

# The Closing of the U.S. Open University

*The launch and fairly rapid closure of the USOU provide a cautionary tale for educational enterprises—know your market and plan accordingly*

By **Katrina A. Meyer**

In spring 1999, the Open University (OU) of the United Kingdom created the U.S. Open University (USOU) to coincide with the explosive growth of online education in the United States. The institution's first chancellor, Richard S. Jarvis (previously chancellor of the University and Community College System of Nevada), began hiring U.S. staff and opened an office near Denver, Colorado. News stories about the fledgling enterprise soon appeared in the *Chronicle of Higher Education*, *Change* magazine, and the *Business Wire*. It seemed an auspicious beginning to a new enterprise that targeted a growing field and brought with it the expertise and imprimatur of the U.K. Open University, which had enrolled three million distance students worldwide since 1971.<sup>1</sup>

Why, then, did the U.S. Open University close three years later, in June 2002? And what lessons can we draw from its closing? These questions prompted me to interview Jarvis to better understand the underlying problems from the point of view of the chief operating officer during the USOU's creation, operation, and closure. The interviews resulted in five lessons germane not only to the USOU but also to institutions considering new online learning ventures today. The problems afflicting USOU arose from five sources:

- Loss of an important advocate and diminishing support from the parent institution
- Conflicts with the OU's established curriculum



- Challenges in entering a new market
- Lack of accreditation
- Problems with business planning

## Loss of an Advocate and Support from OU

John Daniel, vice chancellor of OU and President of USOU, "had a vision—a deep personal vision—of an American version of the OU." Daniel had "great passion for his vision ... [that] OU access in the U.S. would be a good thing even if it didn't turn a large profit." But in January 2001, this powerful advocate for the USOU left to serve as assistant director-general for education at UNESCO.

Although the OU tempered its sup-

port of the USOU after Daniel departed, it spent \$27 to \$28 million on the venture while experiencing a downturn of its own. The worldwide economy was slowing, competition was increasing from other providers of distance education in the U.K., and funding had been cut by the British government. These factors increased financial pressure on the USOU, which was considered an experiment that had yet to meet its potential as a revenue generator.

## Curriculum Conflicts

The USOU depended entirely upon its parent for credibility with other institutions. "One advantage of the OU [reputation] was ... we never had a question

about content quality when dealing with other universities," noted Jarvis. On the other hand, the OU was a mature bureaucracy, with practices appropriate for operation in Britain. These practices did not always work well for a fledgling branch working in the different cultural and educational environment of the United States.

Because of its quality curriculum, the OU enrolled 200,000 students worldwide in 2003. As it happened, though, several aspects of the OU curriculum did not fit the U.S. market. Americans aren't as interested in the "Greeks and Romans ... and some of the courses had a distinctly European slant on things," explained Jarvis, or what he called the "queen and cricket problem."<sup>2</sup> "Course adaptation was expensive but a real need for adult students in the U.S.," Jarvis said. The costs of redesigning courses added to the pressure on the USOU to raise revenues, however. The problems with adapting the OU curriculum were only one example of how the USOU may have misunderstood the U.S. marketplace, however. Student expectations were another, along with confidence in the dot-com boom that encouraged optimism about potential enrollments.

### **Challenges of the U.S. Marketplace**

Like many companies established during the dot-com boom, the USOU expected many more enrollments than it got. As Jarvis put it, "The market was softer than we thought," with a worsening economy prompting the dot-com bust.

Furthermore, the OU curriculum is largely for undergraduates. By focusing on baccalaureate degree-seeking students as its primary market, the fledgling USOU had to compete with 3,885 U.S. institutions of higher education.<sup>3</sup> These U.S. institutions had greater visibility and more experience in the U.S. marketplace and greater familiarity with American students. "The biggest mistake we made was getting started with undergraduate education," noted Jarvis. "The OU MBA is one of the largest and most highly

regarded in Europe.... We should have done an MBA or Americanized the OU MBA first." As it turned out, the challenge of making inroads in the U.S. undergraduate market was one that USOU would not have enough time to solve.

Another problem with OU's curriculum was understanding undergraduate student behavior. The OU curriculum depends on 18-credit courses taken over a period of one year of half-time study, whereas most U.S. undergraduate students looking for an online course want a course or two to fill out their course load, one to replace a course offered at an inconvenient time, or one that will transfer into their degree programs. They don't understand the OU model and are increasingly a "hunter-gatherer market, where students cobble together a program, transfer their credits, swirl and cherry-pick, and customize their program to fit their needs," said Jarvis. Graduate students, on the other hand, choose a program and are more likely to see it through to completion.

For the USOU, recruiting one student took approximately \$4,000 to \$5,000, explained Jarvis. "You spend a fortune to generate that first registration, but then students drop between courses." Despite these problems, the USOU eventually enrolled 1,500 students, but "needed between 1,800 and 2,200 students" to be viable, Jarvis said.

### **Lack of Accreditation**

Immediately upon incorporation, the USOU became a candidate for regional accreditation with the Middle States Association. Being on probation complicated the USOU's attempts to recruit and retain students, however. Students interested in the USOU could not access student financial aid and were nervous about enrolling in an unaccredited institution. This affected the university's business plan, which depended on growing enrollments to increase revenue. "This was probably the biggest single error in the thinking behind the early business plan ... and the frustration for us was that we knew the academic quality of what we had was superb," was Jarvis's insight.

## **Business Planning**

The USOU was owned, funded, and operated entirely by the OU, which did not seek independent capital investment. Whether foregoing outside investment was wise is hard to know, since demands imposed by the investment capital market might have changed the nature of the educational enterprise. Evaluating the decision in hindsight is complicated by the poor economic performance of so many dot-com businesses having ample capital investment.

In any case, the "initial business plans for the USOU perhaps had too much emphasis on academic goals rather than business ones, and a precarious funding base that relied on student tuition for so much of its working capital," said Jarvis. Students felt the "price was too high" in the softening economy, indicating that the USOU needed to price services based on market research on what U.S. students were willing to pay. Clearly, USOU needed a different profit center than undergraduate tuition. Perhaps the mission was too broad and should have focused on fewer programs with a greater likelihood of short-term profitability, such as the OU MBA program.

The USOU also needed to pay closer attention to student services. The OU model of face-to-face tutoring did not translate well to the U.S. online learning environment, and U.S. students expected more and better student services online than the USOU provided. In fact, Jarvis concluded, "Support services may be more important than content" to attract, keep, and succeed with a student population that is increasingly aware of its various choices among competing providers.

### **Lessons to Heed**

The story of the USOU is a cautionary tale with five important lessons. First, an influential advocate is important to an enterprise, but advocates sometimes leave. It is better to ensure wide support for the enterprise across the organization's leadership and sponsoring organizations.

Second, new educational enterprises need a thorough understanding of their potential customers' needs, wants, and

expectations. These factors should guide the development of appropriate curricula and services.

Third, an educational enterprise, like any other, needs a careful business plan that is continuously updated and revised as the organization learns more about its customers and market. An appropriate business plan should guide development and the choice of new projects. Sufficient funding is needed to help the organization survive bad economic times.

Fourth, accreditation must be in place early. Accreditation boosts an educational enterprise's reputation and ability to attract students and can mean the difference between success and failure.

Fifth, sometimes things happen that no institution can easily foresee: a softening economy, a sudden change in leadership, a budget cut for the institution and/or its partners. Any of these factors can cripple a new and vulnerable enterprise.

Does Jarvis regret his experience with the USOU? "I have no regrets about doing it—in fact, it has been a highlight of my career. The dot-com boom-and-bust cycle was an experience none of us could have imagined. You had to live through it!" He believes the USOU would have made money eventually, given more time. His passion is for "that vast population of un- and under-served students in the U.S., working adults and care-givers, drop-outs and stop-outs, the thousands with no degree" for whom an open university is not the best but "their only hope for a higher education."

The lessons from the USOU experience show the need to combine lofty ideals with a solid understanding of the marketplace—the number and character of competitors, potential customers' desires, the difficulties of adjusting a successful model to a new environment, the importance of timing—so that new projects can generate

sufficient revenue to prove themselves before their support erodes. These lessons seem applicable not just to virtual universities but to all new initiatives that a college or university might consider. *e*

#### Endnotes

1. Wikipedia. "Open University," <[http://en.wikipedia.org/wiki/Open\\_University\\_\(UK\)](http://en.wikipedia.org/wiki/Open_University_(UK))> (retrieved February 16, 2006).
2. G. Blumenstyk, "Logging in with ... Richard S. Jarvis," *Chronicle of Higher Education*, Vol. 47, No. 3, September 15, 2000, p. A42.
3. National Center for Educational Statistics, "Fall Enrollment and Number of Institutions of Higher Education and Degree-Granting Institutions, by Affiliation," 1999, <<http://nces.ed.gov/programs/digest/d99/d99t182.asp>> (retrieved February 16, 2006).

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