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# Cost Proposal

**All subsections of Section 5 not listed in the "Instructions to Offerors" on page 3 require a response. Restate the subsection number and the text immediately prior to your written response.**

Provide complete pricing and/or revenue share schedule that includes specifically how the firm will handle all tuition, fees, or other costs paid by online learners. Break down the associated costs and/or component costs in detail.

Pearson's proposal assumed that a student would pay $800.00 per credit hour for Graduate Programs and $500.00 per credit hour for Undergraduate Programs. Based on our modeling we assumed that the revenue share would be based on tuition only. The term of contract assumed was 10 years.

## Pricing Structure

| Core Services | Core + Course Development | Full Services |
|---|---|---|
| Included Services:<br>• Market Research<br>• Program Planning (PRA)<br>• Institutional Readiness (IRA)<br>• Pro Forma/Resource Forecasting<br>• Launch Project Management<br>• Marketing | *Included Services:*<br>Everything in Core Services plus:<br>• Instructional Design<br>• Course Development<br>• Multi-Media Development<br>• Faculty Training & Support | *Included Services:*<br>Everything in Core + Course Development plus:<br>• Funding for Specific Resources, Staff, Faculty, and Other Direct Expenses incurred by UM. |

| Core Services | Core + Course Development | Full Services |
|---|---|---|
| • Recruitment/Enrollment Management<br>• Retention-Focused Student Support Services<br>• 24/7/365 Helpdesk | | |
| *Complimentary Options:*<br>Smarthinking Tutoring Service<br>Pearson Writer, Pearson Career Services | *Complimentary Options:*<br>LMS Hosting, Support/Training<br>Smarthinking Tutoring Service<br>Pearson Writer, Pearson Career Services | *Complimentary Options:*<br>LMS Hosting, Support/Training<br>Smarthinking Tutoring Service Pearson Writer, Pearson Career Services |

**Compensation Model Options**

This section describes Pearson's available compensation models at a high level. We place high value on creating financial models that are “win-win”, advocating a shared success approach where the goals (and profitability) of our organizations are aligned. Regardless of the model selected, it is important that the expectations of both parties are met to ensure long-term success.

Pearson also can support multiple compensation models across an institution. In many cases, we support multiple programs across a single university with differing revenue sharing rates and services.

**Compensation Models Comparison**

| | **Expense Offset Model** | **Revenue Share Model** | **Fee-for-Service Model** |
|---|---|---|---|
| Description | Model where the university contributes capital to fund upfront costs typically incurred by Pearson as the OPM provider | Common model in the OPM market for bundled services where risk and revenue are shared relatively equitably | Model requiring university to assume responsibility for majority of upfront costs; usually most commonly applied to disaggregated services |
| Service Mix | Facilitates a variety of combinations of bundled and disaggregated services | Services are bundled | Allows for disaggregated services |

| | Expense Offset Model | Revenue Share Model | Fee-for-Service Model |
|---|---|---|---|
| Upfront Costs | Upfront costs are shared between the OPM provider and the university | OPM provider incurs the majority of upfront costs | University incurs the majority of upfront costs |
| Expense Ownership | University incurs costs related to teaching and learning activities as well as contributing to agreed-upon OPM provider expense line items | University incurs costs related to teaching and learning activities; OPM provider incurs costs related to defined partnership support activities (e.g., marketing, recruitment) | University pays directly for all expenses incurred in support of partnership |
| Impact on Compensation | Revenue share is reduced in proportion to the contribution of capital to offset expenses incurred by the OPM provider | Risk is shared with majority of upfront costs on OPM provider; revenue share to OPM provider is usually 50% or higher depending on service mix | University pays a fee for services received – usually calculated by cost incurred for staffing and direct costs plus an additional markup |
| Impact on Contract Term | Contribution by university allows for a shortened contract term compared to typical revenue share model | Long-term contracts ranging between 8 to 15 years depending on level of investment required and payback periods for both parties | Short-term contracts (usually 1 to 3 years in length) for specific services |

**Option 1: Expense Offset Model**

In this model, UM would contribute capital to offset expenses incurred by Pearson in the partnership. In turn, this would allow UM to essentially "buy down" the revenue share for the partnership programs. For example, where a typical revenue share model for an online program in which Pearson provides marketing, recruitment, and retention-focused student support services may be 52%, UM's capital contribution may buy down the revenue share to between 15% and 25%.

Below are high-level ranges of revenue shares for various service mixes within the expense offset model option. Final revenue share is dependent on a variety of factors mentioned herein but is most impacted by the capital that UM is willing to contribute as a percentage of the overall expenses incurred:

| Services / Service Bundles | Revenue Shares (after university investment) |
|---|---|

| | |
|---|---|
| Marketing & Recruitment | 10% - 20% to Pearson<br>80% - 90% to UM |
| Student Services | 10% - 20% to Pearson<br>80% - 90% to UM |
| Core Services (Marketing/Recruitment/Retention) | 15% - 25% to Pearson<br>75% - 85% to UM |
| Core Services + Course Development | 20% - 30% to Pearson<br>70% - 80% to UM |

**Option 2: Fee-for-Service**

In this model, Pearson will build a pro forma using the same inputs it would use in a traditional OPM approach informed by UM's enrollment goals and provide UM with pricing for each service. The price quoted would cover expenses and profit to Pearson. This is the most capital-intensive approach for UM and it contains the maximum financial risk. Pearson will want to know if the services contracted will be unbundled and mixed with another provider's services as this significantly increases execution risk to UM.

In general, Pearson believes that our model for aggregated services across the student lifecycle provides several advantages to our university partners over other providers who would offer a dis-aggregated services model, including: (a) reduced capital outlay for university partners initially as many do not have capital on hand at the onset of a partnership; (b) more operational efficiency and less risk to our partners; (c) benefits from cross functional teams and their communication structures across the entirety of the student lifecycle, and (d) increased accountability for the OPM provider to deliver end results (vs. for example a marketing partner compensated on lead quantity instead of quality and ROI of leads becoming students).

However, given careful consideration by both organizations in partnership and appropriate due diligence, Pearson offers a fee-for-service financial construct. These relationships are highly customized to the needs of the university and the applicable program(s). Therefore, defining and scoping the services to be offered as well as the term length which services are needed are critical steps to determining a mutually-agreeable partnership arrangement.

| Services / Service Bundles | Fee Structure |
|---|---|
| Marketing & Recruitment | More information is needed |
| Student Services | More information is needed |
| Core Services (Marketing/Recruitment/Retention) | More information is needed |

| | |
|---|---|
| Core Services + Course Development | More information is needed |

**Option 3: Revenue Share**

Pearson's compensation rate for core services (marketing, student recruitment, and student support services) is a standard percentage of tuition revenue. Then, as more services are added, such as course design and development services and faculty payments, the revenue share would increase for Pearson.

Below are high-level ranges of revenue shares for various services mixes within the revenue share model option. Final revenue share is dependent on a variety of factors mentioned herein:

| Services / Service Bundles | Revenue Shares (no university investment) |
|---|---|
| Core Services (Marketing/Recruitment/Retention) | 50% - 55% to Pearson<br>45% - 50% to UM |
| Core Services + Course Development | 53% - 65% to Pearson<br>47% - 35% to UM |
| Full Services | > 65% to Pearson<br>< 35% to UM |

**Additional Considerations**

- Tuition price point, applicable fees, and total degree program cost to students
- Any discounts or scholarships applicable to overall or subsets of the student population
- Availability of financial aid to students and distribution schedule of aid
- Availability of part-time program completion plan for online students
- Program curriculum as compared to competitors including applicable areas of concentration or specialization
- Applicable courses' availability in all academic terms (Spring, Summer, and Fall)
- Average number of courses/credit hours students take per term
- Program admissions requirements as compared to competing programs
- Program growth goals and applicable growth caps
- Standards and limitations related to state authorization, regional accreditation, and professional accreditation
- Other competitive factors such as length of the program (credit hours/courses), time to completion (years/months), and professional accreditation
- The presence of an efficient scalable delivery model
- Sufficient infrastructure at UM to support rapidly growing numbers of students at a distance
- Ability to collaborate on marketing efforts including brand level marketing / CNAME(s) / SEO strategy / keyword campaigns
- Access to any historical lead database(s) and student pipeline(s) from UM for any existing online programs to be included in the partnership at the contract execution date