What Consumer Choice in Higher Education Can Teach About Better Serving K–12 Students

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Key Points

- Despite overall declines in college enrollment, various accredited and unaccredited providers of postsecondary education delivery are thriving. Their success is driven by the economics of the internet and a market structure that allows students to choose and pay for them.
- Since students at public K–12 schools pay nothing out of pocket, there is little incentive to search for cheaper alternatives and therefore little market for better alternatives.
- One possibility to help solve this problem is intraschool choice (ISC). ISC is similar to a cafeteria-style employee benefit plan in which individual employees allocate a predetermined amount of money to their preferred benefits from a catalog of approved choices.
- For ISC to deliver on its promise, it must ensure quality choices are present, establish accountability, start with those poorly served, and make sure schools are proactive in determining the range of choices available.

If parts of the educational experience can be delivered more efficiently, then unused resources can be spent elsewhere. In high schools, newly available resources could be spent on needed student services. In colleges, prices could be lowered. Online learning and enterprise software enable more efficient service delivery. However, these efficiencies are usually captured by schools and colleges rather than enjoyed by students in the form of more services or lower prices.

In postsecondary education, the existence of a viable—even if often dysfunctional—consumer market is driving change. However, for high schools, driving efficiencies to students requires a new approach to internal resource allocation that integrates the price of services into school choice. If successful, high school students on the margins—dropouts, chronic absentees, working students, adults, and homeschoolers—will benefit from a market with more, and better, targeted services.

From a little over $7,000 in Utah to over $20,000 in Vermont, the per-student *cost* of K–12 education is well-known and varies widely across states and districts. However, ask what the *price* of a K–12 education should be, and the result is, rightly, a blank stare. When a public service is fully subsidized, the cost and price are both however much taxpayers are willing to provide.

Colleges are also subsidized, yet students pay to attend. Although the price varies depending on the student and college and is often opaque to the student,

this crucial distinction ensures that a distorted, yet functional, consumer market exists in postsecondary education. Accordingly, over the past decade or so new models of internet-driven postsecondary education—both in and outside colleges—that lower price, lower student financial risk, increase speed to completion, and increase the likelihood of employment have started and are accelerating. Although sometimes threatening to accredited colleges, these models—often in partnership with unaccredited providers—are being adopted more broadly. Such innovation has not occurred in K–12.

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Whether a wheel, pencil, car, computer, smartphone, administrative system, or online course, a new technology must create value for its users to become pervasive. Value can be defined as doing the same thing better, doing the same thing for less, or both. Often, a new technology will start by doing the same thing better for a small group of users or enabling new users to do something they could never do previously. Then, as the technology becomes more mature and widespread, it becomes cheaper, thereby accelerating its adoption, driving even greater value to consumers, and changing the market. The crucial element to widespread adoption is the customer's ability to choose based on *price* and the associated ability to spend saved resources on something else of value. This drives the flywheel of competition, innovation, and market evolution.

Over the past 20 years, the internet has enabled students to access, and accredited schools and colleges to provide, a breadth of coursework in locations and on a schedule that would have otherwise been impossible. Over six million college students—roughly one-third of all students—took at least one class online in fall 2016.[1] In K–12, about 2.7 million students took 4.5 million supplemental online courses in 2014–15.[2] In other words, students are enrolling in online coursework from accredited schools and colleges to do the same thing "better."

Online course delivery is also much cheaper than face-to-face delivery is. By relying on servers instead of buildings, digital content instead of print, courseware instead of lectures, and remote instructors instead of in-person instructors, distance education can reduce the fixed and marginal cost of delivery. By separating coursework from nonacademic functions, it can also unbundle the price-raising subsidies that support athletic teams, school security, student centers, dormitories, cafeterias, parking lots, some student support services, and the overhead to support it. Lastly, by amortizing what infrastructure costs do exist across a much-larger customer base, distance education further reduces the cost per course delivered. Despite this, over 90 percent of colleges charge the same or more for online courses as for face-to-face courses.[3]

When there are significant changes to any service's delivery model, providers have a strong incentive to offer the new capabilities to their users but a strong disincentive to lower the price. In *unsubsidized markets*, new providers emerge that force price reductions across the market, thereby driving benefits to consumers. In *heavily subsidized* markets such as public K–12 and accredited colleges, new providers are at a competitive disadvantage, thereby slowing or prohibiting their emergence.

Without new providers, savings derived from the new, lower cost of delivery accrue to the school or college rather than the student. However, so long as consumers pay some portion of the cost, then eventually the market will adapt such that the "profit" flows to the student in the form of lower prices and new features. The postsecondary education market, of which accredited colleges are a subset, is undergoing such a change. The K–12 market is not, but it could.

Lessons Learned from Postsecondary Education

Recognizing that traditional colleges would be reluctant to offer online, credit-bearing courses at prices below those of their face-to-face courses, I started an online education company called StraighterLine in 2008 that offers online general education college courses at $99 per month with guaranteed credit transfer to colleges desiring to attract students seeking lower prices. Because StraighterLine offers

just high-enrollment college courses rather than full degrees and does not offer the bundled services of a brick-and-mortar college, it can neither be accredited nor receive any supply- or demand-side government subsidies. However, despite forgoing subsidies, the dramatically lower price and comparable or better course quality has been compelling enough to enroll several hundred thousand students. Since then, additional providers have emerged such as massive only open courses, boot camps, and more that, together, now serve millions of students.

I'll offer a few insights from what I've learned in the postsecondary market and then pivot to K–12 education, where it should be possible to harness the same efficiencies for students using intraschool choice (ISC). ISC is similar to a cafeteria-style employee benefit plan in which individual employees allocate a predetermined amount of money to their preferred benefits from a catalog of approved choices.

Colleges Are Not Built to Accommodate Price Reductions. Interrelated features of most colleges' business models such as pricing practices, accountability structures, regulatory mechanisms, dependence on state and federal subsidies, and political influence make significant price reduction nearly impossible. For example, college tuition is usually listed on a per-credit basis to be delivered at a fixed price over a fixed period. If enough students fail to progress through a course on a predetermined schedule, the college is subject to sanction from the Department of Education, thereby putting a college's students' ability to access taxpayer subsidies at risk. Tuition supports all elements related to the college including physical building, student services, and extracurriculars. Yet, online delivery is especially well suited to pay-as-you-go subscription pricing that lets price and time vary.

What's more, online delivery is also well suited to delivering just the services that a student wants—such as a single course or specific support services—rather than having to pay for the range of services and infrastructure that a college wants to offer but a student might not want or need. The result? Price reductions, unbundled service delivery, and flexible delivery models can't be easily accommodated in the accredited college framework. Similarly, K–12 schools also rely on a per-student allocation to cover all academic and nonacademic costs and cannot easily identify and reallocate resources toward educational models that might work better for some students.

Cost-Effective Models Appeal to Nontraditional Students. In higher education, "nontraditional" students are those who attend online, are part time, have families, work, or are over 24 years old. We found these students value flexibility, are price sensitive, are employment focused, and don't want or need all the services and infrastructure traditional colleges offer. The accredited college model was not built to serve them.

Not coincidentally, the nontraditional students were the first to embrace new providers and new models—whether accredited or unaccredited. Similarly, millions of high school students have "opted out" of traditional high schools. These include dropouts, chronic absentees, working teenagers, teenage parents, adults, and homeschoolers. Despite high school being free, these students and families have decided that the price is too high and their time is better spent elsewhere. Some of these students would be likely to reenroll if the high school model more directly served their needs.

Over Time, New Providers and Well-Established Institutions Work Together. Although new models of delivery are initially separate from and threatening to incumbent providers, eventually they are embraced. Once embraced, incumbent providers access new customers, and new providers gain the financial power and brand recognition of subsidized, incumbent providers.

For instance, Massachusetts Institute of Technology's edX platform works with a dozen or so universities to create MicroMasters programs that offer free or low-cost coursework that offers early credit and prequalifies students for admission. Western Governors University (WGU) has created WGU Academy, which provides conditional admission and early college credit to students needing math and writing help for a monthly price below that of most community colleges. Brigham Young University–Idaho (BYU) built BYU Pathways to provide a low-priced, credit-bearing pathway to enrollment. Coursera, a provider of free coursework, has partnered with colleges to create lower-priced master's degree programs. Trilogy offers noncredit boot camps for

students to learn tech skills under partner university brands.

Similarly, in time, ISC models would likely work with traditional high schools to allow public or private schools to deliver academic and extracurricular courses when those schools had excess capacity. Further, service delivery models that prove successful in an ISC framework would likely be embraced in traditional schools over time.

Although massive subsidies to incumbent providers, legacy student enrollment behavior, and regulatory capture have slowed the emergence of new providers in higher education, the willingness of poorly served postsecondary students to seek models that better meet their needs has created a thriving set of new providers that is slowly but surely transforming the higher education market—increasingly with incumbent providers.

Since the same economic principles apply in the K–12 market, driving benefits to students and families will require creating a model with similar features. A new model combining new and old services chosen at a more granular level using price as a criterion and offered to students not currently being well served can free up resources for these hard-to-serve students in ways that were previously impossible.

The Lack of Pricing in K–12 and What to Do About It

Public, free K–12 education—where price isn't a consideration—is one of the modern world's greatest achievements. However, without price as a criterion for choice, a primary driver of consumer value and market change is lost. In other markets, price sets expectations, enables provider comparison, drives efficiency among providers, and more. When technology changes a product's or service's cost structure, price is crucial to driving the savings to consumers rather than increasing the providers' profits. If savings are driven to students rather than captured by schools, then students and families have more resources to spend on academic services, which, in theory, should improve student performance.

Like in postsecondary education, online delivery in K–12 education is much cheaper than face-to-face delivery is. Also, like at accredited colleges, K–12 students receive no discount to enroll in online coursework. However, because public K–12 students pay nothing out of pocket, there is no incentive to search for cheaper alternatives and therefore no market for cheaper alternatives. Without a functioning market, the efficiencies available from online delivery are not captured by students and can't be used to increase the effective resources available for each student's instruction. Is there a way to combine the benefits of price-conscious choice with free K–12 education?

Without price as a criterion for choice, a primary driver of consumer value and market change is lost.

One possibility is ISC, which is applicable as a program in a traditional public or private school, contract school, or charter school.[4] For students, their individual budget is determined by the school's per-student funding allocation plus any additional funding sources minus an overhead percentage. ISC programs would give each enrolled student a maximum number of "points" that the student and family can allocate to the most appropriate educational services at the best price. These services might be delivered by the school or contracted from other physical or virtual schools, community organizations, or individuals.

For example, a student might be able to choose from three versions of Algebra I that range from self-paced, free, and online to one-on-one, in person, and expensive. Points not used for academic coursework can be used to enroll in additional academic, extracurricular, or social services such as music lessons, sports, art, test prep, college counseling, meal plans, mental health counseling, internships, job training, and more. Student and school accountability would remain determined by student academic progress from entry to exit using the same methods available to traditional or charter schools. To be clear, critically, ISC neither promotes nor discourages online delivery. Students may learn online a lot, a little, or none at all. However, should a student decide to take some online courses, ISC better captures the benefits of that decision for the student rather than the school.

Four Thoughts on Making ISC Work

What we're talking about here is a bold shift in the way K–12 education services are chosen, funded, and delivered. It's ambitious, but the past decade of change in higher education shows that ambitious doesn't mean impossible. That being said, some lessons from the higher education space in terms of regulatory structures, assessment, and accountability will decide whether ISC can deliver on its promise.

Make Sure Quality Choices Are Available. Starting with the assumption that all students and their families can make choices in their best interest, the inclusion of price makes student and family choices more meaningful and relevant. Creating an effective choice mechanism is crucial for an ISC model's success. Below are several principles for such a mechanism.

Meaningful Choice. Students and families need enough service distinction to make meaningful choices but not so much as to be overwhelmed. Students and families should be offered a handful of choices with obvious structural and price distinctions. Further, the inclusion of multiple providers creates price competition that benefits students. However, school administrators should be involved in curating the selection set.

Finally, the past two decades have seen an explosion and maturation of online markets that capture many of the data elements necessary to make informed choices. For instance, ISC data elements could include price, provider (both organizations and individuals), service description, location, schedule, past performance, mandatory reviews from previous students, known student constraints, and more.

Avoiding Bad Choices. Most educational products and services are useful to some students but not others. Helping students choose the courses and services they need is crucial, especially upon initial enrollment. Administrators should be able to prohibit some choices based on student past performance or preenrollment assessment. Further, counselors would be available to help students and families make informed decisions.

Iterative Improvement. As any market expands in both size and longevity, the information about providers and competition between providers expands as well. Both drive lower prices and better-informed decisions. To ensure continuous improvement, students and families would be required to reflect, review, and document their experience with all chosen providers before and after service delivery.

Establish Accountability. Like any public school, an ISC program would be subject to the same accountability structures available to traditional and charter high schools. Students would be evaluated against grade-level standards or, for students substantially behind grade level at enrollment, evaluated by individual progress. The variability of academic choices under an ISC program and the fixed nature of accountability regimens are likely to make competency-based assessment structures particularly useful for ISC programs.

Although accountability requirements vary in each state, public K–12 education has done a far better job defining educational outcomes at the course and grade level than have accredited colleges. Simply having standards, even if there are 50 reasonably similar sets, allows far more reliable assessment and interoperability among academic service providers than is found among colleges.

Start with the Poorly Served. Like in postsecondary education, the early adopters of any new educational model will be those for whom the existing model isn't working. In postsecondary education, these are nontraditional students. In K–12, these are high school dropouts, chronic absentees, adults, working teenagers, and homeschoolers who could be brought back under the public school umbrella. Some students and families have already opted out of high school and are receiving no services at all. For some students who have opted out or are at risk, it may be that nonacademic services such as mentorship, internships, transportation assistance, intensive reading support, and others have a greater impact on academic success than traditional academic coursework does. For these students, ISC enables finite resources to be more efficiently targeted than they would be in a more centralized model.

Ensure Schools Have a Proactive Role. Rather than be the sole provider of coursework and service, a school implementing an ISC program manages the selection of coursework and services from multiple providers. Accordingly, the school is responsible for curating providers, setting "guardrails" for incoming students, contracting, providing facilities, and offering assessment, intervention, and counseling. The school will choose what is communal and paid for out of overhead and what is specific and paid for with "points." For instance, an ISC program's facility or any shared curricular requirement would be overhead, whereas an extracurricular such as music lessons might not be.

What's Out There Like ISC?

Although there are no cafeteria models in which granular educational services are priced and chosen, elements of the model do exist.

Schools Targeting the Poorly Served. Many schools and programs are serving dropouts, adults seeking a high school degree, working high school students, teenage parents, and more. Typically, they offer an array of services but do not allow the kind of granular choice that might better align services with student needs. ISC might help these programs better allocate resources, grow their range of service offerings, and drive iterative improvement.

Education Savings Accounts (ESA). Nearly 19,000 students in five states have all or a portion of the state's per-pupil funding placed in an ESA[5] in exchange for opting out of the public school system. Although policies vary across states, participants are often required to have an Individualized Education Plan, have attended a failing school, or have met some other eligibility requirement. Where implemented, programs have grown relatively rapidly, and surveys report that about 30 percent of families spend funds on multiple service providers and high family satisfaction. While such accounts are promising, they create an all-or-nothing dynamic requiring the family to bear full responsibility for identifying and choosing services. It also diminishes the potential power of a scaled marketplace for families.

Homeschool Charter School. In California,[6] two virtual charter schools authorized by rural Dehesa School District in San Diego County allow parents of elementary school students to spend between $2,800 and $3,200 per family on thousands of homeschool vendors after enrolling in the school. One parent noted that she used the funds to pay for equine therapy, adaptive writing materials, and science kits for her attention deficit hyperactivity disorder and learning-disabled son. This personalized treatment resulted in less frustration, anxiety, and explosive behavior. Also, rapid growth—one school grew from 826 students to nearly 4,500 students in four years—provides some evidence of demand.

On the other hand, the only required academic oversight for these schools was that students had to meet with a teacher once a month and turn in an ungraded work sample. Further, students and families only received about one-third of the actual per-student allocation, with the rest being paid to the district for oversight and, at one school, to the virtual school owners' vendors.

"Shadow" Markets. Many parent-pay markets for K–12 academic and student services have already emerged outside the public K–12 system. Examples include Outschool (matching teachers and students for online class delivery), Wyzant (matching tutors and students), CoachUp (matching face-to-face and online athletic coaching sessions with students), and SpeechBuddy (matching speech therapists with students). For students and families that can afford to pay out of pocket, these markets are already generating choice and efficiency in a way that traditional schools cannot. ISC can offer such value to the students who cannot afford to pay out of pocket.

These examples demonstrate the potential and pitfalls for more granular choice. As demonstrated in postsecondary education, nascent K–12 efforts, and "shadow" K–12 market places, new models of delivery that drive greater value to the poorly served are possible. However, implementation of these models in the public K–12 system must be accompanied by academic and financial accountability to capture public trust.

Conclusion

Despite nationwide and persistent enrollment declines in college enrollment, unaccredited and nontraditional providers have thrived. These providers' success is rooted in driving greater value to students using the lower cost of delivery of online education and the ability to deliver services in units and formats unavailable to traditional colleges. Over time, accredited colleges and unaccredited providers partner to drive maximum service and financial benefits to students.

Due to the lack of a pricing mechanism, such innovation has yet to happen in K–12 education. However, a resource allocation mechanism such as ISC, combined with rigorous assessment aligned to generally accepted standards, financial transparency, and a capable authorizer, will create performance incentives for students, performance incentives for providers, and participation incentives for parents. Particularly for students not being served well or at all, it should provide more, better, and better-targeted academic and related services and experiences.

About the Author

Burck Smith is a Pahara-Aspen Institute Fellow and the founder of StraighterLine, which helps students reduce the price and risk of pursuing a degree and helps colleges improve enrollment and retention.

Notes

1. US Department of Education, National Center for Education Statistics, "Table 311.15. Number and Percentage of Students Enrolled in Degree-Granting Postsecondary Institutions, by Distance Education Participation, Location of Student, Level of Enrollment, and Control and Level of Institution: Fall 2015 and Fall 2016," https://nces.ed.gov/programs/digest/d17/tables/dt17_311.15.asp?current=yes.
2. Evergreen Education Group, *Keeping Pace with K–12 Digital Learning: An Annual Review of Policy and Practice*, 2015, https://michiganvirtual.org/wp-content/uploads/2015/11/Evergreen_KeepingPace_2015.pdf.
3. Ron Legon and Richard Garrett, *The Changing Landscape of Online Education (CHLOE) 2: A Deeper Dive*, Quality Matters, March 27, 2018, https://www.qualitymatters.org/qa-resources/resource-center/articles-resources/CHLOE-2-report-2018.
4. ISC is based on the same economic principles as StraighterLine but applied to the K–12 market. See Burck Smith, "Price Competition and Course Level Choice in K–12 Education," in *Customized Schooling: Beyond Whole School Reform*, ed., Frederick M. Hess and Bruno V. Manno (Cambridge, MA: Harvard Education Press, 2011), 137–52.
5. EdChoice, "What Is an Education Savings Account?," https://www.edchoice.org/school-choice/types-of-school-choice/education-savings-account/.
6. Kristen Taketa, "'Home-School Charters' Let Families Use State Dollars to Buy Disneyland Tickets, Horseback Riding Lessons and More," *Los Angeles Times*, July 25, 2019, https://www.latimes.com/california/story/2019-07-24/home-school-charters-let-families-use-state-dollars-to-buy-disneyland-tickets-private-lessons-and-more.