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For-Profits and Satellite Radio

By Dean Dad April 24, 2011 9:27 pm EDT

For a few years in the mid-2000's, I was a fan of satellite radio. I had a longish commute, and there was only so much NPR I could endure, especially during pledge drives. I loved the variety of music satellite offered -- I was a particular fan of "beyond jazz" on XM -- and was convinced that the business model made sense; although there may not be many fans-per-square-mile for any given genre of music, there are probably enough across the country to justify a station. It was the "long tail" applied to music, enabled by technology.

At some point, I read a piece online -- maybe at Slate? -- arguing that satellite radio was a 'transitional' technology. It would last, the piece argued, only until mobile internet access got to the point where people could reasonably stream audio in the car; once that happened, satellite would lose its reason to exist.

I was skeptical. How on earth could I get internet in the car? There was no way the cable would reach that far!

Since then, of course, wireless mobile internet has become commonplace. I can pick up Pandora on my phone and play it through the 'aux' input in my car radio without bothering with, say, a monthly fee. When XM misunderstood its own business model and did away with "beyond jazz" while keeping a couple dozen lite-hits stations, I was done. I don't miss it.

I'm starting to wonder if the for-profits are the satellite radio of higher ed.

Like satellite radio, the for-profits started by attending to parts of the market that traditional colleges mostly ignored. They grew quickly by exploiting some of the inefficiencies of the competition. (The competition made that easy by mostly digging in its heels.) Most of traditional higher ed was so affronted by the upstarts that it failed to notice all the ways the for-profits actually resembled them.

For all the obvious differences -- the calendar, the terms of employment, the unapologetic focus on post-graduation employment -- the basic structure was remarkably similar. Students pay tuition, mostly using financial aid, for courses denominated in credit hours and taught over semesters. Some of the larger and more successful for-profits offer the same degrees with the same regional accreditations as their non-profit competitors; Phoenix and DeVry, for example, are both accredited by the Higher Learning Commission (North Central), which is the same body that accredits the University of Chicago and Northwestern. The for-profits generally accept transfer credit, and in some cases the acceptance is even reciprocated.

The family similarities were by design; they allowed easier access to federal financial aid money, and they made marketing to prospective students easier because the for-profits could offer a credential that the wider culture already recognized.

For a while, the for-profits did remarkably well. Their marketing left much of their competition in the dust, some of their programs were actually pretty good at what they claimed to do, and there was no shortage of qualified would-be faculty

to hire. (I've long thought that the overproduction of Ph.D.'s and the resulting shortage of full-time faculty positions in traditional colleges was part of what made the for-profit boom possible. They could get qualified people on the cheap.) And the increasingly desperate economic straits of the nonprofits led to behaviors -- such as wholesale adjunctification - that undermined any argument from the moral high ground.

The for-profits grew wildly when financial aid was easy to get and the lower-tier nonprofits were consigned to a more or less permanent austerity regime. The secret strength of the for-profits -- and I used to work at one, so I know whereof I write -- is that they charge more than the cost of the service they provide. That means that growth not only pays for itself, but it actually benefits the financial health of the organization. Most public colleges teach at a loss. In some cases, such as California, the losses become so great that the only way the colleges can survive is to turn students away. When those students are turned away, the for-profits stand at the ready, happy to accept them.

The Achilles heel of the for-profits, though, is that they only make sense when they're growing. Public colleges derive their budgets from a combination of tuition/fees and public subsidy; when enrollment drops, they at least have the subsidy to cushion the blow. The for-profits exist entirely on tuition/fees; when those drop, there's no cushion. There's nothing to fall back on.

Worse, the for-profits never really solved the cost issue that bedevils traditional higher ed. They still charge by seat time and require a set number of credit hours for a degree.

The failure to address the underlying cost disease didn't matter much when financial aid flowed like manna from heaven; just keep raising tuition and all is well. But when the financial aid spigot starts to sputter, the underlying inefficiencies of the service model stand exposed. That's happening now.

I'm not sure what the for-profits are a transition to. Satellite radio bridged the gap to mobile internet, which offered a longer tail at a lower price. My guess -- and that's all it is -- is that the next big thing will be a transition away from the "many paths to one goal" model. Right now, there are eleven-million different combinations of majors and colleges that fall under the umbrella of a bachelor's degree. I suspect the umbrella will be the next thing to go.

We've seen hints of this over the last decade or so. Terms like "Cisco certification" exist to signify alternative (or often supplemental) goals, as opposed to a bachelor's degree. I suspect that customized certificate programs will start to flourish. Unlike bachelor's degrees, they aren't tied to a particular amount of seat time, or even to credit hours at all. The better-known ones are validated by some sort of exam; how you get the knowledge to pass the exam is up to you. It isn't difficult to imagine the outcomes assessment movement greasing the skids for something like this to happen; if degrees are really just lists of outcomes, then certificates can be shorter lists of outcomes. As costs continue to escalate, it's getting harder to explain why every single person needs 120 credits, many of which will be in courses they don't care about.

When I gave up satellite radio, I didn't go back to my local FM stations. I switched to Pandora and similar competitors. Having grown accustomed to listening to music that fit my idiosyncratic tastes and that didn't have five minutes of commercials per song, I just couldn't go back. Slacker, Pandora, and their ilk didn't rebuke the advances of satellite; they saw them and raised them.

Similarly, the sudden vulnerability of the for-profits doesn't suggest to me that we're on the verge of a social democratic renaissance. It suggests that something even more disruptive is readying to be born. It's one thing to say "we can offer a more convenient bachelor's degree in an employable field, and you can get financial aid for it." It's quite another to say "we can offer an alternative to a bachelor's degree, and you can afford it."

Admittedly, this is a big topic. And it's hard to make predictions, especially about the future. Wise and worldly readers, what do you think?