Pearson, Once a Market Leader, Leaves Online Services Business

> The educational services giant, which has been supplanted in the space by 2U, Coursera and others, sells its online services unit to a private equity firm in an unsettled landscape.

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Once upon a time, Pearson Education helped Arizona State University (https://www.insidehighered.com/news/2010/10/12/outsourcing-plus) become one of the biggest online powers in higher education. It was one of the first, and most significant, arrangements in what would come to be known as the online program management industry.

That contract more than a decade ago made Pearson a major player in the burgeoning industry that has done nothing but expand (https://www.insidehighered.com/digital-learning/article/2019/09/10/data-offer-picture-evolving-landscape-what-weve-been-calling) as more colleges and universities move into online education (despite growing regulatory scrutiny).

But the formal expiration (https://otp.tools.investis.com/clients/uk/pearson1/rns/regulatory-story.aspx?cid=1433&newsid=1574715) of Pearson's contract with Arizona State, announced last summer, solidified what had been clear for years, which is that Pearson had been supplanted as a market leader by 2U, Coursera and a slew of other players. A few months later, it announced a "strategic review" of its online services division, which led to speculation that it would sell the unit and, in the eyes of numerous market observers, put Pearson in competitive limbo.

Tuesday the company announced (https://otp.tools.investis.com/clients/uk/pearson2/rns/regulatory-story.aspx?cid=1433&newsid=1676004) that Regent, a California-based private equity firm (https://www.regentlp.com/) , would take over Pearson Online Learning Services (https://www.pearson.com/en-au/educator/university/pearson-online-learning-services) , in exchange for 27.5 percent of the profit the unit generates over each of the next six years and that same proportion of any proceeds Regent earns in a "monetization event" after Pearson sells it. It does not appear as if Regent is paying anything for the Pearson unit up front, which led the analyst Phil Hill, in a blog post (https://philonedtech.com/pearson-sells-its-opm-business/) about the news, to declare, "In short, this is somewhat of a distressed sale. Get this mess off our hands, you make the big cuts to get it profitable, and we'll make money only if you can turn it around."

Pearson's news release about the deal said that the online services business generated 155 million pounds (or about $190 million) in revenue and lost £26 million (about $32 million) in 2022.

Analyses of the online services market (https://blog.thirtytwoedu.com/the-updated-opm-market-landscape-40f36182a1c8) continue to show Pearson as one of the biggest players, but the company has clearly lost momentum in a highly diffused, increasingly specialized market, especially with the formal end of the Arizona State partnership in June. But some analysts speculated that the sale of the online services unit could be good for its current clients, since the company has been operating in limbo while the strategic review was underway.

The sale of the company comes as regulatory headwinds continue to swirl around online program management companies and other entities to which colleges and universities outsource key functions such as enrollment, program development and marketing.

The Biden administration (https://www.insidehighered.com/news/2023/02/28/amid-pushback-us-delays-guidance-outsourcing) is reassessing 2011 guidance (https://ifap.ed.gov/dpcletters/attachments/GEN1105.pdf) from the Obama administration that has exempted OPMs and other companies from a 1992 ban (https://www.law.cornell.edu/uscode/text/20/1094) that largely restricts colleges from paying recruiters based on how many students they enroll. The administration's actions are targeting companies' revenue-sharing agreements that many consumer advocates believe incentivizes them and the colleges they work with to drive up the price of higher education and draw students to low-value academic programs.

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