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How EdX Plans to Earn, and Share, Revenue From Its Free Online Courses

By Steve Kolowich

How can a nonprofit organization that gives away courses bring in enough revenue to at least cover its costs?

That's the dilemma facing edX, a project led by Harvard University and the Massachusetts Institute of Technology that is bringing in a growing number of high-profile university partners to offer massive open online courses, or MOOCs.

Two other major providers of MOOCs, Coursera and Udacity, are for-profit companies. While edX has cast itself as the more contemplative, academically oriented player in the field, it remains under pressure to generate revenue.

"Even though we are a nonprofit, we have to become self-sustaining," said Anant Agarwal, president of edX. And developing MOOCs, especially ones that aspire to emulate the quality and rigor of traditional courses at top universities, is expensive. Harvard and MIT made an initial investment of $30-million each last year to start the edX effort.

Legal documents, obtained by *The Chronicle* from edX, shed some light on how edX plans to make money and compensate its university partners.

According to Mr. Agarwal, edX offers its university affiliates a choice of two partnership models. Both models give universities the opportunity to make money from their edX MOOCs—but only after edX gets paid.

The first, called the "university self-service model," essentially allows a participating university to use edX's platform as a free learning-management system for a course on the condition that part of any revenue generated by the course flow to edX.

The courses developed under that model will be created by "individual faculty members without course-production assistance from edX," and will be branded separately in the edX catalog as "edge" courses until they pass a quality-review process, according to a standard agreement provided to *The Chronicle* by edX.

Once a self-service course goes live on the edX Web site, edX will collect the first $50,000 generated by the course, or $10,000 for each recurring course. The organization and the university partner will each get 50 percent of all revenue beyond that threshold.

The second model, called the "edX-supported model," casts the organization in the role of consultant and design partner, offering "production assistance" to universities for their MOOCs. The organization charges a base rate of $250,000 for each new course, plus $50,000 for each time a course is offered for an additional term, according to the standard agreement.

Although the edX-supported model requires cash upfront, the potential returns for the university are high if a course ends up making money. As with the self-service model, edX lays claim to the first $50,000 of revenue for a new course, or $10,000 for a recurring one. But after that, the university gets 70 percent of any additional revenue.

The university partners can choose which model they want to use on a course-by-course basis, and every 12 months they have the opportunity to switch from one to the other. "If it's more in the university's interest to switch models, then edX will recommend that they do that," said Mr. Agarwal.

Both edX models offer higher shares to universities than agreements with Coursera do, but only once edX has collected its minimum payment. Coursera offers universities 6 percent to 15 percent of the gross revenue generated by each of their MOOCs on its platform, as well as 20 percent of the profits generated by the "aggregate set of courses provided by the university."

There is no minimum payment to Coursera—meaning universities are guaranteed a cut of any revenue for their MOOCs on Coursera, even if the company offers a smaller piece of the pie than edX does.

Revenue Still a Puzzle

The details of edX's financial arrangements do not answer the crucial question of how the MOOCs will make money in the first place—and, in edX's case, whether courses that do make money will make enough that universities will see a cut.

The organization is still "in start-up mode," said Mr. Agarwal. "We don't quite know what the key source of revenue will be."

Potential moneymaking strategies include deals with outside companies—such as publishers that are looking to sell their products to the many students who register for MOOCs, or employers looking to recruit the most impressive students.

"EdX will be entitled to all net profits from agreements with third parties not directly related to College/UniversityX courses," the standard agreement stipulates, "including, for example, book sales on the site, proctoring services, and any sitewide employee-recruiting services."

That is another key difference separating edX from Coursera, which counts those third-party deals as part of the revenue generated by the courses. Daphne Koller, one of Coursera's founders, said that all profits associated with a course on that platform "are shared back with the university that provided the course."

EdX has a deal with Pearson VUE, a company that runs a worldwide network of testing centers, to hold proctored examinations for its MOOCs. Although edX does not charge for the certificates that successful students receive for passing those proctored exams, Mr. Agarwal said it may do so in the future. The edX president said the organization is also considering referring students to related books in exchange for a cut from publishers, as well as operating as a headhunter for employers—avenues that Coursera is also exploring.

But in terms of generating the kind of revenue that edX would share with its university partners, Mr. Agarwal said the most likely strategy could involve licensing their MOOCs to other universities.

To test the licensing model, San Jose State University last fall used an edX MOOC, "Circuits & Electronics," as the basis for a "blended" online course offered to 85 tuition-paying students on its campus.

The early results were encouraging. The semester before the edX pilot, 60 percent of students passed the San Jose State course; 91 percent passed the edX-infused version.

EdX did not charge San Jose State for the pilot, and Mr. Agarwal said there is no pricing model yet for licensing the courses. But if the San Jose State experiment becomes the basis for a key revenue stream for the organization, the edX courses that generate revenue will do so in closed classrooms with limited enrollments and tuition-paying students.

3. Financial Arrangements.

a. Platform Development. College/University will contribute $_________ million to edX for development of the edX platform. [Optional]
b. Option A/University Self Service Model. Under the "University Self Service Model" edX will host courses and modules developed by individual faculty members without course production assistance from edX under the following terms:
    i. EdX will host the self service courses on the edX platform for no initial charge. Courses created under the University Self Service Model will be offered as "Edge" branded courses until passing a quality review process.
    ii. EdX and College/University will share Gross Revenue derived from such self service courses as follows:
        1. For self services courses, once edX receives the Minimum Payment (as defined below) College/University will receive 50% of gross revenue directly derived from such College/UniversityX courses, provided, however, that the items specifically mentioned in Section 3(g) are excluded from any revenue calculation ("Gross Revenue").

        2. EdX will receive 100% of Gross Revenue for self service courses until the aggregate Gross Revenue edX receives from all College/UniversityX courses at least equals (a) $50,000 for each new self service course offered, plus (b) $10,000 for each repeat self service course offered on the platform (such aggregate amount, the "Minimum Payment").
        3. For purposes of clarity, if, at any time during the term of this Master Agreement, College/University offers a new or repeat self service course on the edX platform, the revenue-sharing with respect to self service courses under clause 3(b)(ii)(1) above will be suspended until such time as edX has received the applicable Minimum Payment for such new or repeat self service course.
c. Option B/EdX Supported Model. Under the "edX Supported Model," edX will host courses developed with course production assistance from edX under the following terms:
    i. For each edX supported course, College /University will contribute to edX $250,000 per new course and $50,000 per repeat course (each, a "Base Payment"). Within ten (10) days of the execution of this Agreement, College /University will contribute to edX $_______ towards the initial edX supported courses selected by College /University.
    ii. Following payment of the Base Payment for each edX supported course, EdX and College/University will share Gross Revenue derived from such edX-supported courses as follows:
        1. In the event College/University offers courses solely under the edX Services Model, College/University will receive no

less than 70% of Gross Revenue for such edX-supported courses.

2. Notwithstanding the foregoing, in the event College/University offers courses under both Option A and Option B, edX will receive 100% of Gross Revenue for edX-supported courses until the aggregate Gross Revenue edX receives from all College/UniversityX courses at least equals the applicable Minimum Payments (as defined in Section 3(b)(ii)(2) above). Once edX has received the applicable Minimum Payments with respect to all self service courses under Section 3(b), the revenue sharing with respect to edX-supported courses under clause 3(c)(ii)(1) above will commence. For purposes of clarity, if, at any time during the term of this Master Agreement, College/University offers a new or repeat self service course on the edX platform, the revenue-sharing with respect to edX-supported courses under clause 3(c)(ii)(1) above will be suspended until such time as edX has received the applicable Minimum Payments.

d. Switching the Financial Model. After the first year, the College/University can switch the revenue structure associated with any particular course once every 12 months, provided that the College/University has paid the applicable Minimum Payments due. That is, for each repeat course, College/University can elect to pay $50,000 up front and keep 70% of the Gross Revenue OR make no up front payment and keep 50% of Gross Revenue once the edX has received $10,000 Minimum Payment for that course. For clarity, all applicable Minimum Payments must be paid before the College/University and edX begin the applicable revenue sharing model. No refunds will be given for amounts previously paid under a prior elected financial model.

e. Continuous Courses. Courses offered on edX without a designated start and end date, for example, courses in which a student can enroll at any time throughout the year will be considered “repeat” courses every six months and subject to the repeat course fees outlined in Sections 3(a) and 3(b) above.

f. Campus Use. College/University may offer its College/UniversityX courses to registered College/University students for free during the first twelve (12) months following the execution of this Master Agreement. Thereafter, the parties will negotiate a reasonable revenue model for campus use of College/UniversityX courses.

g. Third-Party Agreements. EdX will be entitled to all net profits from agreements with third parties not directly related to College/UniversityX Courses including, for example, book sales on the site, proctoring services and any site-wide employee recruiting services.