

## **Are For-Profit Schools Too Smart for Their Own Good?**

**CLEVELAND, OH (Aug. 11, 2012)** – From the *New York Times* to *Doonesbury*, industry observers are saying now what Dorsey & Company said a year ago about the marketing practices of for-profit colleges and universities. We warned about the industry in our fall 2011 issue of [DorseyReports](#), and once again, for-profits are under the microscope.

We knew that U.S. lawmakers had been following this industry, asking probing questions about the aggressive marketing efforts used to attract students to a growing number of for-profit schools.

Iowa Senator Tom Harkin's scathing report released last week joined other studies on the industry. We're not surprised by some of Sen. Harkin's and others' conclusions, including:

- Pell Grants and federal student loans make up 83% of money coming to for-profit schools; 40% of that aid is spent on marketing and profit; and less than half of that amount is spent on instruction.

### **It gets worse...**

- For-profit schools enroll only 10% of U.S. college students, receive 25% of all Pell Grants, yet their students make up 50% of all student loan defaults.

### **There's more...**

- 50% of for-profit college students drop out after the first year.
- Many of those who do graduate are ill-prepared to find work in their fields of study.
- Whether or not students graduate, they remain 100% responsible to pay back federal student loans while the schools received the government money up front and keep 100% of the profits.

### **Meanwhile...**

- Tuition at for-profits is largely 3 to 4 times as high as at many public and nonprofit schools and, no surprise, their recruiters have been known to dodge questions about cost as part of their high-pressure sales tactics.
- For-profit recruiters heavily target low-income adults, single mothers and perhaps most egregiously wounded veterans.
- Veterans are ideal targets for squeezing as much military education aid out of them allowed by law, since the so-called "G.I. Bill" and the like are not counted as student aid

under the "90/10 Rule" – which prohibits for-profits from getting more than 90% of their funding from federal student aid.

- Because of the "90/10 Rule," and the heavy investment in recruiting, for-profit schools can conceivably enroll, say, 9 single mothers on welfare for every 1 veteran receiving military benefits, and only the single mothers' federal financial aid is counted toward the 90% threshold.
- Aggressive and misleading recruiting practices, and regulatory evasion and manipulation, help the industry avoid any real penalties for all of the above.

It seems most probes into for-profit education land on the same page: these schools have been able to get away with these offenses and begin carving out competitive advantage over their traditional counterparts because of smart marketing. The even greater threat that Dorsey & Company marketing experts foretold may be more ominous: the for-profit industry has essentially begun to change the definition of what makes a good education.

How do their traditional, nonprofit counterparts compete? We said it then, and we say it now: simply mimicking the aggressive marketing tactics of for-profits is not enough. Traditional schools would do well to use the 'smarts' they already have to analyze the current operating environment, assess its own competitive advantages, and adjust marketing and recruitment efforts accordingly.

The time may be right for getting on the winning side of this head-to-head match with for-profit schools.

Listen to Sen. Harkin discuss his report in this interview with NPR:  
<http://www.npr.org/2012/07/31/157637458/senate-panel-gives-for-profit-colleges-an-f>.