The Education Economy

Frank F. Britt

An Interview with
Frank F. Britt, Chief Executive Officer, Penn Foster

EDITORS' NOTE *Frank Britt is also an Operating Partner at Bain Capital Ventures. He previously served as President and CEO of M|C Holding Corporation and its portfolio companies, including its brand, Pri-Med, the largest medical education company in the world. Prior to joining M|C, Britt had 20 years of experience focused on helping lead consumer and business services firms in the education, media, technology, industrial, and consumer goods industries. He has held a variety of senior executive level sales, marketing, and operations positions, including at IBM Global Services and Accenture. He received his B.S. from Syracuse University in marketing and operations.*

COMPANY BRIEF *Founded in 1890, Penn Foster (pennfoster.edu) has been a leader in career-focused distance and hybrid learning for more than 100 years through its high school, career school, and college. Through direct enrollment by students as well as partnerships with schools and businesses, more than 13 million people have taken Penn Foster-enabled courses to further their education debt-free and better position them for employment success. Today, Penn Foster graduates 25,000 students yearly and enrolls more than 100,000 new students each year in programs designed to address the gap in middle-skilled careers.*

Would you touch on the problem Penn Foster is focused on addressing and how you're going about it?

One mega-theme that we hear a lot about and we focus on is the concern over the middle-skilled talent crisis. Since the beginning of organized commerce, but certainly over the past 100 years, whenever there has been acceleration in technology innovation, there has inevitably been a lag between sufficient supply of skilled workers to meet that need.

What is unique about this time period is that there is a bifurcation emerging. The Googles and Apples of the world need more engineers, and there is fundamentally not enough of a supply of engineers graduating, as less than 10 percent of people graduate from college with science and engineering degrees.

Another, far larger part of the employment market and population are the 73 million adult Americans who have an associate degree or less and are often struggling because they aren't prepared to keep pace with the accelerating rate of change and respond to how the new skills economy functions.

We're trying to ask what training and education infrastructure is needed to help middle-skilled people coming into and out of this new skills education economy over a work career that will extend 30 to 40 years. Moreover, one-third of the people born this year will live to be 100, which means that the notion of a career is probably going to extend to more than a 50-year journey.

As a practical matter, people are going to have to invent and reinvent themselves over that duration, and actively pursue regular revitalizations of their skills portfolios. This is especially the case if you're in the grey collar part of the economy, which is not white or blue collar. For example, a diesel engine mechanic is a grey collar job, as you have to have both mechanical and software capabilities to fix these engines.

This large and growing population needs an on-ramp to come into and out of the education economy, and unbundle and re-architect their capabilities in a way that both aligns to their day-to-day life demands and empowers them to remain contemporary as market needs shift in the new economy. We're trying to attack the middle-skilled economy crisis in general, so we're addressing anyone between 20 and 70.

Based on our ongoing reviews of the recent U.S. Bureau of Labor Statistics Jobs Reports and longer term demographic trends, one group we're preoccupied with in particular is the adult youth segment. People seem content with overall unemployment stats, but if you deconstruct and examine the 20- to 30-year olds, the number employed should be increasing, yet they have double-digit unemployment rates.

These are not the people who have engineering degrees. These are the people trying to enter a different segment of the economy often without the skills, capabilities, and credentialing to obtain these grey collar jobs and earn sufficient wages.

This insight reflects that 90 percent of the jobs in the U.S. economy require at least a high-school degree. Today, we have about 2.5 million people a year dropping out of high school – 43 percent of them drop out of the 12th grade.

This is a group that is large and needs help because, if the youth adult group doesn't have an alternative pathway to get their lives on track, they're going to have chronic challenges, resulting in staggering economic consequences.

Our particular emphasis on the Opportunity Youth segment is driven by acute need. This group represents at least 17 percent of the 39 million people between age 16 and 24, and is defined as "not in school, work, or college," and is off the grid from the high school system accountability. This means that one in six young people live with this uncertainty and have no one in society advocating for their needs. In this cohort, there are certainly folks that need to rethink their life choices and behaviors, but the majority are simply victims of circumstances that put them at risk. Often these folks have even greater resiliency to compete and learn, and have built well-honed survival strategies. Many are actually highly motivated. Research from America's Promise confirms over 50 percent of the 6.9 million Opportunity Youth citizens are optimistic about the future, and seek better access and alternative pathways to jumpstart their adult learning lives.

This is why we don't call them dropouts – we call them non-completers; some call them second-chance learners. These people need a support system that works for them. They often have three issues to face: motivational challenges; financial challenges; and academic challenges.

We have tried to create a learning and employment support system that explicitly acknowledges that someone has academic, financial, and motivational risk. Rather than just saying, it's unfortunate, we present the concept of "hospitality." When students engage with this school, they are made to feel welcome – almost like someone has their back. School is typically a negative word in their lives because they haven't had positive affirmations and we seek to help invert that experience as we understand that confidence is often the ingredient in scarcest supply.

The business intent of the Penn Foster organization is to create a solution that embraces the middle-skilled economy that is underserved in education, with a particular focus on the

under-served Opportunity Youth segment of young adults that have no alternatives except a life that has almost guaranteed challenges.

What does the phrase "education economy" mean?

In the U.S., the education economy is about $1.3 trillion, growing at 2.8 percent CAGR, and represents 8 percent of GDP. The more classic way to deconstruct that would be pre-K through 12, post-secondary, and then corporate training, which is about $130 billion. Part of the problem with the "education economy" as a term is that it's too big to be actionable.

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Corporate training is actually part of the middle skill crisis solution, and while it grew by 15 percent last year (the highest in seven years), historically most funding went to the top 20 percent of employees focused on management and leadership, while they've under-resourced the frontline worker training due to economics.

The training market is fundamentally shifting, we call it the democratization of education, where you can now affordably deliver training to the blue and grey collar types who need skills enhancement.

In the K through 12 world, there is a whole set of powerful change dynamics due to budgetary constraints, regulations, and the need to show academic improvements. Of the $550 billion spent funding public K through 12 in the U.S., only 12 percent is federal government, 44 percent each from the state income and sales taxes, and local community property taxes. This creates a dynamic where no one truly owns the outcome.

We're not trying to disrupt traditional K through 12; instead, we're saying, we can help reform it as there is a part of the typical high school population that isn't well-suited for traditional high school or cost-efficient to service. There are 7,000 people that drop-out of high school each day across the U.S. that affirm the imperative for action. These students have unique risk factors and learning preferences. Their brothers and sisters are often the blue-collar/grey-collar part of the economy – it's that group of 73 million Americans that have an associate degree or less who really need an alternative educational solution.

In our model, we have changed the economics of education so it's pay-as-you-go. We have a lower cost of capital than the student, so why would we take all your money up-front?

When you enroll in our school, you should pay a nominal amount to get started and affirm earnest commitment, and as you progress academically, you should pay, and if you stop, you should not pay anymore because you stopped deriving value.

We don't accept federal and state student loans, but this is in part because we have engineered fit-for-purpose programs that are affordable enough that students don't have to go into debt.

For the average college in America, about 72 percent of total costs are labor, in particular faculty. Our economic model is flipped from the traditional high school or college. Our model is self-served first, peer-served second, and the highest part of the pyramid is faculty-served.

We have also built a Facebook-like virtual student community where students can seek help from each other and from faculty. For example, we're the largest School for Veterinary Technicians and Associates in America today, and if you're in the program and are selected as one of our student ambassadors, you're an advocate for that community. If someone is in the same program, they can seek your guidance.

We're advising you to progress academically because you're enrolled to improve your employability.

It's self-paced, affordable, and self-service as the de facto design, but has augmentation of academic and community support, as you need it. For the population we serve, this is what they want – they can't conform their work schedule around traditional school hours.

So we have flipped the model to make education designed around the at-risk populations, the second-chance learners, and the career-focused learners, especially folks who are going to come into and out of the education economy because they can't stop working to go to school.

We have 60,000 students in our high school today; we have about 70,000 people in our career school, which is everything from HVAC and diesel-engine repair to medical coding/billing. We also have about 25,000 people in our community college, which is half the price of a normal community college and 20 percent of the cost of traditional higher-ed school tuition. Those students can go to our school and graduate or they can go to our school and transfer to another school. They're often "course arbitraging," because it's a transferable credit for a third of the cost, and it's a completely legitimate, accredited program. They can then go to another school knowing they've already knocked off 20 percent of the coursework at one-fifth of the cost.

Do traditional institutions accept this model?

We have hundreds of institutions that our students transfer into and thousands of employers that hire our graduates. There are 4,600 higher education institutions in the U.S. and there are not many that do not accept our credentials.

How broad do the program offerings need to be and do they continue to expand?

Our high school is privately licensed with national and regional accreditation, offering a high school diploma. We have about 100 career programs, and we have looked at the Department of Labor growth projections for the 50 fastest growing jobs in the country for the next 10 years and we have tried to align our curriculum around these. We have some vocational programs too. Given that 19 percent of the GDP is in healthcare, it isn't surprising that we have 30,000 students today in our allied health programs.

Physician Assistants have become an essential part of the primary care world. The same things happened in the veterinary world with Veterinary Technicians. We have partnerships now with the top two largest animal hospital chains in the U.S. and we have 9,000 students in our AVMA certified vet tech and NAVTA approved vet assistant program.

Employers are increasingly recognizing this as a valid alternative and consumers, who are often ahead of the employer world, definitely recognize that this is a viable and practical way to get what they need in education. They have to be able to perpetually modernize themselves while they're living their lives.

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Are there limits in terms of scalability?

No, we have 150,000 students today, 95 percent of whom are based in the U.S., and there is no limit as long as there is integrity and fidelity in the academics. We have requisite processes to make sure exams are appropriately proctored and we have probably the largest exam database in the world. There is always a way to cheat, but assuming people are generally principled, there is no limit to the scale of the model. ●