

For-Profit Institutions of Higher Education Business Model and Cost Savings *University of Phoenix*

Business Model: Provide educational opportunities for non-traditional students utilizing year round schedules, self paced courses, only offer degrees with strong market demand, and utilize strong customer service/recruiting/student support practices. Rely heavily on Title IV financial aid funds, 86% of revenue and fees from this source in 2009. Cost savings from a lack of physical campus and high cost programs.

Financials: In 2009, Phoenix earned \$3.9B in revenue and had a net income of \$598M, a net profit margin of 15%. Phoenix spends 24% of revenue on selling and promotion. 40% of revenue is spent on instructional costs and services. 7% of revenue is spent on general and administrative.¹

Target Market: Phoenix targets non-traditional students that are not between the age of 18 and 24, not living on campus and are not supported by parents. This sector is estimated to be a \$386 billion industry in 2007, containing over 6.9 million or 38% of all students enrolled in higher ed.² UP focuses recruiting on working adults, military, and ethnic minorities. Total student body across system is 355,800, up 23.5% from 2008.

Efficiencies and Cost Savings:

In 2009, income from operations increased by \$317M or 38.4% from 2008. Phoenix believes that their competitive advantages in the market and the 2009 increase are positively impacted by the following efficiencies and cost savings:

- Standardized curriculum across the system which is developed centrally by faculty with content expertise and taught by part time instructors with experience in the field.
- Outsourcing of financial aid processing. Outsourcer packages and awards financial aid to students, disburses funds, performs verifications and returns to lenders, and resolves any related issues or conflicting information. It also operates a dedicated call center that handles financial aid questions from students
- Investments in corporate marketing function produced more effective and efficient advertising resulting in a decrease in advertising expense as a percentage of net revenue;
- An increase in enrollment counselor effectiveness as a result of internal initiatives to assist enrollment counselors in their jobs, as well as an increase in the average tenure of enrollment counselors.

¹ 2009 Annual Report, Apollo Group, Inc.

² Digest of Education Statistics, National Center for Education Statistics, 2009.