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Fast-Growing U. of Phoenix Calculates a More Careful Course

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Phoenix

In the fall of 2009, after closing the books on yet another banner year of enrollment growth, and with its parent company's stock climbing toward a five-year high of $90 per share, the University of Phoenix began to question fundamental pieces of the very formula that had fueled its years of success.

Even as its executives celebrated, recalls one, they were uneasy. A feeling was building "in the pit of everyone's stomach: That felt too good."

From that "moment of truth," as that executive, Robert W. Wrubel now describes it, Phoenix quietly began what it calls a major change of direction.

Out of the public eye, North America's largest private university not only put in motion an overhaul of what had come to be seen as its grow-at-any-cost admissions practices. It also ended a compensation schedule tied to enrollment, began a required orientation program for inexperienced students, and instituted a host of other reforms in marketing and nearly every other important facet of this 438,000-student institution.

The moves, orchestrated from its headquarters here, and from corporate outposts like San Francisco, where the university has assembled a team of Silicon Valley veterans and computer scientists to create a cutting-edge electronic course platform, are part of a top-down campaign led by a team of a half-dozen executives, all of whom have joined its $5-billion parent company within the past four years.

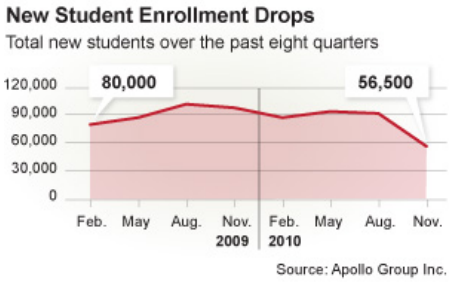
"We are investing in academics like no other higher-education company can do," says Joseph L. D'Amico, who as president of Apollo Group Inc. oversees the campaign it calls "Reinventing education, again." The goal, he says, "is to take our business to a new level."

Last month Apollo provided *The Chronicle* a behind-the-scenes (but by no means unfettered) look at some of the new recruiting techniques, educational moves, and marketing tactics being used to reshape the University of Phoenix.

The timing of the changes, and no doubt the company's willingness to share the details, is hardly coincidental. This most significant re-engineering of Phoenix in its 35-year-history comes as it and the sprawling $20-billion for-profit higher-education industry it helped to create face the greatest political, financial, and public-relations pressures of their existence. New laws that make the colleges more accountable for some students' inability to repay their federal loans, intensifying scrutiny from news media and government on aggressive recruiting, growing legal activism on the part of dissatisfied former students, and collapsing stock prices are prompting the companies to shift gears on the problem-laden growth strategies that have fueled the industry for half a decade.

At Phoenix the biggest problem-laden strategy goes by the name of Axia College. This entry-level division, created in 2004, failed to graduate many of the thousands of underprepared students it had relentlessly enrolled in mostly online programs, leaving them with student-loan debts they couldn't pay.

"That grew very large very fast," says Gregory W. Cappelli, formerly a stock analyst at the Credit Suisse investment bank, who joined Apollo in 2008 and became co-CEO in 2009. "I think we lost our way a bit."



While Phoenix had long made its name using its innovative scheduling and online technology to serve working adults, Axia catered to younger, less academically prepared students. The company set tuition for the two-year-degree program low enough that students could use federal loans—and if they were financially needy enough, Pell Grants—to cover most of their costs. Phoenix now gets nearly 90 percent of its revenue from those federal sources, the maximum allowed by law. That includes more than $1-billion in Pell Grants last year, the most of any university. Its rate of student-loan defaults has also risen markedly, largely among

Axia students, which under the tougher laws enacted in 2008, put it closer to the point where it could lose access to federal student aid.

Apollo's new three-week orientation program, along with efforts to better connect students with the university's 600,000 alumni and a push to revive its corporate-education business (a move that could help it reduce its dependence on federal student-aid money), are all part of the change in course. The new direction, which it is pursuing even as it continues to furiously lobby and make campaign donations to lawmakers to beat back tougher federal rules, is designed to attract a different kind of student. "We don't want to take their money if they're not going to succeed," says Mr. Cappelli.

The moves are taking a toll. In January, Apollo announced that the number of new students enrolling in the previous quarter had dropped by 42 percent from a year earlier. It predicted that the slowdown would very likely continue for at least a year. The news sent its already depressed stock price to $36, one of its lowest levels in five years. It remains to be seen whether investors stick with the company, and whether the "new" University of Phoenix, even with all of its marketing muscle, can hold its own against the many nonprofit and for-profit colleges now competing for similar kinds of students.

Phoenix's strategy is a risk, says Kevin Kinser, an associate professor of education at the State University of New York at Albany, who closely follows the sector. "What makes you profitable is getting new students in."

The Sell

Step onto one of the football-field-size floors of the University of Phoenix call center here—an airy room buzzing with a cacophony of conversations—and there's no doubt that the university continues to put a lot of energy into selling its programs.

Enrollment and retention still involve a vast, competitive, technologically sophisticated, 24-hour-a-day operation. Phoenix still relies on a force of more than 8,700 enrollment, finance, and academic counselors—about two-thirds of them in admissions—to attract and keep students and advise them on financial aid. (Although one-sixth Phoenix's size, the for-profit American Public University says it has just 30 enrollment counselors.)

What's changed is how Phoenix is selling.

In September the university put in place a new compensation

system for its enrollment and financial-aid counselors, eliminating any use of enrollment and retention goals in determining salaries. Requirements that enrollment advisers make 65 to 85 calls a day and put in four hours of "talk time" per shift have been replaced with customer-service training based on "emotional intelligence." Apollo executives decline to share full details on the new techniques but say the change is meant to encourage behaviors that will allow the advisers to make personal connections with prospects, relying on techniques like asking open-ended questions and maintaining a dialogue.

Or, as Brett Mitnick recited when two of his managers quizzed him during a training session, "Let the students relate their needs to you. Let them tell you how they're going to use the degree." An enrollment adviser here since September 2009, Mr. Mitnick and the two supervisors allowed a reporter to sit in on a critique as they played back a recording of a phone conversation with a woman who was considering returning to college as an online student at Phoenix to complete a degree.

The call was one of 46,000 that come in and out each day at the company's seven call-center operations across the country. Apollo uses voice-recognition software not only to sort and catalog calls by adviser and type ("initial," "follow-up," "retention"), but also to search for words or phrases that indicate a need for greater training on recruiting and advising techniques. (Recently the company has tweaked the software to monitor enrollment and finance counselors who might be using words like "guarantee" when discussing transferability of credit or financial aid.)

Mr. Mitnick, a 33-year-old with a gentle Louisiana drawl, got kudos for the way he conversationally summarized the woman's interest back to her and assured her that many of her future classmates would probably be working students like her, with college credits in hand. But they faulted him for not immediately offering her an estimate of how many of her credits would transfer. He was also praised for the e-mail follow-up he provided, sending her links from the university Web site to a few bachelor's-degree program he thought would suit her—after having let her know that "I've got start dates every month for every program." (She would later enroll for a psychology degree.)

For students seeking financial aid, Mr. Mitnick says, he asks about prior experience and "makes them get out a piece of paper" to write down information. "I put a student through a couple of hard questions to make sure they're not going to back out on me."

Under the old system, average enrollment advisers would typically earn raises of 5 to 6 percent twice a year, with enrollment and retention factors playing a key role. For what it says are competitive reasons, Phoenix does not provide information on enrollment-advisers' salaries, except to say they start in the "low to mid-five-figure range."

Raises and promotions for the advisers now will be determined by their mastery of the new behaviors, like showing compassion, getting students excited about getting an education, and "product knowledge." (Most of the 700 people laid off in December as a cost-cutting measure, including 400 here, worked in admissions-related areas.) Phoenix has also begun to require all enrollment counselors to have at least a bachelor's degree.

Even though Phoenix had always tried to play down the importance of enrollment goals in its compensation structure (the parent company still faces at least one federal whistle-blower lawsuit from a former employee on the issue), enrollment and retention goals were a driving factor for many managers. Mr. Mitnick's boss, Bret Romney, is an enrollment manager who rose up the ranks under the old system, in which enrollment goals were a fact of life, tallies of "starts" would be posted on the walls, and, as lawsuit documents have revealed, managers would send e-mails urging advisers to "blitz" on calls and "schedule LOTS of appts next week so we can get lots of apps."

When the new approach was first tested with his teams here in July, Mr. Romney had his doubts. Now, he says, he's become a believer. "We teach behaviors that are going to lead to good quality students," he says, walking past a wall where teams have posted thank-you e-mails from students. "That's the bet."

The 'Lead-Gen' Machine

The new admissions strategy is no sure thing. But it wouldn't stand a chance without the marketing strategy that preceded it. During the second half of the previous decade, Phoenix had poured as much as 85 percent of its marketing millions into "lead generation" companies, which would find prospective students by blanketing the Internet with ads and other come-ons in hopes of enticing Web surfers curious about higher education to provide their contact information. In 2006, Phoenix was buying as many as 700,000 leads a month as enrollment managers sought to hit their targets.

The strategy was not only expensive, but it perpetuated an image of Phoenix as just another Johnny-come-lately online college, says Robert Wrubel, who came to Apollo in 2007 with its acquisition of

the Internet marketing company Aptimus. Phoenix has on-ground campuses within 10 miles of 90 million Americans, but "by living on the Internet they thought of us as just an online school," says Mr. Wrubel, who himself got his start in the Internet industry as the founder of the search-engine company Ask Jeeves.

In 2008, Mr. Wrubel, now Apollo's executive vice president for marketing and product development, began recommending a new strategy to what was by then a new executive team, headed by Mr. D'Amico, Mr. Cappelli, and Charles B. Edelstein (like Mr. Cappelli, from Credit Suisse.) "Let's put the face of our students, let's put the face of our faculty in front of people," Mr. Wrubel says he told them. "Just think like a university."

He backed up the idea with research that put the population of working adult students into six categories and used that analysis, along with data Phoenix keeps on the characteristics of students who do well there, to identify the kinds of markets where it would make a push, and the kinds where it wouldn't.

The strategy is typified by the university's decision to run one of its "I am a Phoenix" television commercials during NBC's and ABC's coverage of the State of the Union address last month, and by its prominent advertising on TV shows like *White Collar,* which draws a lot of female viewers. More than two-thirds of Phoenix's students are women.

It's also typified by the reams of information Apollo now provides on its Web site about its courses, faculty members, and the costs of attending. (Determining that the full cost of a B.A. would run about $69,000 and an associate degree more than $24,000, though, still requires some clicking around and basic multiplication skills).

Three years ago, the site had about 300 pages of content; today it has more than 10,000, says Brian M. Mayer, vice president for the Web site and social media. Typical is the home page for programs in criminal justice and security, which describes the degrees and features profiles of some of the people who teach them.

The Web site also includes a video with a transcript warning students that the programs are no cakewalk. "Before you enroll in our University, we must politely ask, Are you truly willing to make the commitment?" it asks, describing the time and money needed to complete a degree.

Phoenix still relies on Internet lead generators to identify prospects. "If I just pulled the plug like that, the whole university

would go 'bloop,'" says Mr. Wrubel, with a hand gesture suggesting the water rushing down a drain. But the changes the company has made are already having an impact, he says. Where once the Web site accounted for a fewer than 5 percent of all applicants, now it's the source for a percentage in the high double digits. And, he notes, "those students retain longer."

The orientation program is a form of a retention strategy, too. Required of all students entering with fewer than 24 credits, it is a free, three-week minicourse designed to expose students to the technology that Phoenix uses and to the basic skills needed to carry out assignments. Students are required to obtain material from the electronic library and try out the online writing-help center, prepare a brief biography in Microsoft Word and submit it as an attachment, and prepare time-management tools.

Students who fail to complete the orientation can't begin classes until they wait six months and take it again. If they don't complete it then, they aren't enrolled.

Phoenix officials won't say how much of its fall 2010 decrease in new-student enrollment—it fell to 56,500 from 98,100 reported a year earlier—was attributable to the newly required orientation. Factors like the change in enrollment approaches and negative news accounts about the university and other for-profit colleges were also in play, they said.

Academic counselors say the orientation has been helpful in preparing students and in deterring those who don't have the commitment.

It's one of many changes that folks like Amy Sue Cherundolo, an academic adviser, say were long overdue. A financial-aid adviser here from 2001 to 2005 before she left the area and worked for a while as a drug-abuse counselor, Ms. Cherundolo, 39, says she never liked the enrollment and retention goals. (Academic advisers at Phoenix were never paid that way, and retention incentives for financial advisers began after her previous tenure there.)

At Phoenix, one academic adviser and one finance adviser are typically paired into "graduation teams" with four enrollment advisers. "I've always been lucky enough to have really good enrollment advisers who weren't 'Push, push, push,'" she says. But she knows that wasn't universal. "Before it was just 'OK, just send me your transcripts and let me get you started.'" These days, she says, the conversations she hears in Phoenix's military division, where she works, are focused on making sure students know what

they're getting into.

Ms. Cherundolo says she believes that the company is serious about its new direction. She recently got an e-mail congratulating her on having one of her calls selected for the training library. It was a "retention" call, she says, to the spouse of a service member who was grateful to have been encouraged to re-enroll. Ms. Cherundolo, who says she took five years herself to complete her associate degree back in Michigan, says she knows firsthand the obstacles that can deter a nontraditional student from completing a degree. She tries to keep those students on track. "Their goal is to graduate, so that's my goal."

'We're Not Harvard'

Like many of Phoenix's 15,000-plus full-time employees (and a sizable proportion of the 32,000 who teach there part time), Ms. Cherundolo attended Phoenix (in her case, for a bachelor's degree).

Critics say the company encourages employees to enroll in order to inflate its enrollment numbers. Mr. D'Amico, the president, says it's because "we believe in the education we provide."

Companies like Amazon, Zappos, and Southwest Airlines enjoy good reputations because they engage and serve their customers well. Phoenix says it's aiming to build the same thing. "We're not Harvard, we're not Northwestern," says Mr. D'Amico. "But we have a vital role to play in education, just like Southwest does in the travel business."

Of course, not even companies in the turbulent airline industry face anywhere near the number of challenges still ahead for Apollo, including shareholder lawsuits, a Department of Education review of financial-aid practices in its distance-education programs for 2009 and 2010, and a still-unresolved informal inquiry by the Securities and Exchange Commission over the way the university accounts for student-aid revenues.

It also faces questions from its accreditor, prompted by findings in an undercover investigation by the Government Accountability Office of recruiting practices among for-profit providers of education. James D. Berg, Apollo's vice president for ethics and compliance, maintains that the Phoenix employees cited by the GAO had said nothing misleading or deceptive to prospective students, although he acknowledges that "they did say some things we wished they didn't say." Despite contending that the GAO report is seriously flawed, he says, Phoenix took it as teaching tool and developed a series of new procedures to avoid the kind of conduct the report criticized.

The reinvention project, a copy of which Mr. D'Amico keeps as a 20-page color-coded PowerPoint document, hasn't gone all smoothly. One minor example: Surveys of students that Phoenix conducts three weeks after they start their first classes show that many still aren't prepared for the level of work they're expected to do. The enrollment advisers are supposed to tell people that a course will require 15 to 20 hours a week. but the message doesn't always seem to sink in, says Brandon Fowler, who evaluates the survey findings as Phoenix's director of student experience. So Phoenix is beefing up its training to try to get the warning to stick.

Mr. D'Amico says problems are to be expected. After all, he notes, "every once in a while, Southwest loses luggage, too."

But he has no doubts that Phoenix's plan, backed by what he describes as "hundreds of millions" in investments in the past year for technology, curriculum, and student services, will succeed. "I know that what we are doing is having an impact," he says.

Mr. Cappelli too, is confident. The pool of students who can benefit from a Phoenix education is still "enormous," he insists. "We're going to attract them in a different way," but Apollo is as committed as ever to getting its share of the market, he says. And if it doesn't grow as fast as before, that's fine, too: "We're OK making it smaller."

That may not be music to shareholders' ears. But just as some other for-profit colleges have now begun to emulate Phoenix in trying to attract more-likely-to-succeed students, stock analysts say the shift could prompt Apollo and other higher-education companies now in transition to find different kinds of investors, too, ones with different expectations.

Phoenix's days of 30-percent profit margins are probably behind it, says Ariel Sokol, an analyst with UBS Securities. Its ability to eventually return even to a slower growth trajectory, he says, will depend on how well it executes its plan in an ever more competitive landscape.

But the new direction, which Mr. Sokol sees more as a "return to its roots" than a radical shift, could simply mean that Phoenix will become a different kind of company, relying more on corporate alliances and global ventures to make its numbers. "Whatever happens to the University of Phoenix," he says, "it will always have investors."