300 billion in debt" – (Kelchen et al., 2021, p 4).

This paper seeks to examine the financial performance of publicly-traded, fully online higher education providers. Such an approach limits the review to for-profit institutions, but this limitation can be easily justified for two reasons. First, publicly traded institutions are required to publicly disclose their financial information, which brings obvious advantages to the research process. Second, while there is still a sector divide between for-profit and non-profit institutions, universities of all kinds are increasingly market-driven (Williamson, 2021), which lends legitimacy to the use of for-profit institutions as a metric for overall online education market health. The beginning of this review of market conditions and responses is recognizing and understanding the impacts of the COVID-19 pandemic on higher education as a sector.

Impacts from the Pandemic

While it is arguable whether the pandemic has truly been the cause of change in many things, including online education, or just a factor that accelerated change that was eventually going to happen on its own, there is certainly real change happening throughout the world in the transition to a post-pandemic society. The composition of university staffs certainly changed during the pandemic, with U.S. higher education employment declining by 13% (Kelchen et al., 2021). Not only did staffing change, but there will likely be ongoing changes throughout the sector.

Abu Talib et al. (2021) theorize that pandemic effects on higher education as a whole could last far into the future, and because of that research is imperative now so that we can more effectively transition into the expected future that is more flexible, particularly more online, than was likely expected. Financial considerations are a part of this needed research. Kelchen et al. (2021) predict that the financial fallout from pandemic impacts will force an increased frequency of institutional closures.

Reasonably, some institutions may expect to be merged or acquired, rather than ceasing to exist, which is an interesting element discovered in this study that will be addressed in a later section.

Motivators for Change

The most consistent item in all of the discussions about higher education's post-pandemic future is that this has been, and likely will be, a period of substantial change. While perhaps already underway before the pandemic, since the pandemic U.S. higher education is clearly turning into an industry where institutions are highly competitive (Ngoc et al., 2021). This competition is, as is the case in industry, being driven by organizational performance and measured against the demands of the market (Camilleri, 2021). Much of this desired performance is being driven by technological advancements in the sector (Williamson, 2021).

Pre-pandemic, from 2012-2018, the increase of fully online students was over double the decrease of students taking in-person classes (Cheslock & Jacquette, 2022). The shift to online studies forced by the pandemic has, in part, accelerated higher education's shift to a truly global market for international students (Croates & Hone, 2021). Whether the student body in question is domestic or international, the shifting demand for online programs combined with the increased focus on organizational performance is going to force institutions to consider how they manage their investments. In a highly competitive environment, institutions will likely not attract sufficient numbers of students if they fail to invest in the right program modalities and other elements to match market demand (Cheslock & Jaquette, 2022).

The discussion for U.S. higher education institutions is quickly becoming one of not if, but how much, to shift to online delivery. While the focus of this paper is on for-profit institutions and their performance through the pandemic, all institutions have a requirement to generate sufficient revenue to fund their operations. With the rare exception of the few institutions with sufficiently large endowments to fully fund their ongoing operations, what institutions have to do is maintain enrollment and generate tuition in order to supply revenue to the institution. The likely changes in this financial situation post-pandemic, and the influence of online transition, is the final component of the overall environment pushing change in online higher education.

Online Program Financial Condition

For online programs, size has a direct relationship to the potential profits they can return to the institution. Cheslock and Jaquette (2022) found that economies of both scale and scope in online education programs benefit positive net revenues. Coates and Hong (2021) echo the benefits of economies of scale that can be accomplished through online program growth. One of the reasons that potential net revenues are important to the conversation is the future outlook for total revenues for institutions following the pandemic. Over the next five years, Kelchen et al. (2021) predict that most institutions will face moderate losses of revenue when compared with their 2019 performance, with small institutions and some for-profit institutions facing severe revenue losses.

Many institutions operate on very thin financial margins even during the best economic conditions. With the combined impacts of the pandemic, inflation, and demographic trends limiting the number of traditional undergraduates even moderate losses of revenue could have substantial impacts on institutions. This rising threat of financial distress, combined with the increased demand for online programs, is the source of the topic of this study. How did online higher education institutions perform through the financial challenges of the pandemic from 2020-2021?

Study Design

The population for this study is the list of publicly traded companies who own fully online colleges and universities. Table 1 provides a list of the institutions used for the study.

Table 1

Companies and Related Online Institutions

Adtalem Global Research, Inc. (ATGE)	Walden University
National American University Holdings, Inc. (NAUH)	National American University
Strategic Education, Inc. (STRA)	Capella and Strayer Universities
Perdoceo Education Corporation (PRDO)	American InterContinental University

American Public Education, Inc. (APEI)	American Public University System

Of particular interest when compiling the list of relevant institutions and their corporate ownership was a list of recent online institution purchases by large, traditional universities. Three were identified, which were: Purdue University's purchase of Kaplan University, the University of Arizona's purchase of Ashford University, and the University of Arkansas' purchase of Grantham University. These purchases provide possible insights into the growing market power of large online education providers, as well as their role in the increasingly competitive higher education market as a whole, that will be explored as part of this study.

To assess the performance of the publicly traded organizations through the pandemic the adjusted closing price of each stock and the Dow Jones Industrial Average (DJIA) was collected on December 31 of the years 2019, 2020, and 2021. These collection points capture price data before the widespread outbreak of the COVID-19 pandemic, during the height of the pandemic, and at a time when financial impacts from the pandemic were beginning to moderate. While data early in 2022 were available, data collection was halted with 2021 to avoid potential market influences from the market disruptions caused by Russia's invasion of Ukraine. The data is presented in Table 2.

Table 2

Adjusted Closing Prices by Stock

Stock	Dec. 31, 2019 Price	Dec. 31, 2020 Price	Dec. 31, 2021 Price
DJIA	28,538.44	30,606.48	36,338.30
ATGE	34.97	33.95	29.56
NAUH	0.02	0.13	0.07
STRA	149.09	91.25	57.25
PRDO	18.39	12.63	11.76

APEI	27.39	30.48	22.25

Results

The results of the review of stock prices were surprising. All five companies posted lower prices at the end of 2021 than the end of 2019, with three of the five posting declines in 2020 and 2021 compared to 2019. Two others posted increases from 2019 to 2020, but by 2021 had dropped to below the 2019 price. The Dow, in contrast, increased both years, with the ending 2021 price over 27% higher compared to the ending 2019 price. As the original question for this study was whether or not online education companies outperformed the market index, this is clearly not the case with every company reviewed falling in price while the index increased.

As is often the case with research, it was an unexpected finding that proved most interesting. The recent purchases of three large online providers by traditional institutions very much aligns with the findings in the literature that scale is becoming a substantial factor in online program success. Given that much of the risk in online program launch is connected to the initial start-up cost versus the potential for sufficient enrollment to offset that cost (Cheslock & Jaquette, 2022), acquisition of already successful online programs may be an effective market entry for institutions with the capital assets to make such acquisitions.

Cheslock and Jaquette (2022) found that while there has historically been little interest in online education among major universities, that outlook is changing. This is echoed by Camilleri (2021), who found that institutions are engaging in restructuring efforts to improve organizational performance. These recent acquisitions could be validation of these thoughts, with large institutions favoring the buy decision of the traditional business dilemma of make versus buy for valued resources and market access.

Interpretation and Recommendations

Multiple large acquisitions within the same sector over a short period of time can be indicative of a trend in the market. While the publicly traded online higher education providers did not outperform the market as a whole, this is not necessarily an indication of problems for the organization so much as alignment with the overall impact on higher education as a market through the pandemic. Two of the three acquisitions, University of Arizona and University of Arkansas, actually happened during the pandemic, in 2020 and 2021 respectively. This indicates an expectation that large-scale online education operations have a promising future, in spite of recent setbacks during the pandemic economy.

Should this prove to be an ongoing trend, there are many potential impacts throughout the higher education market. Possible impacts are likely to be different based on the type of institution in question. Private, for-profit institutions, large non-profit institutions, and small non-profit institutions may all see different challenges.

For the private, for-profit institutions a trend of acquisitions by traditional institutions could quickly change the competitive market. While scale would likely continue to be an advantage, the name recognition and perceived marketability of a degree affiliated with a traditional institution could be a competitive advantage for the traditional schools entering the market through acquisitions. This could very quickly change the competitive landscape for online degrees, forcing the remaining large, for-profit institutions to change their messaging and communicate a more motivating value proposition to attract students away from fully online programs at well-known traditional institutions.

The large non-profit institutions could face interesting challenges in this arena as well. With well-known competitors entering the market through the purchase of established, high-enrollment online institutions it could become more difficult to build an online presence internally, particularly given the initial start-up costs and time required to develop sufficient enrollment to produce positive financial returns. This may, in part, motivate a future acquisition strategy as it could be the preferred approach to most quickly create the needed program performance for an institution. Should this become a popular approach, it is possible that the value of existing for-profit institutions would go up, as their relative value due to demand and scarcity would make them more valuable. Should this develop, there is a possibility that there will be real value to being an early mover in the market, able to acquire an attractive target before the price increases.

Small non-profit schools may be the ones most impacted, and most negatively impacted, should a trend develop with major universities acquiring large online providers. Lacking the scale to either launch major online initiatives internally or to purchase large online providers, small schools could struggle to capture market share online, which could potentially be a danger to the long-term sustainability of rural schools in particular. The operational outcomes of this challenge are difficult to predict, but it is possible that the market may force smaller schools to join in consortiums to offer online programs with a lower individual cost to any institution while offering the potential to scale their offerings and generate higher returns through higher enrollment levels. Regardless of the path taken, it is likely that small schools will be forced to adapt and use new approaches in order to compete with the scale and scope advantages being built by the largest competitors in the market.

Conclusion

The history of the online education market has been dynamic, and that dynamic nature has not changed. If anything, the COVID-19 pandemic has accelerated the rate of change and pushed forward trends that the market might not have seen for several more years otherwise. Scale is clearly emerging as a sustainable competitive advantage for online higher education. Opportunities to quickly achieve that scale of operations are limited as there are a finite number of large online providers, and only a fraction of those that exist are likely to be available for a merger or acquisition in the immediate future. Should a perceived need for action emerge in the market there may be substantial competition to acquire the available large providers, which may both drive up prices and further separate the market between the dominant players and all other institutions. Regardless of an institution's place in the current market, there are likely impacts coming from a shift in competitive strategy that will reform online education and potentially higher education as a whole.

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