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# Inside the Coursera Contract: How an Upstart Company Might Profit From Free Courses

*By Jeffrey R. Young*

Coursera has been operating for only a few months, but the company has already persuaded some of the world's best-known universities to offer free courses through its online platform. Colleges that usually move at a glacial pace are rushing into deals with the upstart company. But what exactly have they signed up for? And if the courses are free, how will the company—and the universities involved—make money to sustain them?

Some clues can be found in the contract the institutions signed. *The Chronicle* obtained the agreement between Coursera and the University of Michigan at Ann Arbor, the first public university to make such a deal, under a Freedom of Information Act request, and Coursera officials say that the arrangement is similar to those with the other partners.

The contract reveals that even Coursera isn't yet sure how it will bring in revenue. A section at the end of the agreement, titled "Possible Company Monetization Strategies," lists eight potential business models, including having companies sponsor courses. That means students taking a free course from Stanford University may eventually be barraged by banner ads or promotional messages. But the universities have the opportunity to veto any revenue-generating idea on a course-by-course basis, so very little is set in stone.

Andrew Ng, a co-founder of the company and a professor of computer science at Stanford, describes the list as an act of "brainstorming" rather than a set plan. "We have a lot of white boards up around the office where these ideas are being written down and erased and written down and erased," he says. Still, that brainstorm list has some surprises, including the idea of selling course content from universities to companies to use for internal training.

Coursera is following an approach popular among Silicon Valley start-ups: Build fast and worry about money later. Venture capitalists—and even two universities—have invested more than $22-million in the effort already. "Our VC's keep telling us that if you build a Web site that is changing the lives of millions of people, then the money will follow," says Daphne Koller, the company's other co-founder, who is also a professor at Stanford.

## Dreaming Up a Business Model

Apparently that was enough to convince major universities that the company is viable.

"In the early days, Google never made a penny off search," says Richard A. DeMillo, director of the Georgia Institute of Technology's Center for 21st Century Universities, who participated in that university's negotiations with Coursera. "Ad-supported search was a business innovation that became feasible because of the scale of traffic going to Google. If we add value, it will draw so many people to the enterprise that things we can't do now will become doable." He figures that the eventual business model might be something that isn't even in the contract but is dreamed up later.

Officials at the University of Michigan were not immediately available for comment about their contract.

Coursera's leaders say they are actively pursuing only two of the moneymaking ideas on the list: charging students who pass the courses a small fee for a certificate, and serving as a matchmaker between students looking for jobs and companies seeking qualified employees.

Even those two ideas are works in progress, though. Mr. Ng says none of the partner colleges have decided how much they will charge for certificates, though he expects the amount to be small—what he called "tens of dollars." And the company is still studying how best to work with employers, and how much to charge. "I wish I had more to tell you," he says when pressed.

When and if money does come in, the universities will get 6 to 15 percent of the revenue, depending on how long they offer the course (and thus how long Coursera has to profit from it). The institutions will also get 20 percent of the gross profits, after accounting for costs and previous revenue paid. That means the company gets the vast majority of the cash flow.

"I suspect the margins that they're asking for is a result of throwing darts over at Coursera," jokes Mr. DeMillo of Georgia Tech.

Another detail that seems unresolved in the rush to offer free online courses is whether professors should share in the spoils. Peter Rodriguez, an associate professor and senior associate dean for degree programs at the University of Virginia's Darden School of Business, was involved in the university's contract negotiations with Coursera. He says that, as it stands, professors do not get a royalty from the courses, but that, "in the long run, that's possible."

Coursera claims no intellectual-property rights to the courses. The founders say that the move is a reflection of their belief that the universities should control the content completely. "One provost told us that this contract was clearly written by an academic and not by a lawyer," Ms. Koller says. "I took that as a compliment."

**Arrogant Institutions?**

Colleges are also not bound to work exclusively with Coursera. That means universities could suddenly take the material Coursera helped develop elsewhere. But Ms. Koller thinks the company will bring more students than the colleges can attract on their own.

"You can develop your own platform, and you can put it up on your own Web site, and you will not have 740,000 students," she quips, referring to the company's current enrollment.

When I showed the Coursera contract to Trace A. Urdan, an analyst at Wells Fargo Securities who focuses on education-related companies, he found it "ironic" that major universities are embracing online education when they have been dismissive of earlier efforts by for-profit companies like the University of Phoenix.

"These are two of the most arrogant types of institutions—Silicon Valley companies intersecting with these elite academic programs," he says. "Neither of them considers that anyone else has come to this place before they've arrived. They say, We're here now, so now it's sort of legitimate and for real."

And he argues that the plan relies heavily on all of the money colleges are already spending on professors and facilities. "It's a way to carve out some extra money on the top of the existing program, but it's not an alternative system that is going to solve the cost crisis of higher education," he says. "It's being subsidized by incredibly high-priced education."

Ms. Koller insists that the courses the company is offering differ fundamentally from those at the University of Phoenix. "Their online effort is really traditional teaching mediated by the computer as opposed to using the tech in a fundamental way," she argues. "There's no economies of scale there. What we're doing is one instructor, 50,000 students. This is the way to bend the cost curves."

Among the other potential business models mentioned in the contract are:

**Selling Courses to Community Colleges.** The contract mentions the idea of offering the course content to community colleges that could create a customized version of the free course for their enrolled students for credit. That idea was among those discussed, in theory, during Duke University's negotiations with Coursera. Peter Lange, Duke University's provost, says he believes it would be up to Coursera to drum up such business, if it ever happens. "It's my expectation that that would be somewhat mediated by Coursera," he says. "It's not likely that we'd be going out to promote our educational outcomes to community colleges."

**Charging Tuition.** The contract also allows universities to offer the Coursera courses on their own campuses for credit. In that case, the university pays the company for the use of the platform, in an amount determined on a case-by-case basis. So far, the only university actively pursuing that model is the University of Washington. "We don't want to make money, we just want to be able to fund the development of the courses," says David P. Szatmary, the university's vice provost. He says Washington officials expect increased staff costs to design the courses and edit video of lectures. The university will pay the company $25 per student for those who pay tuition to take the courses.

**Offering "Secure Assessments."** The contract also mentions the possibility of setting up testing centers or some other service that would let students prove that they had done the work themselves. But Mr. Ng says that their initial research has shown less interest in that option than originally thought. "That's not the direction we're really moving right now," he says. "It would be naïve to think that cheating never takes place, but I don't think it is a major problem so far."

College officials, for their part, seem more motivated by fear than by the promise of riches. "Most of us are thinking this could be a loss of revenue source if we don't learn how to do it well," says Mr. Rodriguez, of the University of Virginia. "These are high-quality potential substitutes for some of what universities do."

*College 2.0 covers how new technologies are changing colleges. Please send ideas to jeff.young@chronicle.com or @jryoung on Twitter.*