

Apollo Group Inc. MarketBuster

Summary

In the early 1970s, colleges and universities in the United States were focused primarily on serving the needs of the 18 to 22 year-old undergraduate student. Little to no efforts were undertaken to accommodate the needs of any students that fell outside of the 18 to 22 year-old demographic. Some universities held night classes, but university offices and bookstores were closed at night. Working adults who took classes at night were forced to leave work during the day in order to enroll, register in classes, buy books, or consult with advisors. Once these commuter students reached campus, it was often hard for them to find parking. Because of these inconveniences, it took most working adults eight years or more to complete a four-year program.¹ When John Sperling looked at the unmet needs of adult students, he saw a business opportunity and founded a for-profit company to provide an educational service for working adults. Adults that wanted to earn additional degrees while still working found that the programs offered through the Apollo Group were tailored perfectly to their needs.

The Apollo Group's 2004 enrollment consists of 255,600 students at 100 learning centers and 50 campuses making it the largest private university in the United States.² It offers undergraduate and graduate degrees and continues to add new degree programs. From 2000 to 2004, enrollments increased from 100,900 students to 255,600 and profits increased from \$610.0 million to \$1.8 billion.³ Most of the tuition revenue (95%) comes from the University of Phoenix.

The Story

John Sperling likes a good fight. He fights against complacency and convention. He fights for the legalization of drugs and genetic engineering of agricultural crops. He has a passion to "improve the quality of life for my fellow men. I am, by nature, an improver—and a meddler."⁴ It is this spirit that led Sperling, who was once a poor and semilliterate youth, to challenge the traditional university system of higher education. His for-profit education company, Apollo Group, provides programs tailored to working adults and has caused some academics to consider him "a mercenary who defiled the intellectual sanctity of the university system with the introduction of a crass, money-making venture."⁵

Sperling joined the Merchant Marines after graduating from high school. It was during this time that his love and interest for higher education began. Sperling was dyslexic and hardly literate when he joined the Merchant Marines. However, while aboard ships he taught himself to read using classic literature like *The Great Gatsby*. After serving in the Navy during World War II, he received a degree from Reed College and then went on to earn a PhD in Economic History from Cambridge. Sperling taught in London and Ohio before being tenured at San Jose State University. However, the world of academia lacked the excitement and adventure that Sperling craved. He became active in the union, but after his efforts to prolong a strike were quelled, he needed a new outlet for his creative energy. In 1973, he started the Institute for Professional Development to offer nontraditional education programs for working adults. The program was rejected by San Jose State, but Sperling examined the market and realized that his program had great potential. He believed that with time, an educational program for working adults would gain

¹ 'History of Apollo Group', 2005.

² 'Apollo Group Overview', 2005.

³ Ibid.

⁴ Adamson, 2004, p. 147.

⁵ Ibid.

momentum and succeed. Therefore, he abandoned his position at San Jose State and embarked upon a journey to develop a new way to provide higher education to those who sought it.

Working adults were an underserved niche in the higher education market and the number of working adults seeking higher degrees was increasing dramatically due to technological, economic and demographic shifts.

- *Technological*: The introduction of the personal computer was changing the way businesses were run. There was a growing demand for employees with technological knowledge and most adults (even those with college degrees) required additional training and exposure to computers. People were willing to spend money to receive IT training because technology related jobs paid an income premium.⁶
- *Economic*: New technology spurred the birth of a new economic system in the United States where intellectual capital would replace industrial might as the dominant economic force. As industrial jobs became scarce, the bulk of the workforce would require higher-level knowledge and skills in order to gain new employment. The jobs that would dominate the workforce of the future were just beginning to be created and imagined and it was clear that the workforce of the future would be one with a higher degree of knowledge than in the past.
- *Demographic*: While these technological and economic shifts were taking place, the leading edge of the Baby Boomers were turning thirty years-old. This largest-ever group of the population would be the most affected by the changes in the market and would need advanced education in order to adapt.⁷

These market changes created a growing need for institutions that could accommodate the needs of working adults. In order to accommodate these needs, institutions would need to be designed around the learning characteristics and life situations of working adults.

MarketBusting Moves

Sperling, described as a visionary by many Apollo Group employees, identified the market trends and began to develop an institution that could serve the growing adult market using the following MarketBusting moves:

- #38: Creating a new niche to win
- #7: Eliminate tolerables and emerging dissatisfiers
- #8: Break up existing segments
- #2: Digitize to combine or replace links in an existing chain
- #10: Add compelling parallel offerings

#38: Creating a new niche to win

The emerging need for adult education and the inadequate current solution required a new solution—one that Sperling set out to create. After his proposal for the Institute of Professional Development was rejected by San Jose State University, he sought out another school that would allow him to pursue his idea. The University of San Francisco agreed to support adult education because they needed to increase enrollment and were in need of additional funds. Within two years, enrollment in the program had reached 2500 students. However, the regional accrediting board accused Sperling's program of running a diploma mill and revoked his accreditation.⁸

Sperling was unwavering in his belief that a company that could provide education for working adults would eventually succeed so he moved to Arizona where the accrediting board was more lenient. It was there that he founded the University of Phoenix in 1976. Sperling

⁶ Ortmann, 2001, p. 295.

⁷ 'History of Apollo Group', 2005.

⁸ 'Apollo Group Overview', 2005.

recruited faculty that would teach by night what they did for work by day. Since teaching was a secondary job, he eliminated tenure for professors. The curriculum was standardized and lectures by professors were forbidden. The curriculum was comprised of peer-based learning groups where the professor was not viewed as a “fount of knowledge”, but rather a facilitator of discussion.⁹

Sperling’s predictions were correct and the University of Phoenix was a great success. In the 1980s, Sperling expanded the University of Phoenix into new states where he could gain accreditation. In 1994, the company went public as Apollo Group.

#7: Eliminate tolerables and emerging dissatisfiers

According to the Apollo Group, the company has achieved success because it possesses the ability to anticipate student needs and is willing to create change within the organization to meet these needs.¹⁰ Traditional universities’ programs had many inconveniences for working adults. However, those who truly wanted a degree were willing to tolerate the inconveniences and dissatisfiers. The Apollo Group sought to eliminate tolerables and dissatisfiers by providing the degrees adult students desired with maximum flexibility. In order to do this, the University of Phoenix offered flexible class times at night and on the weekends. Campuses consisted of a few plain buildings that were located close to students’ homes and workplaces. There was ample parking and counselors and university offices were open during nights and weekends when the students would be on campus. With the University of Phoenix, a student could work full-time and earn a degree in 2-3 years. According to the Apollo Group’s 2001 Annual Report,

“All universities teach students. Only the best universities learn from them. At Apollo Group, we’re constantly studying our students, researching their needs, auditing their learning outcomes, and tracking their success to provide an education of unsurpassed relevance and value.”

#8: Break up existing segments

The Apollo Group did not just focus on working adults as its target market. Instead, it sought to further break down the working adult population into subsets so that it could gain a deeper understanding of its students and meet the needs of each individual subset. In 1995, the company purchased Western International University. This subsidiary’s main focus is on younger professionals and places an emphasis on individual performance. The Apollo Group bought the College for Financial Planning from National Endowment of Financial Education in 1997 to provide financial services education for individuals and corporations. The company also offers an adult-education program development and management consulting service through the Institute for Professional Development.¹¹

Besides adding new programs to meet the differing needs of students, the Apollo Group has targeted a new segment of the population. As mentioned previously, it targets working adults who desire technical and professional skills. The majority of these working adults come from lower-income brackets and are drawn to Apollo’s programs because they promise better paying jobs and an increase of future opportunities.

In the beginning, there was an age requirement for applicants to its programs (minimum of 21 years-old). However, the company realized there was unmet demand from younger segments of the population so it lowered its age requirement to 18 years-old. Most colleges fight for the top 25% of high school graduates.¹² However, the Apollo Group and its subsidiaries do not compete for these top performers, but target the middle half of the class. Even though it has lowered its age requirement, all students are still required to be employed while taking classes.

⁹ Breen, 2003, p. 83.

¹⁰ *Apollo Group 2004 Annual Report*

¹¹ *Apollo Group 2004 Annual Report*

¹² Symonds, 2003, p. 74.

In addition, the Apollo Group's programs have attracted a large amount of minorities and currently approximately half of its students are minorities.¹³

#2: Digitize to combine or replace links in an existing chain

A need for institutions that offer degree programs to working adults arose partly from the shift to a technology driven economy. The Apollo Group realized the importance of technology not only in its curriculum, but also in the way it served its students. Sperling recognized that it would be much more convenient for students to access class materials online because they would be available from any computer with internet access. This meant that students could find the resources they needed both at work and at home. With this insight, the Apollo Group created rEsource. rEsource delivers all course materials digitally through the Internet. Students can log in to access syllabi, textbooks, assigned reading, multimedia presentations, and links to relevant websites. In addition, they can access materials from the University Library.¹⁴ Sperling hopes to eventually eliminate all textbooks and offer them exclusively online. Delivered this way, they will be significantly cheaper—an added benefit for all students.

#10: Add compelling parallel offerings

To further utilize the internet, the University of Phoenix began to offer online courses through the University of Phoenix Online. While slightly more expensive, the added convenience of taking courses from the comfort of your own home has allowed this service to grow. Taking classes online permits a student to interact with other students across the countries. This feature gives them experience to a diverse group of students. On the other hand, it can be difficult to coordinate with these students, especially across different time zones. Over the past few years, the online segment's share has increased from 23.5% in 2001 to 40% in 2003.¹⁵

Implementation

For-profits

The University of Phoenix was the first for-profit institution to enter the market and provide degrees tailored to working adults. Ten other degree-granting providers of post-secondary education went public from 1998-2001. Seven of these returned to the market for secondary offerings and a few returned for a third time.¹⁶ The competition has increased, but the Apollo Group, as the largest and most experienced in the industry, has economies of scale in marketing and first mover advantages. The company also has an advantage over competitors in the regulatory environment. It has established itself in nearly every state and by focusing on regulations, it can protect itself by building a barrier to new entrants. It continues to attract investors as it keeps growing each year. The industry as a whole is appealing to investors because it is essentially recession-proof. In fact, the industry is countercyclical since more people return to school to earn degrees when the economy is bad and they cannot find jobs.¹⁷

Non-profits

It is generally assumed by those in academia that institutions such as the University of Phoenix do not compete with traditional public and private universities. This is true to some degree because for-profit universities target different students than traditional universities. So far, most gains in the for-profit industry have come from students who would not have attended a conventional college. Yet, the for-profits may be stealing some students from traditional universities. In 2003, 10% of MBA candidates

¹³ Ibid.

¹⁴ *Apollo Group's 2001 Annual Report*

¹⁵ 'Apollo Group SWOT Analysis', 2004.

¹⁶ Ortmann, 2001, p. 300.

¹⁷ Ibid

attended a for-profit university—this number is up 2% from 1993.¹⁸ Traditional universities have an advantage over for-profits because they do not have to produce profits to please investors, they receive numerous tax and regulatory breaks, and they have access to resources like foundation grants. In addition, traditional universities have begun to respond to the demand for adult education. Although they have been slow to respond, the introduction of programs tailored to adults may erode the University of Phoenix's market share.

Key Lessons

Apollo Group was able to bust the market because Sperling paid attention to the technological, economic, and demographic trends that created unmet needs in the education industry. Once identifying these unmet needs, Apollo Group sought to give its customers exactly what they wanted and to do so it broke up existing segments and listened and responded to customer's concerns. It was not confined by the traditional ways of providing education and is continually looking for better ways to provide education for its customers.

While continuing to focus on the United States market, the Apollo Group has its eye on foreign expansion. It has a University of Phoenix campus in Canada and plans to open one in Juarez, Mexico in 2005. Demand for education is on the rise in many developing countries and the Apollo Group hopes to take advantage of this by offering online courses in foreign countries and eventually opening up local campuses. It hopes to enter China with the help of the Canadian Institute of Business and Technology Corporation and has plans for entering India as well. Much like John Sperling, the company he founded continues to fight against all traditional conventions and has succeeded in doing so.

¹⁸ Symonds, 2003, p. 74.

DRAT Table, Apollo Group**SOURCE**

External

Powerful Incumbents	Traditional public and private universities that have do not have to please shareholders and receive significant government aid.
Opposition from advocacy groups	NA
Risk to key external stakeholders	NA
Inertia	Prove to shareholders that continued growth is possible and that there will continue to be a type of student that prefers to earn degrees through Apollo Group's programs
Disruption of customer's system or process	Students value the added convenience of adult-oriented programs, but employers must also value these degrees as much as a degree from a traditional university.
Changes in standards or regulations required	Accrediting boards have the ability to yank accreditation at any time so the University of Phoenix must maintain excellent standards. Lack of accreditation may hinder international expansion efforts.

Internal

Internal political maneuvering	Conflict amongst subsidiaries is possible. Particularly conflict between the University of Phoenix and the UOP Online which has cannibalized some market share.
Reluctance or resistance by those needed for active implementation	NA
Resource Constraints	Must produce results in each expansion to keep stock price up. Investors will flee with bad reports about the quality of degrees offered.

Platform changes required

Human resource and skills platforms	Needs to continue to attract professors who do not want to be full-time professors and have other careers during the day.
Logistics platforms	NA
Distributor platforms	Fine tune and further develop methods to receive a degree via the internet.
IT and database platforms	Improve the quality of online courses, student interaction, and course materials.
Technology platforms	Find new ways to add value to its programs my further integrating technology.
Assets, operations, and systems platforms	NA

Marketbusting Kite

Element	Needed to Support the Marketbusting System
Agenda The key things that the critical people spend time on	<ol style="list-style-type: none"> 1. Expansion in the US and abroad 2. Meeting and maintaining quality standards 3. Developing a positive brand name and reputation
Norms What principles and behaviors are valued?	<ol style="list-style-type: none"> 1. Innovative ideas 2. Persistent commitment to growth (enrollments and revenues) 3. Commitment to serving the needs of adult students
News What information and measures are paramount?	<ol style="list-style-type: none"> 1. Consistent growth in enrollments 2. Financial stability 3. Revenue growth 4. Results of graduates and their success in the workplace
Allocations What gets resourced and how are people rewarded?	<p>Resources go to</p> <ol style="list-style-type: none"> 1. Providing a high quality education 2. Making the learning experience as convenient as possible 3. Integrating technology into the learning experience 4. Marketing the UOP name <p>Rewards and recognition for successes go to</p> <ol style="list-style-type: none"> 1. Employees who enroll a large number of students 2. New ideas that improve the education system
Structure Power, authority, responsibility structure	<ol style="list-style-type: none"> 1. Each Apollo Group subsidiary has a different focus which allows it to operate as a separate entity 2. Regional management to comply with individual state accreditation boards
History Key routines that have developed and drive activities	<ol style="list-style-type: none"> 1. Attention to technology as a business driver 2. Desire to mold the business according to customer needs 3. Willingness to listen to the concerns of both students and professors

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