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**Education@Bertelsmann** – What's Your Story?

Corporate Communications

# Education @ Bertelsmann

Seven stories about new businesses

What's Your Story?

Volume 3





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**Education**

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**Bertelsmann**

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Seven stories about new businesses

What's Your Story?

Volume 3



Thomas Rabe

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*Chairman & CEO of Bertelsmann*

# **Education – Bertelsmann’s Third Mainstay**

**Foreword by Thomas Rabe**

The global volume of the education market exceeds five trillion US dollars. Nearly one-fifth of this is covered by the private sector, and the trend is upward. Demand for education is increasing all over the world, and digitization is making education more accessible und more affordable.

In the years ahead, education will gradually be established as Bertelsmann’s third mainstay of business alongside media and services, with a medium-term revenue target of around one billion euros. To achieve this goal, we have analyzed the global education market and defined three attractive segments: online training in the health-care and technology sectors; universities for medical and human sciences; and services for the education sector.

All three segments are growing rapidly. The markets are fragmented, with numerous small and medium-size companies that are now ready to take the next step towards growth and expansion and looking

for an international partner with a long-term perspective for this purpose. A partner like Bertelsmann.

In the past few months, Bertelsmann has become a partner to several such companies:

In September 2014, the Group bought a stake in Udacity, an online learning provider in the U.S. Udacity is one of the most promising e-learning start-ups around, with three million students from over a hundred countries, and well-known B2B customers primarily from the IT industry. The nanodegrees developed by Udacity set new standards for lifelong, certified learning that caters to the specific needs of employees and companies.

In October, this was followed by our company's largest transaction in the United States since 1998: the acquisition of Relias Learning. Relias is a leading e-learning provider in the healthcare sector, with more than 4,000 B2B customers. In 2014, more than two million users completed 25 million online courses with Relias. The company has significant growth potential, because it is fueled by several global megatrends: education, health, regulation, outsourcing and digitization.

February 2015 saw the entry into the U.S. university segment. In a first step, we acquired Alliant International University in California through our subsidiary Arist. Alliant is a leading U.S. university for psychology degrees, with 3,700 students at ten campuses in California, Mexico City, Tokyo and Hong Kong. Arist will gradually build an international network of universities in the field of health and human sciences.

A little later Bertelsmann significantly increased its stake in Synergis Education. Synergis is a U.S. education service provider that was founded in 2012 by our partner University Ventures and is growing rapidly. The company assists universities with matters including the establishment of online degree programs, marketing, and student relations. Already, its customer base comprises eight university partners with more than 60 courses.

While the first few investments were made in the United States as the world's largest and most developed education market, in our latest step we turned our attention to the Brazilian market. In June

we bought a stake in Affero Lab, Brazil's leading corporate training company. Affero offers its B2B customers classroom training, online training, and combinations of the two. Each year, more than a million people use Affero's offers.

With these steps, our education business is taking shape. After just a few months, Bertelsmann already has appreciable activities in all three of its target segments in the education sector, as a basis for organic growth and acquisitions.

We are delighted to be able to count on first-class entrepreneurs who will run the businesses and successfully expand them together with Bertelsmann. You will meet them and hear from them in this book.

Thomas Rabe



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# **Connect Digital Education And Work**

**Interview with Kay Krafft**



Kay Krafft

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*CEO Bertelsmann Education*

Two years ago Kay Krafft would never have dreamed that he would one day find himself in a hospital in Sacramento, California – as an entrepreneur, not as a patient – exploring a possible partnership. At that time he was a member of BMG's executive board, part of the team building Bertelsmann's new music business from a start-up to a major player. Since March 2014, however, Krafft has been building something else for Bertelsmann – the new Education division, which is to be the third pillar of the Group portfolio alongside media and services. In the following interview, the CEO of Bertelsmann Education talks about the first milestones achieved, the innovative new education companies that Bertelsmann has invested in over the last few months, especially in the United States, and the growth strategy for the education business.

After lengthy preliminary deliberations and initial major investments in the past few months, the new Education division will officially launch in New York this September. What is the strategic importance of this conference and the new Education division for Bertelsmann?

**KAY KRAFFT:** We want to establish Education as the third pillar of our portfolio, alongside Media and Services. The first Bertelsmann Education Conference in New York marks a milestone in putting this strategy into practice. After several investments, some of them major, and in the United States in particular, Bertelsmann's projected revenues from the education business are \$200 million for 2015. Now, we are bringing together colleagues from the new Education businesses, the Corporate Center and some of our core businesses to determine our course for the future. What we hope to achieve with the new division is to become a faster-growing, more diverse company. Global megatrends are expediting the construction of this new pillar: Education is becoming increasingly important; the same is true for healthcare, which is to become

one of our key industry verticals of focus within our education activities. The market and business characteristics of education make it an excellent match for Bertelsmann's long-term entrepreneurial approach and its ownership structure with the family and foundation.

Why is Bertelsmann's shareholder structure so crucial here?

**KAY KRAFFT:** It provides a real differentiating factor. 180 years of company history, long-term thinking, continuity in the management teams, a track record of working with partners, a responsible family of entrepreneurs and the foundation structure ... In discussions with prospective partners, especially in the U.S., all these points make a difference for a decision in favor of a partnership with Bertelsmann. This is especially true for the education and healthcare sectors where not-for-profit companies have traditionally played a major role.

Not-for-profit companies – isn't that an oxymoron?

**KAY KRAFFT:** Not at all. In the United States, even not-for-profit companies can and do make

profits. They can't distribute these profits; however, they reinvest these into the company. The parallels with Bertelsmann's reinvestment policy are apparent.

**Why is the education market so interesting and relevant for Bertelsmann?**

**KAY KRAFFT:** Globally, the education market is growing by seven percent a year. In 2015, it is estimated to reach a volume of \$5.5 trillion. The private sector has a share of almost 20 percent growing by about 15 percent a year, much faster than the state education sector. The main growth drivers are increasing educational demands from the knowledge society, massive expansion of private educational services, increasing availability and affordability of education through online services, as well as progress made in emerging countries and the associated demand of the growing middle classes. It's crucial to me that we also look at the economic benefits for the customer – whether corporate or learner – resulting from learning. By providing high-quality education and continuing training for adults, we want to improve an employee's

skills in such a way that it leads to a better economic output for the company and to better pay and job security for the employee.

**What market segments is Bertelsmann focusing on?**

**KAY KRAFFT:** Given the large market I've just outlined, it is essential for us to focus on a few market segments and to set clear priorities. We've defined the target segments in education based on the following criteria: market size and growth, scalability, use of technology, "buy-and-build" capacity, and regulation. Three promising segments emerged: higher education with a focus on healthcare; e-learning; and education services. In higher education we're currently operating in the B2C sector, the end-customer business. The two other are primarily B2B businesses, with corporates or universities as customers.

**Can you briefly outline the three areas? Beginning with higher education – is Bertelsmann now getting into universities?**

**KAY KRAFFT:** Yes. There's a good reason why we've taken over a campus university in the U.S. with over 4,000 students – Alliant, a

leading human sciences university with a focus on clinical psychology and mental health. The rationale behind this is that global health expenditure is rising continuously – at an annual rate of six percent in the U.S. alone in the past decade. This development is driven by sustained population growth, an increasing number of chronically ill patients, and higher life expectancy. Especially in industrialized countries, the latter leads to an aging population and increasing demand on health services. In the emerging markets, there is a growing middle class that seeks better healthcare. Our goal in this segment is to create a leading provider of medical training with a focus on the Americas. Our strategy is based on the acquisition of accredited healthcare colleges, improving their efficiency, and developing a unified learning program and uniform brands. The introduction of online and hybrid courses follows on this basis.

**And the foundation of Arist serves this purpose?**

**KAY KRAFFT:** Indeed. We set up the Arist Education System holding company to this end late last

year, together with an experienced management team headed by David Figuli. Arist will target understaffed professions such as doctors and nurses and become a platform for the creation of a new generation of high-quality medical training facilities. Technological innovations enable new ground to be broken in the assessment of students and learning success, with the development of digital learning methods or the personalization and individualization of learning. Our entry into Alliant University marks the first significant investment for Arist and Bertelsmann.

**Technological innovation is also the keyword in e-learning or online learning. What path and aims is Bertelsmann pursuing here?**

**KAY KRAFFT:** Global expenditure on staff training and continuing training amounts to about \$150 billion annually, with North America being the largest region by far in this respect, with a share of 45 percent. Expenditure is primarily driven by the level of employment and the need to constantly adapt skills and knowledge to new job requirements. The increase in regulatory and

industry-specific requirements, especially in the health sector, also favors the growth of the sector. Many advanced training courses are now simply required by law – in the interests of patients and those in need of care. And because classroom training is expensive, time-consuming and not very flexible, the time has come for e-learning: Staff training is increasingly going digital.

#### What does that mean in practice?

**KAY KRAFFT:** That today 22 percent of all training hours are already carried out using e-learning. By comparison, in 2005 it was just seven percent. This trend is also reflected in the growth of our e-learning provider Relias Learning, which we took over last November with its experienced management and employee team under Jim Triandiflou. E-learning is increasingly replacing traditional classroom training, because the pressure on companies to be more efficient is increasing in parallel with the regulatory requirements. E-learning products provide easy access to education; they are highly relevant, can continuously be updated, provide transparency to the employer and

have cost advantages of over 70 percent compared to traditional learning methods. In addition, they can be seamlessly documented and checked – which is increasingly important given the regulatory environment.

#### What is Bertelsmann's involvement in the third segment you mentioned – educational services?

**KAY KRAFFT:** The market for services and digital products for U.S. universities currently amounts to \$1 billion and is growing by 20 percent a year. We estimate the potential market volume at \$26 billion in the U.S. alone. Market growth is primarily driven by the rising cost pressure on universities and the need to offer new course programs and online degree programs. The main functions outsourced to external providers include marketing the course programs, administrative student support, and the development and operation of complete online degree programs. The market for online service providers in the United States is fragmented at this point. One of our goals will be to explore and actively support consolidation opportunities. A first step in this direction





“Education will  
become digital”

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Kay Krafft

is our participation in the service provider Synergis, which Norm Allgood and his team spent the past four years building into a company with nearly \$30 million in revenues.

**Are there connections and overlaps between the three segments? And if so, how do you intend to use them?**

**KAY KRAFFT:** All three segments complement each other and can be connected through their business operations within the health-care sector. Interfaces exist for teaching content and customer contact. For instance, many hospitals and nursing homes have skills shortages. This problem is exacerbated by high onboarding costs for new employees. One focus of the Bertelsmann Education Group will therefore be to coordinate continuing training at the universities more with the needs of employers and to more closely align continuing-training measures with employers' quality and efficiency requirements. Digitization in particular and the need for lifelong learning make it possible to bring education more closely in line with the very specific needs of the workplace. So education will

link learners more closely with the world of work. This will be beneficial for all sides.

**As CEO of Bertelsmann Education, how are you structuring the new division?**

**KAY KRAFFT:** The businesses in the three target segments I mentioned are led by experienced management teams that have the necessary expertise and experience and are entrepreneurially involved. They are supported by a deliberately lean central team that manages the portfolio and facilitates collaboration. It supports the local management teams with acquisitions and their integration as well as the international expansion of the businesses with the help of the Bertelsmann network. Some employees in this central team were already involved in building BMG or have helped with the integration of Penguin Random House and have thus gained valuable experience. I'm also extremely pleased by how much my team and I have been able to rely on the departments at the Corporate Center and their expertise. This just works wonderfully smoothly and is really appreciated by our new colleagues in our education businesses.

The new education businesses have great expectations from the network you mentioned and from the support for international expansion. Can Bertelsmann meet these expectations?

**KAY KRAFFT:** We will leverage Bertelsmann's international network in the best possible way to support our new companies' expansion plans. For some, this will be gradual and more medium-term support, but at Relias Learning, for example, we already have concrete plans for expanding the business into Europe. We may well launch this as early as the second half of this year.

How and why?

**KAY KRAFFT:** Because the demand is there. Looking in a first step at Germany, France and Britain as the three most populous countries in Europe, about 4.5 million nurses and caretakers work there altogether. Everywhere in the industry there is enormous cost pressure. There is a lack of well-trained specialists with the continuous medical education market dominated by instructor-led training. This is where Relias products can make a difference – with targeted online train-

ing of nurses and caretakers. As a first step, we consider introducing 100 to 150 Relias courses to the U.K. and Germany, adapt them to local requirements and offer these initially to selected pilot customers. I could imagine Udacity taking a similar step across the Atlantic with Bertelsmann at its side, with its online degrees in the technology sector, the so-called nano-degrees.

Aside from these opportunities and international expansion of the businesses, what is your basic strategy in the field of education?

**KAY KRAFFT:** We want to connect education with the professional requirements of very specific jobs – education to employment. This is favored by increasing digitization and the introduction of new technologies. Bringing educational products closer to certain jobs also explains our focus on selected industry verticals. We want to be the market leader in healthcare education and continuing medical education, the leading online services provider for universities, and the leading provider of online degrees in the technology sector. The framework for doing so is in place.

With the complete takeover of Relias, the increased stake in Synergis and the establishment of Arist with the associated acquisition of Alliant you have set the first milestones for building the Education division. Can you quantify them and put them in context?

**KAY KRAFFT:** With respect to revenues within the division, in the medium term, our university segment should account for around 30 percent of revenues, e-learning for about 50 percent, and educational services about 20 percent. All three segments complement each other and can work well together in healthcare related topics.

The vast majority of Bertelsmann's education businesses are based in the U.S. Why are our activities focused there?

**Kay Krafft:** The current focus on the U.S. is driven by its market size and a general mindset that education is worth investing in by individuals. Also, online learning products for corporates are typically licensed in the U.S. while usually sold as 'work for hire' in markets such as Europe, thereby limiting scalability. Furthermore, the United States has taken the lead in "digital learning" and the

use of technology enhancing learning success. This, however, also creates an opportunity to offer these types of education programs in other countries. Especially in the key areas of healthcare and technology, there is a significant shortage of trained professionals in Europe. In addition to Europe, we will be exploring Relias' expansion into China and Brazil. In BIC countries, it has emerged that clients often outsource the entire organization of vocational training to external service providers. For Arist, too, many opportunities exist to offer course programs outside the United States. A first step has already been taken with the expansion of our Mexico City campus. In the medium term, we will enhance our businesses through targeted investments in the defined growth regions. But once again: One step at a time. We must set priorities.

In addition to the focus on the U.S., and smaller investments in India for example, Bertelsmann has taken a step in developing the education business in Brazil by investing in the training provider, Affero Lab. How is this connected to the education activities in the United States?

**KAY KRAFFT:** The investment in Affero Lab fulfills two strategic goals for Bertelsmann: It fits into the growth platform of Education as well as into the growth market of Brazil. Affero Lab is the leading provider of corporate training in the Brazilian market. It offers its customers traditional training and increasingly e-learning – this is where we will seek a direct connection with Relias. On the one side, Relias should make its market entry into Brazil alongside Affero Lab. On the other side, Relias may facilitate access to the health-care sector for Affero Lab.

**What role has the University Ventures fund played in building the business to date – and what role should it play in future?**

**KAY KRAFFT:** University Ventures, founded in 2011 with Bertelsmann as an anchor investor, is primarily focused on early-stage investments and incubating business concepts. This implies a higher risk profile of investments than in more established business models. Our investment in University Ven-

tures gives us an opportunity to be close to developments in the higher education sector without having to bear the investment risk on our own. University Ventures has also helped us to establish valuable contacts – such as the one that later led us to invest in Synergis.

**In the medium term, Bertelsmann is striving for revenues of €1 billion in the education business. How do you intend to achieve this goal and continue to grow?**

**KAY KRAFFT:** The new division with revenues of €1 billion is to be achieved by a combination of acquisitions and organic growth based on scaling businesses. We are primarily planning medium-sized investments. The features and platforms of acquired companies will each be integrated, such as the learning platforms, learning content and sales functions. In some instances, we will start with minority interests with a longer term goal of increasing our ownership. Organic growth will be driven by market growth and market share gains in these overall highly fragmented markets.

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Interview with Kay Krafft

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The bell

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*... is rung for each new deal  
and each new customer.*

# **More Than A Business**

**The Relias Learning Story**



**180** years of stability, coupled with a high degree of creativity. Ambitious growth plans and the prospect of international expansion. Similar goals, comparable values, the same entrepreneurial language, and the firm shared belief that there is more to a good business than commercial success alone. These are all factors that in the eyes of many Relias Learning managers and employees make Bertelsmann an ideal partner. But above all, it is the long-term thinking of the family-owned global company from Gütersloh, Westphalia, Germany that is so well received in Cary, North Carolina, USA, and gives rise to the expectation of being able to achieve even more together in future. Relias itself has not yet been able to gather such long-term experience. Quite the opposite: in a mere decade, the company created its own market, and then went on to conquer it so resolutely that today it is the undisputed market leader in online learning offerings in the U.S. healthcare market. From scratch, its teams, committed and passionate about their work, have created a national champion that intends to keep writing its growth and success story – since October 2014 as part of Bertelsmann and its new Education business.

If there were one symbol for the exciting growth story of Relias, it would not consist of Excel spreadsheets, charts, budgets or facts or figures, however impressive they may be. It would, instead, be the bronze cowbell hanging in the open-plan office of the Relias sales team. It dangles, quiet and unobtrusive, from the ceiling above the chest-high partitions of the typical American cubicles that separate employees' desks from each other. But the bell remains quiet only



Jim Triandiflou

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*The CEO has been continuing Relias' growth story since 2012.*

until one of them gets up and rings it vigorously because they have just won a new customer or completed a new deal. And this happens quite often – several times a day at least, especially in the rush to close deals before the end of the month, when everything revolves around facts, figures and tables again. Acquiring ever more new customers in its core market, which Relias CEO Jim Triandiflou says has still barely been developed in the U.S. but is potentially worth billions, is an integral part of the company’s growth strategy. However, it is by no means the only factor. Triandiflou and Bertelsmann are pursuing a wide variety of very clear and ambitious expansion plans. But more on that later.

## ———— THE BEGINNINGS ————

The task here is to continue the story of a startup’s rapid development into the market leader, one that is unparalleled even in the U.S., where so many of these stories are written. After all, when it began there was not even a market. “Until the turn of the millennium, mandatory training of healthcare industry employees took place in typical conference rooms with coffee and bagels,” Triandiflou recalls. “The content was sometimes boring, extremely repetitive, and often no one checked whether it had been understood.” Not until this training was automated and shifted online would there be an effective shift in the quality and quantity for the benefit of everyone involved: from the precise handling of people requiring care to the correct way of treating people with autistic disorders, to applying bandages or very specific care for people with dementia. At this moment in history, Relias was one of the first companies on the scene. And one of the people involved from the very beginning was Mike Mutka.

In 2005, Mutka, who had spent his entire previous career in the healthcare industry, quit his well-paid job as a department manager with 60 employees at an international healthcare company in Iowa.

He moved with his family to Cary to allow his daughter, now aged 14, who had been diagnosed with autism, to attend the best school for her. Mutka and his family ended up in the Cary, Raleigh and Durham Research Triangle – with three prestigious universities, 60,000 students and near-exemplary cooperation among local authorities, universities and businesses. The three cities attract the technology scene from all over the United States to North Carolina, a state formerly dominated by agriculture. To this day, Relias benefits from this environment and recruits many employees from it. The company now employs almost 300 people – 220 in Cary, the others distributed to sales teams across the United States.

In the beginning, however, there were only five employees. They were pioneers who had set out to build a trailblazer of online learning in American healthcare – women and men like Mike Mutka, now Chief Strategy Officer: “I remember the expensive, time-consuming, inefficient and rather boring continuing education methods used for senior care workers, nurses and other healthcare workers,” he says, recalling the days of stacks of papers and folders, classroom teaching and learning outcomes that just couldn’t be tracked. In addition, the low wages and enormous staff churn rate in the healthcare sector made many providers recoil even more from investing in training. After all, why invest today in training a caregiver who might want to work for another company tomorrow for a few more cents?

However, over time a crucial development would emerge courtesy of the U.S. legislators: Training increasingly became mandated by law. Today it is completely mandatory. “First, U.S. health authorities rewarded companies that ran the best continuing training for its employees,” says Deanna Roepke, Vice President of Strategic Programs. “Later, they penalized those who offered no training or inadequate training.” The goal was clear: an effective, measurable improvement in care for seniors, the sick and people with physical or intellectual and developmental disabilities.



**“We combine  
the best content  
with the best  
technology”**

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Mike Mutka, Chief Strategy Officer

## MISSION & CULTURE

“To measurably improve the lives of the most vulnerable members of society and those who care for them” – this is Relias’ objective, stated clearly in the company’s mission statement. It has applied from the beginning for Relias’ two forerunners: “Essential Learning in California and Silverchair in Cary were formed at about the same time,” says Mutka. “Both developed online training solutions – Essential Learning for caregivers and providers of people with behavioral health challenges or developmental disabilities, Silverchair for senior care providers.” Bill Glass, founder of Silverchair, brought Mutka on board – or rather invited him to join the adventure. “Silverchair’s global headquarters was my daughter’s bedroom,” recalls Mutka, looking out the window of the current headquarters in Cary, a two-story red block tucked away like so many corporate offices here in the endless, evergreen forests of North Carolina. It has everything an employee’s heart could possibly desire, from modern workstations, a kitchen with free fruit and coffee to a gym and table tennis table, where Mutka has yet to meet his master. Health is taken seriously here – and so is a healthy dose of business ambition: In the corridors hang small plaques and photos of employees who practice the values of their business model in an exemplary way in the eyes of colleagues. In the office itself, posters above the cubicles proclaim the value of contracts closed, in increments of \$50,000.

The founding team launched in 2005 with 20 online healthcare courses and a simple Learning Management System (LMS) – but no one seemed to be waiting, despite the promise that Silverchair would be able to reduce the cost of training by 75 percent compared to the traditional method, not to mention the time savings. But at the time the world of sickness and disability care wanted nothing to do with technology. “Some nurses’ homes had perhaps one slow computer – and no one was interested in it. Many employees were modestly educated or trained at best, barely spoke English, and their interest in the digital world was close to zero,” recalls Mutka and smiles: “Not exactly the best conditions for online learning.”



Lifelong learning

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*... is as much a reality for Relias' customers in the healthcare sector (above) as for its own employees in Cary.*

But through tenacious sales, innovative advertising campaigns and many sleepless nights, the founders eventually won their first customers.

## ———— THE RECIPE FOR SUCCESS ————

The ice was broken. The growth story began. Mutka outlines their recipe for success: “We set out with the aim of providing our customers with the best content on the one hand – the training – and the best technology – the software – on the other. That is still the case today and it has paid off. Our clients have a unique library of content, combined with an unbeatably simple and efficient digital platform. There are no competitors offering this combination at this level of quality,” he says. “It has helped raise the standard of healthcare in the United States as a whole, and has turned online training into a force to be reckoned with.”

Talking to Jeanine D’Alusio, Marketing Manager; Debi Damas, Senior Product Manager; and Emaley McCulloch, Director of Behavioral Products and Research, it quickly becomes clear how critical the successful combination of technology and content has been to Relias’ success. Two of the three were once Relias customers before joining the company out of their personal conviction. One joined with her entire company. All three contributed their specific points of view on the importance and interplay of content and technology.

For instance, Jeanine D’Alusio had long worked for a nonprofit children’s healthcare, social work and rehabilitation organization in Florida. “As the Human Resources Director, I was responsible for organizing and tracking the further training of our staff. It was a lot of work,” she says. “When we came in contact with Relias I recognized their learning management system as a great opportunity for my organization. It was exactly the solution we needed. It was quickly accepted, because the platform is simple, attractive and intuitive to use.”





The dice have been cast

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*The people in the cubicles of Relias' open-plan offices work hard ... and party.*



“We want to take  
the business  
to a new level  
with Bertelsmann”

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Sam Dewey, VP Client Care

It also saved time, a precious resource, especially in healthcare. “Our staff was able to focus more on their patients instead of dealing with time-consuming analog training.” For D’Alusio this was and remains one of the key arguments for Relias. The other is the absolute trackability of learning and learning effects, a compliance requirement in the United States.

Emaley McCulloch’s history also shaped her view of Relias’ technological offer. She founded Autism Training Solutions, a company that developed and provided training courses for caregivers caring for people with autistic disorders. “We had the content. What we lacked was a suitable online learning platform,” she recalls. She tested countless software programs available on the market before finding that the Relias software was ideal for their needs. “Above all, we

needed multimedia training with lots of illustrative videos, because text alone isn't enough here. So we chose Relias." She says that her customers were enthusiastic and felt that using the Relias Learning Management System was a significant improvement. McCulloch herself has not regretted her decision. On the contrary, she has been part of Relias for a year, which in turn was only too happy to integrate her huge range of content and technical expertise in the field of autism.

If anyone is at home in the healthcare industry it is Debi Damas. The skilled registered nurse has worked in senior care for more than 20 years and is familiar with the need for continuing training, as well as its value: "By providing quality continuing training, we improve the skills and competency of caregivers and nurses, but especially and ultimately the quality of life of those they take care of," says Damas. Healthcare workers should always keep up with new knowledge, trends and techniques, she says. "This is an expectation of federal and state governments, which regulates and sets quality standards in the health sector, and it is also the right of those we care for," concludes Damas, who joined the company eight years ago, during the Silverchair days, to contribute her expertise. Today she analyzes the thousands of online courses for accuracy, relevancy and current standards of practice, and regulatory expectations to maintain the high quality of Relias' content.

For Vice President of Strategic Programs Deanna Roepke, the maximum consistency of the Relias offering is an essential mark of quality. Ensuring this is one of her tasks. "From the course to the revision books and exams, all the content for a learning target group has to be identical," she says. "That's what gives us our leading edge compared to all forms of classroom learning – because where will you find two teachers who are exactly the same and impart knowledge in exactly the same way?" The consistency of the final exams in particular is important and valuable, she says, as they guarantee a comprehensible standard for graduates – and for Relias. And because learning itself does not end with a passed Relias exam, the company also constantly offers refresher courses. They are crucial for adult learners, who are the exclusive target group, says Roepke: "Adults learn primarily



through repetition. With Relias they can hear, read or watch all the courses again and again until they have absorbed and internalized the content. No teacher can do that.”

So in 2005, the company had the technology and content. \$400,000 in revenues that year became nearly two million the following year, then twice as much again, and so on. “The focus was now on growth,” says Mike Mutka. But the company could only really grow through economies of scale. This insight led to the merger of Silverchair and Essential Learning in 2012. Both companies complement each other perfectly and joined forces under the name Relias and the new leadership of Jim Triandiflou. It was the first in a series of acquisitions, all of which followed the same, typical Relias pattern: “We don’t buy a company to impose our culture and strategy as the only correct one,” says Triandiflou. “Instead, we learn from each other, complement each other, build on the existing teams and grow together.”

Health

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*... is not just a fixture in Relias' business,  
but also in its tea kitchen.*

## AT BERTELSMANN

The parallels between Relias' five takeovers to date and the acquisition of Relias by Bertelsmann in the fall of 2014 could hardly be clearer. Nobody from the Relias team has left the company because of the new ownership. And Thomas Rabe isn't the only one who sees this team as the basis of Relias' future success with Bertelsmann; many of the folks in Cary see Bertelsmann as an ideal new home – especially after two years in the hands of a private equity investor. The contrast is obvious: “Thomas Rabe's promise that Bertelsmann allows subsidiaries to act independently and doesn't want to manage its business operations from above convinced us right away,” says Mike Mutka, for whom this was the second acquisition process. He adds: “The same goes for its vision of wanting to grow with and through a company just like Relias,” he adds. “Early on in the negotiations, it became clear that Bertelsmann was the partner of our dreams – and so far it hasn't done anything to wake us up from it.”

The co-founder is not alone in this opinion. CEO Jim Triandiflou confesses: “To be honest, I had never heard of Bertelsmann before the negotiations, but even our first breakfast with Thomas Rabe and Kay Krafft went on two times longer than planned. The chemistry was right. 180 years of stability after two years of private equity – that really charmed us.” At first, he says, he was surprised that such a large group was paying such great attention to online education in general and Relias in particular for its growth strategy, “but I quickly became excited about the prospect of being able to be part of this well thought-out growth strategy.” He says he now enjoys being a member of the Bertelsmann family and continually making new contacts within the Group and with its other education companies, while at the same time being able to go about his business with Relias as independently as before. Triandiflou knows that his employees also welcome the new partner. More than that: “Our young co-workers in particular are looking forward to new career options, and specifically to being able to open up new regions in the world for Relias with the global group at our side.”

It goes without saying that Bertelsmann's takeover comes with a lot of expectations. Sam Dewey, Vice President Client Care, says: "We want Bertelsmann to help us reach a new level – through investment, innovation and expansion." Debi Damas believes that Relias could have found "no better buyer than Bertelsmann" and is especially counting on the company's long-term thinking, "not in fiscal quarters, but in decades." Her colleague Emaley McCulloch is convinced that Bertelsmann will be Relias' "final home." This view is shared by one of Relias' most important partners: Linda Rosenberg, CEO of the National Council for Behavioral Health, one of America's most important and powerful leaders in healthcare and the unifying voice of the nation's community mental health and addictions treatment organizations. Rosenberg's Washington office is just a stone's throw from the White House and the Capitol, a.k.a. "The Hill," where she is a frequent visitor. "When I heard that Bertelsmann was acquiring Relias I knew it would be a long-term, strategic investment," she says. "In the U.S., that is what Bertelsmann is mainly known and appreciated for."

## ———— BOOM YEARS ————

Despite the extra boost and all the visions of growth that last fall's transaction has given both sides, Relias must not and does not intend to rely on a strong partner alone. The revenues of the largest online learning provider in the U.S. healthcare industry are already growing by 20 percent annually, and profits are regularly surging by 30 percent. The team has grown to almost 300 employees. And they all have their desks full. In 2012 there were 15 salespeople; today there are 60. In 2014 alone, two million users of the Relias platform completed a total of 25 million courses. The 20 courses originally offered have soared to 2,500. Every year, between 600 and 800 new courses are added, and of course all the others are always kept up to date.





Handicap  
Parking  
NO OTHER  
VEHICLES

NO PARKING

The Relias headquarter

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*... in the research triangle formed by  
the cities Cary, Raleigh und Durham.*



When asked about the secret to the success behind these impressive figures, CEO Jim Triandiflou cites four factors: “First, we have the undisputed best product with the best content on the market. Second, Relias provides its customers with an extremely simple and intuitive software solution with clearly trackable reports. Third, we charge a fair price that allows us to continually reinvest in the product, and fourth, we retain our customers at Relias for an average of ten years, which means there is some predictability in our revenue planning.” He adds that Relias does not earn its revenues from a few big customers, but from 4,000 small and medium-sized healthcare providers whose average annual spend with Relias is \$15,000 each.

The strong fragmentation of the market with many thousands of other suppliers provides a first clear growth opportunity for Relias: “Our core market – i.e. online training for staff in senior care and the care of people with disabilities – has only been developed to 20 percent of its potential,” says Triandiflou. And this is in a country with an aging society, where every day 10,000 people are turning 65 – an age at which they may require support, care or nursing by other professional service providers in the near future. His sales teams still have a lot of work ahead of them – but it is also a big opportunity for the bell in their office to be rung many times yet. The CEO is not relying on growth in the core business alone, which accounts for 95 percent of sales: “On the one hand, we want to develop related segments in healthcare, such as training at hospitals, doctors’ offices, clinics or pharmacies.” And on the other, and especially since its acquisition by Bertelsmann, Relias is pursuing regional expansion plans. “We want to gain a foothold in Europe by the end of 2015,” says Triandiflou. “Then in China.”

Despite its very realistic growth plans and past track record, for Relias the business of health has always been more than just a business. “Our mission and the knowledge that we are helping others through our work attracts many employees, even though they might earn more in other industries,” says Mike Mutka. His CEO adds, “Of course, this is a business, and a profitable one. But we know that we are training people so that they can help others. We know that by

doing this we are having a positive impact on the quality of life of the most vulnerable. And each of us has relatives who are themselves dependent on well-trained caregivers. All of that brings a special kind of inspiration to our work, not to mention the fact that we get to work with really nice people on the client side.”

## ———— PARTNERS & CUSTOMERS ————

These “really nice people” include Relias customers on the one hand, and the company’s partners on the other. The latter are major associations and organizations, most of which are based in Washington so that they can impact on the U.S. government’s health policy decisions. The National Council, headed by Linda Rosenberg, represents more than 2,300 member companies with a total of 750,000 employees, so she knows what she’s talking about when she refers to continuing training and lifelong learning as the key to a successful healthcare system: “Only through better training can we close the glaring gap that still exists between scientific findings and what patients actually receive.” For Rosenberg, only online education can ensure such continuing training. “In 2002, we ourselves tried to develop a learning management system for our members, but failed completely.”

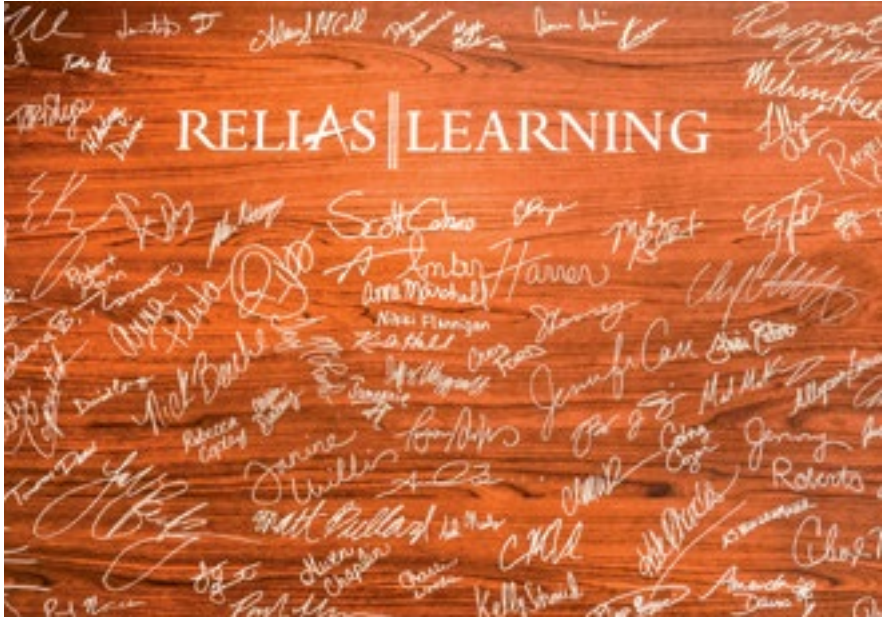
So the National Council looked for companies who had such software platforms in their program and concluded that Relias was the partner of choice – for the Council and its members. “Relias is creative and innovative. The team responds very flexibly to new requirements, and the system is as intuitive as it gets,” says Rosenberg, who has not the slightest doubt that such continuing training will increasingly continue to relocate to the digital world and eventually be completely online: “You can learn when you want, where you want, and how you want,” she says, praising the flexibility of online learning. For companies, this means more time for patients, significant

cost savings and simpler organization. For employees, online education also fits perfectly into their own living environment, which is increasingly dominated by smartphones with corresponding mobile services. While some people read e-books on the commute to work, others could use the time for taking a continuing training course.

Asked about the importance of online learning, Barbara Merrill, CEO of the American Network of Community Options and Resources (ANCOR), the national trade association for companies that provide community living and employment supports for over 500,000 people with intellectual and developmental disabilities, goes a step further: “Our members support people with complex medical conditions and behavioral challenges, and must comply with increasingly complex federal and state rules. Because it is much more efficient, cost-effective and takes substantially less time than traditional learning, digital continuing training reduces errors, improves service delivery, and most importantly, helps improve the quality of life for people with disabilities in the United States. This improvement saves lives. Every day.” Her colleague Marsha Patrick clarifies, “We are independent and not tied to any supplier.” But, she adds, “Relias represents the gold standard in our industry. Our members overwhelmingly report very high satisfaction with Relias training, and we recommend it without reservation to our members.” The content and system are equally persuasive, she adds. “The training certificates are accredited, and Relias offers its clients all the necessary services from the curriculum to certification and reporting from a single source.”

Sean Riley, Vice President, Extended Care Marketing, at McKesson Medical-Surgical – the leading provider of supplies to the United States post-acute care market – recommends Relias to his customers. “Relias has great reach in the United States and offers clients individually customized solutions. Besides, the system is very flexible, which is great when meeting new regulatory requirements for employee training is a constant need.”

The ever-changing and -intensifying legal and regulatory requirements alone make continuing training a must, says Trudy Jacobson, Senior Executive Officer Development & Marketing at The Arc, the



“Learn  
when you want,  
where you want  
and how you want”

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Linda Rosenberg, CEO National Council

oldest and largest organization for people with intellectual and developmental disabilities (I/DD) in the United States. In addition to the national office in Washington D.C., there are 670 affiliated state and local chapters throughout the country. “Almost daily there are new findings or regulations that direct service and support staff have to be aware of. Conveying the content online makes usage much more likely,” she says, which is why she feels the breadth and depth of Relias’ content is as important as the system’s adaptability.

As Jacobson sees it, ultimately online learning supports the general social developments of recent years in the U.S, which she is very happy about: “The days when people were put in homes and hidden away because of their disabilities are finally over. Such institutions are being closed. Families are encouraging relatives with disabilities to live in the community of their choice so that they can lead a normal life among them. Many are supported by professional caregivers, who often have relationships with their patients over many years. That’s exactly the right path – but the service process is constantly evolving and in many ways, we are only just learning how to address people with various disabilities properly. Continuing training helps this process. And so does Relias.”

Linda G. Colleton agrees completely. As Vice President Education and Clinical Standards at CareOne & HealthBridge Management, she is responsible for the continuing training of its 10,000 employees in skilled nursing centers along the east coast. The Relias client confesses that no traditional training could do what Relias does: “The most important argument for our entirely positive evaluation of the collaboration with Relias after one and a half years is the fact that all of the training is standardized. This means that every employee gets the same course, the same content, and the same certificate of training. This helps ensure standards and quality in patient services more than anything else.”

CareOne & HealthBridge Management is not alone in this assessment of Relias. The vast majority of customers share this opinion. Nobody knows this better than Sam Dewey. From his training and background as a man of figures, he regularly surveys customer sat-

isfaction at Relias. The results are impressive: “Each year we carry out 120,000 customer surveys. 95 percent of our customers indicate that they are completely satisfied with Relias. This is an outstanding rating for a software company.” Word of this customer satisfaction rating has spread and is bringing Relias new customers every day – alongside targeted acquisitions in sales and marketing. And so the bell over the cubicles repeatedly rings for closed deals and for a moment makes one of the team a hero cheered by all the others. And yet Relias employees don’t want to be heroes themselves. “We would much rather help others become heroes through Relias,” says Eric Masters, Vice President Marketing, revealing his company’s real, unwritten mission, “that all of us here work to fulfill.”

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The Relias Learning Story

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The mortarboard

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*... represents the quality in healthcare training that Arist Learning Solutions has made its mission.*

# **The Third Way**

**The Arist Story**

**G**overnment and non-profit educational institutions in the United States are no longer able to meet the challenges of higher education on their own.” It was this far-reaching important insight that sounded the starting signal for the construction of the international university network Arist Education System in 2014. Headquartered in Denver, Colorado, Arist is part of Bertelsmann’s new Education division. In February 2015, Alliant International University in California became the first university to join Arist. Other educational affiliates, including B2C and B2B educational service providers, will follow.

The opening quote comes from an expert who knows all about the economic prospects of colleges and universities in America: Arist founder Dave Figuli. In a career in higher education spanning more than 30 years, he has represented and advised numerous universities, associations and investors as a lawyer and corporate development expert. And no one in the entire United States has supported more successful transformations of universities from non-profit organizations into for-profit companies than he has.

It is beyond dispute that there is a big need for change in U.S. higher education; the educational and general-audience media have chronicled the issues facing academia, and commentators have suggested a host of solutions. The need for thought leaders resourced to inspire and direct that change is what led to the creation of the University Ventures Fund (UV), a private equity fund focused on innovations from within higher education. It was a desire to build a global education business that would have a positive impact that caused Bertelsmann to become the lead and largest investor in UV in 2011.



“There is a  
tremendous need for  
well-trained healthcare  
specialists – all  
over the world”

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Dave Figuli

Dave Figuli was one of the fund's founding partners and the driving force behind its leading investments. "At the time, I had drawn up a list of possible areas where I thought we could inspire change that would have a global impact – and education in the healthcare sector was the most appealing," Figuli recalls. As he pursued this idea further, it quickly emerged that the project was too large to be realized as part of a fund like UV. So, in September 2014, Figuli teamed up with Bertelsmann to establish the Arist Education System, a network of universities and educational service providers focused on improving global healthcare by reforming global healthcare education.

"There is a tremendous need for well-trained healthcare specialists at all levels in the health industry – all over the world," says Figuli, explaining the rationale behind Arist. "And technology is undergoing a profound transformation, which opens up completely new possibilities for training in this area." He says the task at hand for Arist is to combine knowledge and technology to offer students the best possible and most effective degree course. "And it works worldwide," he says. After all, the human body and its care needs are the same everywhere.

The first educational institution that Arist welcomed into its network, in February 2015, was Alliant International University, with seven campuses in California and one each in Tokyo, Hong Kong and Mexico City. Alliant has more than 3,700 students and specializes in mental health: in particular, training psychologists and behavioral scientists, a sector in which Alliant is one of the leading U.S. universities. It also offers degree programs in human science disciplines including business administration, education and justice, and will soon add programs in healthcare management and informatics. Alliant is particularly promising for Arist, as all experts expect a significant increase in the demand for well-trained psychologists and therapists in the United States. "On the one hand, this expected increase is due to demographic change, and on the other, President Obama's healthcare reform, the 'Affordable Care Act', provides that anyone who is medically insured is also entitled to mental health therapeutic services," explains Figuli. "For Alliant, this means a dramatic market shift with great opportunities for students who have been the traditional graduates of Alliant."

## — PIONEERING ROLE —

Before Alliant could be part of Arist and therefore of Bertelsmann, however, the university had to first change its legal form from a non-profit structure to a shareholding form. This follows a nationwide trend that has been shaking up the entire U.S. higher education system in recent years, where economic problems are increasingly prompting non-profit colleges to change their organizational form to for-profit organizations and bring financially strong investors and their capital resources into the ownership structure and the boardroom. This development has sparked much debate and political furor among the general public and higher education regulators of the United States. However, after careful consideration Arist and Alliant have taken another path, a third way – and have thereby taken on a pioneering role for the entire industry. They chose a new form of organization for Alliant – that of a “benefit corporation.”

Benefit corporations are profit-oriented, but also committed to the common good. They make a valuable contribution to society and are monitored in this connection. In the case of Alliant, the first-ever U.S. non-profit university to be converted into a benefit corporation, factors such as the quality of the degrees awarded, the impact of the university’s operations on the employees, community and the environment, and most especially the outcomes achieved by its students are regularly assessed and validated by an independent agent.

“Benefit corporations are much more transparent and reliable than pure for-profit institutions, which gives our ‘third way’ an entirely different credibility,” says Figuli. This credibility is important for Arist’s public image, and is also an important argument in negotiations with the recognized supervisory authorities – in Alliant’s case the Western Association of Schools and Colleges, which is also responsible for the accreditation of college and university degrees in California and the western part of the U.S.

The establishment of benefit corporations is now possible in 28 U.S. states, as well as in other countries, with California law, which Alliant operates under, placing the highest demands on them. The demands



Members of the Arist and Alliant leadership team (from left):

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*David Mohr (CFO Arist), Jeffery Keith (Alliant Board of Trustees, Chairman & Board of Directors member), Doug Keiller (Chief of Staff Strategy & Arist), Sue Wierenga (CIO Arist), Bob Haimes (CEO US Arist), Ricardo Phillips (LATAM CEO Arist), David Figuli (Executive Chairman Arist), Geoffrey Cox (Alliant President), Russ Newman (Alliant Provost & Senior VP for Academic Affairs)*





that state legislatures place on benefit corporations are, however, naturally and commonly fulfilled by a university, says Figuli, so the connection is a “natural fit.” As he says, “This is what we are about in academe.”

## ———— ALLIANT MEXICO ————

From Arist’s perspective, together with the recognized quality of the degrees, the university’s international character is one of Alliant’s great advantages. Alliant’s campus in Mexico City is of particular interest to Arist. “In addition to the United States, we definitely want to expand in Latin America,” says Figuli. And Alliant Mexico provides such an excellent platform: 533 students are enrolled in one of Alliant’s psychology degree programs at the University’s campus in the Mexican capital. “Alliant Mexico provides very substantial growth opportunities,” says Ricardo Phillips, CEO of Latin America at Arist. The appeal of studying here is partly explained by the fact that degrees acquired here are recognized in both Mexico and the United States; the students actually receive a dual degree. “We take advantage of this in all of our marketing measures and in the development of new academic programs,” says Phillips.

But Arist didn’t stop there. Just a couple months after Alliant joined the Arist network, the teams of both companies set about expanding the campus in Mexico City – and simultaneously expanded Alliant’s overall spectrum of degree programs. Acting quickly on an opportunity that was presented, a commitment was made to provide the financial resources and operations expertise to found a new medical school, St. Luke’s Medical School. In a matter of months the School was funded, a management team hired, facilities leased and refitted for a medical school, and the first students enrolled. This rapid realization was possible due to a unique partnership with the National Autonomous University of Mexico (UNAM), and its medical school. “UNAM medical school is by far the best medical school in Mexico

and one of the leading medical schools in the world,” explains Ricardo Phillips. UNAM provided the authorizations, curriculum, faculty resources and branding required to facilitate the successful launch in such a short period of time. St Luke’s will not only operate within the standards of UNAM but it will also award UNAM medical degrees.

St Luke’s Medical School opened its doors to the first class of medical students in time for the start of the new academic year on August 31, so that by the end of its second year of operations, the Alliant medical campus in Mexico City will already be populated with some 500 students. Due to the rapid growth in the student population, the medical school will operate out of a new campus facility in a former design school that is one of the most beautiful academic buildings in a prestigious area of one of the largest cities in the world. “This is just the beginning,” says Phillips. “We’re already planning additional degree programs and other campuses in other key cities in Mexico.”

## — ARIST LEARNING SOLUTIONS —

The introduction of new degree programs and the expansion of Alliant’s existing degree programs to new locations would be unthinkable without Arist’s support. “We are actually building a new university together,” says Dave Figuli. He says that Bertelsmann’s commitment to building the best possible university for students in the 21st century is nothing short of remarkable. And the advantages Arist offers its universities extend far beyond financial aspects. Other aspects include the introduction of modern management methods, state-of-the-industry technological resources, and above all, the support provided to the universities by the Arist subsidiary Arist Learning Solutions (ALS), a new division that was launched this year to provide online and other educational technology and innovative learning delivery solutions, both business to consumer and business to business.

“Arist is investing a lot of money in ALS this year and will continue to do so in the next few years,” declares Arist CEO Bob Haimes. “These initial investments ensure that we have the necessary in-house expertise to provide our universities with exactly the tools they need.” ALS’s services extend far beyond the establishment of online courses; the Arist subsidiary also supports universities in attracting new students, i.e. in marketing, as well as in taking care of the students. Haimes says that for universities this is one of the greatest benefits of belonging to the Arist network. “Universities no longer have to make the necessary investments in these tools themselves – they use ALS and pick and choose whatever they need.” Incidentally, another U.S. education company in which Bertelsmann owns a stake – the service provider Synergis – is also involved in developing content for Arist Learning Solutions.

## MARKETING IS KING

While Alliant enjoys an excellent reputation among psychologists, it is not well known among the general public. “What we do, we do very well. We have an excellent, renowned offering, but we need to work at being better known. We have to present our strengths better,” says Tracy Heller, Vice Provost at Alliant, which makes her one of the people responsible for the university’s academic operations. Here, too, Arist provides help and support. “Until now, Alliant has mainly highlighted its individual locations,” says David Eby, Chief Marketing Officer at Arist. “Now we are working together to strengthen the Alliant brand as a whole.” The former focus on individual locations was mainly due to the different courses each site offered. “We will gradually expand the range of courses offered at each site,” says Alliant President Geoff Cox. “The goal is one day to be able to offer all degree programs at every site.” The first steps in communicating the brand have also been taken already: In May, a completely redesigned Alliant website was launched, which reflects the new focus on the

brand. Also in May, a large-scale marketing campaign was launched to attract potential students.

In the years ahead, Arist and Alliant will focus on growth at all levels. This not only includes the aforementioned construction of a medical school in Mexico City, but Arist and Alliant also want to build their own School of Health Sciences in the United States, open new locations and integrate other universities in the Arist network. “We want to expand in the U.S., especially in the southwestern states and the Midwest,” says Figuli. And not only there: Arist is also working on its further expansion in Latin America. For example, Figuli says potential acquisitions in Brazil, Peru and Chile have been reviewed. Panama is also a promising country for developing a multinational medical and health school that will attract students from the U.S. and parts of South America. Collaborations with major healthcare providers and hospitals offer further growth opportunities, and talks about this are underway in the U.S., Latin America and also in other places like China.

This much is clear: Arist has big plans. And they are only possible thanks to Bertelsmann’s support, as Dave Figuli is quick to emphasize: “For Arist, Bertelsmann is much more than just a financial backer – the company has enormous intellectual capacities. It’s a global company that places value on stability and long-term planning.” Given its special ownership structure with the Bertelsmann Foundation as its largest shareholder, Bertelsmann is also a very desirable and suitable partner for a network of benefit corporations and universities under the Arist umbrella, says Figuli. “Thanks to Bertelsmann, we can seize our opportunities and think big.”



The basketball hoop

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*... is mounted in the large gym on the San Diego campus – Alliant International University has all the characteristics of a proper university.*

# **Learning To Help Others**

**The Alliant Story**

**S**outhern California – for most people this conjures up images of sun, sand, palm trees and the iconic music group The Beach Boys. But for students of Alliant International University, which has been part of Bertelsmann’s new Education division since February, it primarily represents the chance for a promising, challenging, fulfilling and, just as important, well-paid career. They didn’t choose Alliant’s largest campus, in a hilly part of San Diego, because of its great climate; they are here because it offers them a quality university education in the fields of psychology, health and human sciences at one of the best and most renowned colleges in California. In any case, the 1,500 students at San Diego would not have much time for surfing under the Southern California sun, due to the demanding curriculum.

“Alliant is probably unique in the U.S., because the entire university was built around the theme of professional vocational training,” says Geoff Cox, President of Alliant International University. You won’t find traditional university degree programs such as history, English, or literature here. Instead, the curriculum is all about practical training for psychologists who can then go on to work as therapists, for example. The degrees offered here range from applied criminology and clinical psychology to family and couple therapy, organizational psychology and neuropsychology. However, degrees in business administration, law or leadership can also be acquired in San Diego, or at one of the other nine Alliant campuses. The vast majority of courses are for post-graduates, so they come after an existing degree, such as a bachelor’s.

Alliant International University earns the vast majority (94 percent) of its annual revenues of around \$60 million from its 3,700 students’



Geoff Cox

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*As President, Geoff Cox manages the fate of  
Alliant International University.*



tuition fees. On average, it takes five to six years of study to obtain a doctorate, costing an average of \$23,000 a year. A two-year master's degree costs students \$32,850 annually, and a four-year bachelor's degree \$19,800 per year on average. The largest contributor to Alliant's revenues (71 percent) are the tuition fees from the psychology degree programs. Other revenue sources include the renting out of dorm rooms, and the subletting of some spaces to other businesses.

## ———— A TRADITION OF INNOVATION ————

The courses' practical approach described by Cox, which distinguishes Alliant and dominates the whole atmosphere of the university, can be explained by the company's origins. Alliant was formed in 2001 from the merger of two renowned, independent universities: the United States International University and the California School of Professional Psychology. The latter was founded in 1969 by practitioners for practitioners – a revolution in education at the time, but one that soon found numerous imitators. “Until then, universities had focused on research, and the practical training of psychologists was treated as a stepchild,” says Cox.

The legacy of the United States International University, whose roots date back to 1927, is also still evident. In addition to the large campus in San Diego and the six others in California – Los Angeles, Sacramento, Fresno, Irvine and two in San Francisco – Alliant International University has locations in Tokyo, Hong Kong and Mexico City. And while Tokyo and Hong Kong are smaller institutions with individual psychology degree programs, Mexico City now has around 700 students and is the second largest Alliant campus (after San Diego), followed by Los Angeles with 600 students. “The idea behind the United States International University was that students can learn a lot from each other through international exchange, and we still believe this today,” says Cox. This is also reflected in the figures: The students not

only come to Alliant from every U.S. state, but more than 75 nationalities are represented at the various campuses.

This historical background explains the university's self-image – it sees its training programs partly as a service to the community, and is very proud of this. “At Alliant, students learn to help others,” says Geoff Cox. This starts during the degree program: Internships and projects are designed to help local people. “We place great emphasis on our initial engagement with a community to identify the actual problems and needs,” says Tracy Heller, who as Vice Provost at Alliant is responsible for the academic management of the university. “Our projects are not imposed on communities from the outside; they are developed together with the communities.” For instance, a successful Alliant project in Vietnam not only produces valuable research results, it also provides very specific healthcare assistance to local people. As the university highlights on its website, Alliant student communities around the world together provide more than a million hours of community service a year.

## — EVERYTHING EXCEPT A FOOTBALL TEAM —

Although Alliant mainly offers practical postgraduate courses in San Diego, Jose Garcia, the university's Chief Facilities Officer in San Diego, who accompanied us on a tour of the large campus in the Scripps Ranch district, quickly remarked that Alliant International University is a proper university with everything that this entails. Garcia runs a team of eight janitors and technicians who take care of the maintenance of the entire facility. And there is plenty to do, starting with the hangar-sized sports hall, which covers an area of 60,000 square feet (5,600 square meters). “Great floor,” says Garcia proudly, pointing to the highly polished wooden floor covering the entire hall, where some basketball players are currently training. They even have their own football field, but not their own football team – the pride and joy of



Mascot

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*A proper university needs a mascot, of course –  
in the case of Alliant International University,  
a mountain lion.*

so many colleges in the U.S. “I think I’d have to quit if they did,” says President Cox, with a smile when the topic is raised.

Alliant students share the sports hall with students from EF, an international language school that rents some of the Alliant facilities, including some of the student dormitories, which can house a total of 450 students. A room here costs students, or their parents, \$1,200 a month, which includes full board in the university cafeteria. “Students in San Diego could hardly live as cheaply elsewhere,” says Garcia.

For their money the students not only get accommodation and meals, there are also two pools at the dorms and a student center with a pool table, large TV and video game consoles. “Sure, there are lots of parties here, of course,” smiles Garcia. “They are students, after all.” Accordingly, he and his team have a lot to do, not only with various repairs, but also enforcing compliance with campus traffic regulations and tending to the green areas. And this also adds up to quite a lot of responsibility: The entire grounds in the Scripps Ranch neighborhood, one of the city’s wealthiest, covers 28 hectares (70 acres).

Of course, the core of the university is formed by the various teaching buildings, like Daley Hall, Zable Hall and Green Hall, the administrative offices, and especially Walter Library, with its numerous computer workstations, which are becoming increasingly important for study as more and more content becomes easily available online. And so one of the first measures after the change of ownership was to modernize these workstations. However, there are fewer and fewer physical books – their number was almost halved recently – and not for financial reasons. “We filtered out all the books that had not been borrowed in the past five years,” says Garcia, impressively demonstrating the increasing shift of training to the online realm.

However, some new print books are bound to be given a place of honor in future, because for the first time Alliant will be publishing its own reference books under the Alliant International University Press imprint, a venture made possible by a partnership with the Penguin Random House U.S. self-publishing company, Author Solutions. The new publisher will publish at least 16 books a year, including the works of lecturers and particularly salient doctoral theses.





The San Diego Campus

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*The San Diego campus of Alliant International University is located in Scripps Ranch area and covers 28 hectares.*

Walter Library isn't the only change since Alliant joined the Arist university network this February. Arist, headed by Dave Figuli, a veteran of the U.S. higher education scene, is part of Bertelsmann's new Education division. Together, the Arist and Alliant teams immediately proceeded to resolve the university's existing backlog in investment. "We began by bringing the university's technical systems up to date, basic things like the Wi-Fi network on campus, the email system and the computer workstations in the library, all of which directly affect the working conditions of students and university teachers," explains Nelis Parts, Vice President of Finance and Administration at Alliant. Other renovations pending in San Diego include those relating to the university's green areas, lighting and parking. "Overall, the investment this year alone is five to six times higher than the average of recent years," says Parts.

## ———— WORKING IN LOCAL COMMUNITIES ————

Buildings are significant, but a much more important asset for Alliant International University are the people who work there, teaching and doing research. People like Glenn Lipson, for example, a professor at Alliant's California School of Forensic Studies. Lipson is a school violence and sexual abuse prevention expert, who has not only supported prevention projects at schools in the U.S., but also in Scotland, for example. Moreover, the professor is a recognized courtroom expert. "However, money doesn't bring people back, so prevention is the most important thing," says Lipson. He has been dealing with the issue of violence prevention since his youth. "When I was a child, my grandfather was murdered – and I wanted to know why people do such things," says Lipson, explaining his motivation to become a psychologist.

The scientist is also co-founder of the "Making Right Choices" initiative, which aims to prevent sexual harassment and sexual abuse at schools in the United States by means of specially developed online training. Lipson was also involved in the formulation of a recently

introduced nationwide code of ethics for teachers – the first of its kind worldwide. He is currently planning a new project, in which parents can inform themselves relevant to their schools about their children's behavior and comments online. "Violence in schools, even killing sprees, are often signaled online beforehand," says Lipson.

Another example of the various Alliant faculties' social commitments is Professor Susan Regas from the California School of Professional Psychology. Thanks to her initiative, Alliant students are involved in the Ronald McDonald House Charity in Los Angeles. Ronald McDonald houses were built near large children's hospitals to allow families in need to be close to their sick child. In the on-site program developed by Professor Regas, Alliant students have the opportunity to help provide the local psychological support for families and the organization's employees. The program now includes places for six trainees, a postdoctoral student, and many students who work at the Ronald McDonald House in Los Angeles. "Traditional psychologist training assumes that a single person is treated, but in fact there is a growing need for family and couples therapy," explains Regas. "We offer one of the largest programs in the country with precisely this focus."

A third example that especially highlights the international commitment of Alliant professors is the "Listening to Dragonflies" project, which Professor Suni Petersen from the California School of Professional Psychology is conducting together with students in Vietnam. The aim is to bring about lasting changes that improve the health of local people through training and awareness. In the past three years, Professor Petersen has made three trips to Vietnam, two of them with students, to educate the inhabitants of a village in health matters. She accompanied this with extensive research to document methods and results. Among other things, selected villagers were trained as health advocates, after which they visited a total of 150 families in the village four times each to give advice on healthy behavior in the home and examine elderly villagers for signs of high blood pressure or depression. In addition to this, the students held workshops with nearly 300 primary school children to practice simple health measures such as regular hand washing.



## — ALLIANT GOES ONLINE —

These examples show how strong Alliant is in the practical on-site training of students. However, despite all its possibilities, an online degree was basically a non-issue for the university before the merger with Arist. “Before Alliant joined Arist there were just one or two online courses at the most,” explains Geoff Cox. Now the university is working on offering numerous courses online as well, he says.

The list of programs that are anticipated to be offered online in the next 18 months range from a master’s in business administration and leadership to applied criminology, organizational psychology, forensic leadership and educational leadership. This is only possible due to the support of Arist, because the advantages that the Bertelsmann subsidiary, which was founded in September 2014, offers its universities go far beyond the financial aspects: They also include the introduction of modern management methods at universities, building an adequate IT infrastructure, and especially the support that the Arist subsidiary Arist Learning Solutions (ALS) offers universities, helping them to do things like put learning content online in a modern and professional way.

## — THE BENEFIT CORPORATION —

The biggest change following the acquisition of Alliant by Arist last February concerns the university’s organizational form. Alliant changed its form from a non-profit organization – but unlike many other universities in the U.S. it did not become a purely for-profit organization, but the first university in the country to become a “benefit corporation.” Alliant and Arist have thus assumed a pioneering role for the entire education sector in the U.S. “A benefit corporation means that we want to make a profit, but that we also provide quantifiable added value for society,” says Alliant President Geoff Cox.



## History

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*Alliant International University has long history: Its two predecessor institutions, the United States International University and the California School of Professional Psychology, were founded in 1927 and 1969, respectively.*

“As a benefit corporation, we are much more transparent than any for-profit college”

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Geoff Cox

This involves factors such as the quality of the degrees awarded or also how many students graduate from the college in the end. These and other features are regularly inspected by an independent institute. “We are much more transparent than any for-profit college,” says Cox. “We are very proud to be the first to have taken this step,” notes the university’s President, who is grateful for the support provided by Arist and Bertelsmann. “It means a lot to have a shareholder who regards commitment to the community to be as important as profit,” he says.

Russ Newman, Provost at Alliant, which makes him responsible for the academic management of the university, sees the transparency of a benefit corporation as a distinct advantage. He says it ensures that completely unexpected bankruptcies of for-profit universities – e.g.

the collapse of Corinthian Colleges last year – can be avoided. The benefit corporation is a good model for smaller universities with few resources of their own, he says. Another advantage of a benefit corporation is that thanks to this legal form, Alliant can simultaneously operate an independent non-profit foundation, one that manages donations, for example. “The benefit corporation combines the best of both worlds, so to speak,” says Newman. So Arist and Alliant have received much applause for this step: on the one hand from education industry associations, and on the other from the respected supervisory authorities, in this case the Western Association of Schools and Colleges, which among other things is responsible for the accreditation of academic qualifications in this part of the U.S.

Transforming from a non-profit organization to a benefit corporation was not without controversy within the university. “We discussed this subject very intensively with the faculties for a year, and had to do a lot of persuading,” recalls Vice Provost Tracy Heller. “The changeover to a benefit corporation then led to a very positive sense of expectation within the university. This step allows us to increase our skills and continue to enhance the quality of our programs,” she says, adding that this was the only way that Alliant International University could become the best university in its field. “And if you are the best, everyone comes to you.”



The Founding Desk

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*Norm Allgood himself knocked it together when he first started Synergis. The desk still stands in his office today.*

# **Education In The 21<sup>st</sup> Century**

**The Synergis Story**

**H**ad Norm Allgood's previous employers been a little more far-seeing, the successful education services provider Synergis, whose main shareholder is Bertelsmann, would probably not exist today, and Allgood wouldn't be running his own company from a corner office on the ninth floor of the Bank of America skyscraper in Mesa, Arizona, with a fantastic view of the booming metropolis of Phoenix.

In 2010, his former employer, one of the largest for-profit education providers in the U.S., had no real interest in offering its many courses online, although Allgood, who had been a rather successful regional Vice President of the company, was actually brought from his hometown, the automobile city of Detroit, to corporate headquarters in Phoenix for precisely this purpose. "I was supposed to develop a digital strategy, but in the end no one was really interested in it," says Allgood, 46, who still cannot really understand why. This pretty frustrating experience prompted him to leave the company and join a small, expanding education provider that specialized in the further qualification of professionals to become nurses or caregivers. "Basically, I moved from the largest for-profit education providers in the U.S. to the smallest," says Allgood.

## — THE SYNERGIS PRINCIPLE —

Nevertheless, this timing was extremely valuable for Allgood, because it was during this phase that he developed the basic idea for Synergis. In both of his former jobs he had repeatedly noticed how inefficiently colleges used their existing physical classroom resources. For instance, colleges offering healthcare were only using their classrooms and buildings during the day from nine a.m. to five p.m. Conversely, colleges offering graduate programs were only using their classrooms and buildings during the evening hours from six p.m. to ten p.m. In either scenario, the cost was incurred around the clock. Allgood's idea was to use the existing infrastructure to offer full-time healthcare and graduate-level degree programs, at the same facility, during the day and in the evenings. Additionally, why not launch the recruitment efforts for online degrees from the same brick-and-mortar locations? More importantly, why limit your offerings to just face-to-face and online learning? Why not introduce partly online “blended learning” degree programs to increase the potential number of degree programs that could be offered to students? A mix of these three forms of study – “face to face,” “online” and “blended” – is now the underlying principle at Synergis. Visitors encounter it at every turn under the heading “3 Modality.”

At the time, in late 2010, Allgood suggested a pilot project as a collaboration between the colleges that he worked with at his former employers and his new employer, but once again no one was really interested. Which is where the education fund University Ventures, whose main investor is Bertelsmann, entered the picture. Ryan Craig, one of the founders and Managing Directors of the fund, had originally wanted to offer Allgood a job. The two started talking about Allgood's idea and Craig asked him to pitch it to the fund. Then everything happened very quickly: In May 2011 Allgood presented his idea, and the fund was immediately persuaded. In July, Synergis Education was incorporated. In November of that same year, he flew to Bertelsmann in New York and met, among others, Thomas Rabe, CFO at that time, whom he was also able to win over to his idea. “Bertelsmann was a great and very helpful partner for us from the beginning – initially via University Ventures, and later directly,” says Allgood.





“Bertelsmann was  
a great and very  
helpful partner for  
Synergis from the  
beginning”

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Norm Allgood

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### THE “FOUNDING DESK”

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Like most start-ups, Synergis also began small: “At the time we had three employees, including myself, and we sat together in a room that was maybe half the size of my current office,” says Allgood. The desk that he made himself and affectionately calls the “founding desk” still serves as reminder of these early days. Allgood, whose grandfather was a carpenter, had knocked together this desk, partly to save money, but also to have a desk big enough to stretch his legs under, because he is 2.01 meters (6.9 feet) tall. In his youth he played basketball, of course, a fact underscored by his repeatedly broken little finger.

The days of small offices are ancient history now. Today, Synergis covers half a floor with an area of over 1,000 square meters (11,000 square feet) in the skyscraper in downtown Mesa. From his corner office, Norm Allgood has a spectacular view of the mountains surrounding Phoenix, including the Superstition Mountains, where gold diggers still try their luck. But he also has a clear view of the University of Phoenix, the largest private university in the U.S., which was founded in 1976 by Allgood's former employer. "Phoenix has become something of an education-industry hub. You'll find no fewer than 19 successful companies in the education business," says Allgood, explaining why he decided to base Synergis in the city, or rather the neighboring community of Mesa.

## — FIRST SUCCESSES —

Just six months after its establishment, in February 2012, Synergis signed its first service agreements with two universities: Averett University and Cornerstone University, Allgood's alma mater. Synergis re-developed and helped to deploy eleven refreshed and new attendance degree programs for these universities within a short time. They began in the new academic year in September 2012, and had already earned the start-up \$1.7 million dollars in revenues by year-end. From then on things went in just one direction: straight up. The staff has grown from three employees to 129, and the company now counts not two, but nine partner universities. The original eleven degree programs have surged to become 65, which are attended by more than 3,500 students. And Allgood is targeting revenues between \$25 and \$30 million this year.

Nine partner universities, 65 courses, but no course or offering are the same – something that's very important to Allgood. "We always examine every degree program that is to be brought online, for example, as well as the students who take these courses," explains the head of Synergis. "Only then do we decide with the college faculty which form



Comprehensive offer

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*Synergis is involved at nearly every stage of an academic career – even working with the faculties to develop the curricula for new degree programs.*





View out of the window

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*From his office window, Norm Allgood looks out directly onto the University of Phoenix, the largest private university in the U.S.*

The Synergis offices

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*The Synergis offices are located on the ninth floor of the Bank of America skyscraper in Mesa, Arizona.*

and what mix make the most sense.” For this reason, most Synergis employees work on-site at the universities. Only 45 employees work at head office, and an additional twelve at the Synergis subsidiary Artium, a specialist in higher education marketing, in Chicago.

Convincing the staff and teachers of a university about the Synergis offer is not always an effortless task, says Allgood. When they first contact the various faculties with which they are to co-develop the content of a new degree program, his team often encounters fear and prejudices: towards a commercial service provider, and against the often-unfamiliar online world. The establishment of a new part-time attendance degree program is usually a good first step to building confidence here, says Allgood.

## ———— “HIGHER – DEEPER – WIDER” ————

The partner universities benefit from their collaboration with Synergis on several levels. Allgood calls it “higher – deeper – wider.” “Higher” refers to the increased number of high-qualification degree programs at a university that lead to a doctorate, for example; “deeper” to undergraduate education no longer only being available locally, but online across the United States; and “wider,” because the same university can now train nurses, for example, during the day and then teach MBA (Master of Business Administration) students in the evening. “All offers must always center on the students and the quality of their education and degrees,” says Allgood. “We want to provide education for students of the 21st century.”

Synergis is involved from the beginning to almost the end of an academic career. The company works with the faculties to develop curricula for new degree programs. It organizes marketing and finds suitable students for new course offerings. To do this, in addition to its marketing subsidiary Artium, Synergis also operates its own small call center in Mesa. The company handles the student registration process

as well as payment transactions. And of course, the start-up provides the technical infrastructure for all of these processes.

IT plays a crucial role in being able to provide all of this and really giving partner universities the best offer and best mix of classroom and online learning. And the financial and human investment in this area is accordingly high. “IT is the glue that holds it all together,” says Allgood, because only by using powerful and flexible IT can the Detroit car enthusiast implement his version of the modular technology used in the automotive industry: “One platform, many models.” Ultimately, no university will receive the same duplicate service from Synergis – in each case, it is adapted to their needs.

Gwynedd Mercy University in Gwynedd Valley, a suburb of Philadelphia, Pennsylvania, is an example of the level of support Synergis can provide for traditional universities. Some 2,500 students are enrolled there. When Synergis signed the university as a partner in 2013, there was not a single online degree program and therefore not a single online student. Now 300 full-time students are already studying online. New attendance courses were also created, which are taken by 500 full-time students. And Synergis has just launched a new full-time nursing degree program for an “Accelerated Bachelor of Science in Nursing” together with the university; 30 students already enrolled in May and 60 more will be added to the new training hospital ward on-site in August.

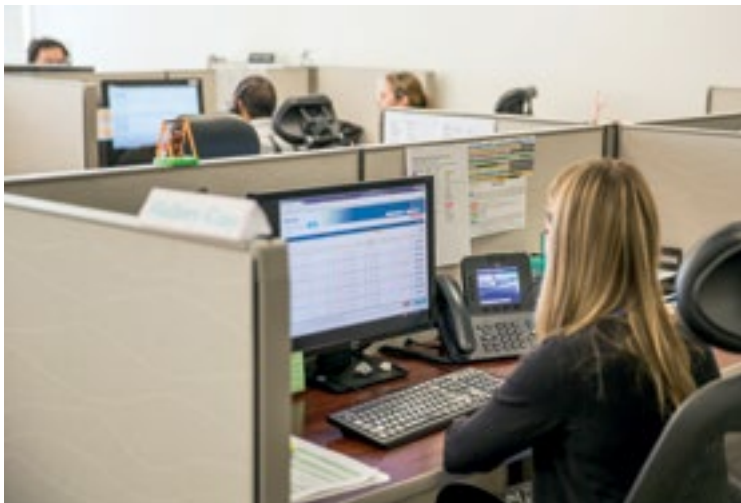
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## COMMITMENT BASED ON CONVICTION

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Norm Allgood believes his commitment for the extra occupational course is clearly rooted in his own background. Both he and his wife gained their bachelor’s and master’s degrees while working and bringing up two children. After high school, Allgood joined the U.S. Army and spent four years as a military police noncommissioned officer guarding U.S. military bases in different parts of the world in the late 1980s.





Call center

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*Synergis even maintains its own small call center in Mesa to advise students.*

He then worked as an executive with the retail chain Target, which was on an expansionist course at the time and had an enormous demand for managers. Target sent Allgood on a tour of U.S. universities to recruit such junior managers. That is when he first came into contact with the world of higher education, which would go on to determine his professional life – because he would later consult to one of the colleges, Cornerstone University.

At the same time, one of the professors at Cornerstone University urged him to not only help other employees get a university degree,

but to study for one himself, which he then did along with his wife. “It was a really exhausting time but like many other things in my life, it prepared me for later challenges such as the really strenuous founding phase of Synergis,” says Allgood. You can tell that he is accustomed to working a lot and being very focused – wasting time is not his thing, nor are long lunch breaks. “I’m a really fast eater,” says the Synergis boss apologetically after devouring the contents of a Burrito Bowl within a few minutes at his favorite Mexican snack bar near the office.

Four years after the launch of Synergis, he still travels a lot. “In the early days I was on the road for at least three to five days a week. Now maybe it’s eight days a month,” says Allgood, who nevertheless always takes the time to exchange some banter or a joke with his employees as he walks through the two open-plan offices. It’s clear that Synergis is a place where people not only work a lot, but also laugh a lot – the company has managed to preserve its start-up atmosphere.

In addition to the understanding of part-time degree programs he gained from his own experience, Allgood, a devout Catholic, is also guided by his Christian beliefs – and here he sees another connection to Bertelsmann with its Christian publishing origin. “The schools I attended in my own school days in Detroit were all excellent Catholic schools,” says Allgood, but none of these schools are there any longer – and he believes this is not only due to the dramatic financial situation of the city, badly hit as it was by the decline of the auto industry, but also to the schools’ inability to adapt to changing conditions. “One of my mottos is: You have to fix the roof while the sun shines,” says Allgood, but this is exactly where he feels many of these institutions have failed.

He also sees it as a task for companies such as Synergis to ensure that high-quality education is available to as many people as possible in the future. “We must ensure that working adults will still be able to complete a part-time degree in the twenty-first century, or we will eventually lose the entire middle class – and that’s just not an option,” he stresses. Synergis for one is clearly doing its part to make sure this doesn’t happen.



A webcam

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*... makes it possible to deliver content to Internet users all over the world – as Udacity does.*

# **Life- long Learning**

**The Udacity Story**

**R**adical change is nothing unusual for Sebastian Thrun, a computer scientist and robotics specialist from Solingen, Germany: such as when he gave up a rather interesting job as Professor of Artificial Intelligence at prestigious Stanford University in the Silicon Valley for what he believed was an even more interesting one as Head of Research at Google. Or when he made formative contributions to such groundbreaking and pioneering developments as Google Street View, Google Car and Google Glass. But he soon gave up his exalted position at the digital giant as well, for a new idea he believes will likewise revolutionize the world, this time in the field of education. His online education portal Udacity enables people in all parts of the world to pursue their professional development in a cost-effective, qualified, and above all, certified program – and to do so throughout their lives. It's a business that the 48-year-old IT professional believes has a great international future ahead of it, one which also excites Bertelsmann: In September 2014, the Group became a strategic investor in Udacity, an online university that now employs about 120 people and educates more than three million students.

Thrun, who was listed at #4 in the “100 most influential global thinkers” list published by the U.S. magazine “Foreign Policy,” leaves no doubt about his opinion what lies ahead for the world's education systems: “I expect nothing less than a revolution in the university landscape – and we are a key contributor to this revolution,” he says. “No one else is doing what we offer at this point.” Thrun is not only self-confident; he also radiates conviction. You immediately believe what he postulates – perhaps also because of his visionary development work for Google. If he doesn't offer thoughtful opinions about what the



Sebastian Thrun

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*Now CEO of Udacity, he was listed at number four of "Foreign Policy" magazine's "100 Most Influential Global Thinkers".*



Huge demand

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*The online university Udacity lets students study whenever and wherever they want – and acquire a certificate that is recognized by many companies.*

future holds, who does? And isn't education eventually bound to become a case in point in the all-encompassing digitization of society? One that people everywhere can benefit from? And that a company like Bertelsmann can successfully take to market?

## ———— 160,000 LECTURE ATTENDEES ————

In fact, the idea of Udacity was born rather casually from a shortcoming in the traditional university system. In 2011, Professor Sebastian Thrun and his colleague Peter Norvig gave a lecture at Stanford University entitled "Introduction to Artificial Intelligence." Because they believed that the lecture might be interesting to more than just the 200 students who could fit into the auditorium, they videotaped it and broadcast it on the Internet, where it was followed by not 250, 500 or 1,000 students, but by more than 160,000 people around the world! All of them wanted to hear Thrun and Norvig talk about artificial intelligence. In the end, some 23,000 viewers took an exam on the talk. This event was unprecedented. A revolution. And it triggered a flood of massive open online courses (MOOCs) at various universities. Suddenly, those curious participants from Europe, Africa or Asia could follow what had previously been reserved for a few students at a few U.S. universities.

And that is precisely where Thrun recognized an opportunity. It costs tens of thousands of dollars to study in the United States. For example, a student at Stanford pays more than \$50,000 a year just in tuition fees. Even less sought-after universities in the U.S. come at a hefty cost, ensuring that graduates start their careers burdened by debt unless they have sufficient cash or can obtain an often elusive scholarship. Thrun, meanwhile, describes education as "a fundamental right," similar to freedom of expression. Calling for the "democratization of knowledge," he set for himself the goal of providing inexpensive high-quality university education in the form of MOOCs – and founded Udacity. "U" stands for "university," and the remaining part of the word refers to the word



“I expect  
nothing less  
than a revolution  
in the university  
landscape”

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Sebastian Thrun

“audacity.” The program initially comprised IT courses, whose graduates were avidly sought after by renowned Silicon Valley companies, among others.

## ———— THE NEEDS OF BUSINESS ————

Initially the opportunity provided great euphoria. Udacity and many other quickly founded educational start-ups attracted students in droves. Millions enrolled online around the world. So far so good. But it soon became apparent that fewer than ten percent of all MOOC participants actually completed their studies. And those who persevered often had problems getting their online program recognized by other educational institutions and businesses. Thrun realized that his idea was not working. But Thrun would not be Thrun if he did not respond to this new challenge with his characteristic determination – by digging down to the core problem and coming up with a remedy. The large demand for IT professionals in companies around the world was undeniable, as were the insufficient training opportunities available in the IT sector. The students, meanwhile, lacked support and feedback. To receive this would incur costs – which Thrun believed students would be willing to cover.

Complementing this realization was the concept of aligning the online course content to correspond to the knowledge and skill sets required by the IT industry, even tailoring it to their needs – ensuring that the graduation certificates would be recognized by as many companies as possible. “Unlike most other online universities, whose curricula are set up to accompany those of traditional universities, we wanted to detach from these as far as possible and team up with business to build our educational offering,” says Thrun, explaining the shift from academic to vocational training. And when he says “business,” he means high-profile companies such as his former employer Google as well as Facebook in Silicon Valley. Thrun even occasionally refers to Udacity as the “University of Silicon Valley.” “Together, we asked ourselves what an



Good customers

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*Large corporations have Udacity train their employees for or on the job. Many of these companies are based in Silicon Valley – like Udacity itself.*

online course can provide, and what the right size and right packaging was for it,” says Thrun. Based on experience, offering traditional university degrees was out of the question, as it would require participants to commit to at least a year of full-time study. “Small, focused, and very specific training units that participants could undertake, while holding down a job, were better suited.” The “nanodegree” was eventually born from all these considerations and plans. The course work required for this degree usually takes six to nine months, depending on the student’s previous experience. It provides specific knowledge about web programming, big-data analysis, statistics or artificial intelligence, and leads to an accredited certificate to this effect.

## —— WIN-WIN-WIN SITUATION ——

Thrun sees his initiative as a win-win-win situation: Industry is involved in the content of Udacity’s curriculum and receives qualified technical specialists in return. Udacity receives fees from the industry for developing the right courses, and from students, who are happy to pay for this kind of practical, specific, and recognized training that practically guarantees a job or promotion. There is nothing like this anywhere else in the world, he says. And word has spread quickly. The names of the participating major B2B customers have long since attracted other companies: AT&T, General Electric, LinkedIn, Dell, and others now approach Udacity about booking or developing courses for their employees.

The concept of nanodegrees follows another insight that Thrun derived from the IT world, but whose validity he also considers a given for the entire education system. “Lifelong learning is the future. People will have to keep adding to their skills, because society, business, the whole world is evolving so quickly around them,” he believes. It will increasingly become the norm to change jobs: In the U.S., for example, the average employee changes jobs seven times during their lifetime; the median

length of employment is less than five years. The pressure and opportunity to continue your training has increased, he says. “And lifelong part-time learning is only possible through online training,” says Thrun. “How can someone study for a degree while working if the requisite university is far away? What with having a house, a family and a profession, they lack the necessary flexibility. “Online learning offers precisely this mobility and flexibility: people can learn what they want, when, and – not least – how they want. As a ‘non-linear’ format, it also accommodates different learning styles and speeds,” says Thrun, listing another advantage. One consequence of this is that student completion rates have increased to 90 percent, in some cases. They are rewarded for their efforts by the business sector’s growing acceptance of the graduation certificates.

## ———— NANODEGREES AS A NEW STANDARD ————

Thrun therefore believes strongly in the future of such training programs: “Formats like our nanodegrees will become standard in the U.S. education system – if not the world,” he says, though they won’t replace traditional degree courses in the foreseeable future. “Earning a nanodegree requires a certain level of previous education. At present, most nanodegrees are acquired after a degree and while working.” But nanodegree programs are also especially attractive because they are permanently fine-tuned and updated. “We get a lot of feedback from students,” says Thrun, highlighting an important factor that allows for regular updates. Udacity also analyzes exactly how students use programs, and, what content causes an unusually high number to drop out. “This knowledge helps us to constantly update and improve our programs,” says Thrun, describing the immense possibilities of Udacity’s technical infrastructure. “Our rate of optimization is higher than at any other university in the world,” he emphasizes.

The level of demand for such programs became evident with the latest nanodegree – the sixth in total – that Udacity recently launched

“No one else  
is doing  
what we offer  
at this point”

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Sebastian Thrun

in collaboration with Thrun's former employer Google: The “Android Nanodegree Program” consists of six online learning units on developing Android apps – from initial idea to official launch on the Google Play Store. The content for this course was co-developed by Google's top experts, some of whom gave lectures on camera expressly for the units. The Udacity founder estimates the number of vacancies for such Android developers at several hundred thousand in the U.S. alone. Regular university education can no longer meet this demand, he says, and certainly not within the few months needed for a nanodegree.

Udacity also earns money from the companies for whom it develops such bespoke training programs. But its main source of income is the \$200 per month fee that students pay for personal support and the graduation certificate. In recent months, revenues from these tuition fees alone have increased by seven percent – a week, mind you. In the case of Google, which provides scholarships to 2,000 low-income students, Udacity even refunds half of the fees, to facilitate access to degrees for these potential students and provide more incentives to complete the course.

## — DELIGHTED WITH BERTELSMANN —

To weather the financially difficult years for a start-up like Udacity, Sebastian Thrun secured the support of investors early on. They include Bertelsmann. To strengthen its activities in the strategically important field of education, the company invested in Udacity alongside Andreesen Horowitz and Charles River Ventures, which each hold 17.6 percent of the shares. The Udacity management team itself owns 47.3 percent of the shares in the company. Thrun says he is “delighted” with the partnership with Bertelsmann. “We not only benefit from the financial resources that are made available to us, but especially from the expertise of an internationally well-connected partner, which will help us in many crucial ways,” says the Udacity founder. He adds that Bertelsmann can play a major role especially in the expansion to other countries.

Not least because of this support from Bertelsmann, Sebastian Thrun looks to the future with the charismatic optimism that is so characteristic for him. “We have big plans,” he says, referring to Udacity’s planned growth. “On the one hand, we want to expand our nanodegree portfolio in the IT industry itself, as well as extending the concept to other industries.” Programs in the areas of business and entrepreneurship are also planned, including an MBA that can be completed in less than two years. On the other hand, the expansion of the B2B services for companies in other countries is ahead. After China, India and Europe are



Sought-after content

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*Udacity launched the “Android Nanodegree Program” in partnership with Sebastian Thrun’s former employer Google.*

to follow. “In Europe there is no comparable offer of company-specific training. And precisely because we can cooperate so closely with the relevant companies in Silicon Valley and adapt our course content so quickly, we will always be faster than the competition,” predicts Thrun. One thing is already definite for him: The revolution in the education system has only just begun. And Udacity is its trailblazer.

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**The Udacity Story**

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The Overhead Projector

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*... was the most important teaching tool in the  
early years of Lab SSJ.*

# **Plenty Of Room For Growth**

**The Affero Lab Story**

**M**any good stories in business begin with a question from which a business model develops. In the case of Affero Lab, it was a question raised in 1992: How can education be enhanced so that it better meets companies' real-life requirements in the daily business routine, while also improving the career prospects of the learners? With this question in mind, the entrepreneurs Alexandre Santille and Conrado Schlochauer founded a company that is now Brazil's market leader for corporate training and digital learning. In June of this year, Bertelsmann became Affero Lab's largest shareholder, with a holding of over 40 percent and an option to acquire more. And the original question is now more relevant than ever.

Corporate education, i.e. companies training their employees, is a large and growing market in Brazil. Currently, some nine billion Brazilian real (€2.6 billion) are turned over in this sector each year. And demand is growing by the day, says Alexandre Santille, who is CEO and also a shareholder of the company. "The main reason is globalization," says Santille. "Compared to other countries, the productivity of Brazilian companies is low. For example, it is only one-fourth of the productivity of U.S. companies. This is partly due to a need to catch up on technology," he says. But it can also be attributed to deficits in the education and training of employees. "Graduates arrive at companies from university with a degree in their pocket, but are often still not sufficiently qualified for their job," explains Santille. Management skills such as leadership or project management, which are needed daily on the job, are rarely taught at academically oriented universities, he says. So big Brazilian companies are increasingly looking for intelligent forms of corporate training to make their employees fit not only for the Brazilian, but also for the global market.



Alexandre Santille

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*Alexandre Santille was one of the co-founders of Affero Lab in 1992. Today, the company is Brazil's market leader for corporate training, and Santille is its CEO.*

## — A HIGHLY FRAGMENTED MARKET —

And that is exactly what Affero Lab offers today: On the one hand, its training solutions make employees better at their jobs and therefore make companies more productive, and on the other hand improve career prospects and therefore, the lives of people. In the process, unlike many of its more traditionally oriented competitors, the market leader relies entirely on contemporary, i.e. increasingly digital and innovative methods of knowledge transfer. “The classic model of training in a classroom with a teacher and lots of Power Point slides simply doesn’t work anymore,” says Santille. Instead, Affero Lab increasingly relies on “blended learning,” a combination of classroom and online learning tools. “This is where I clearly see the future, migrating from classroom to digital delivery,” says Santille, adding that 40 percent of Affero Lab’s offers are already delivered in digital form.

And the market has proved him right: Affero Lab is Brazil’s biggest company in B2B education and enjoys a strong reputation due to its high quality. Affero Lab’s 600 employees with offices in Rio de Janeiro, São Paulo and Juiz de Fora generate annual revenues of 140 million Brazilian real (€40 million) from a total of 200 corporate customers. Each year, more than a million people are trained using Affero Lab. But for Alexandre Santille, this is just the beginning: “Although we are the market leader, we only have a market share of around 3 to 4 percent,” says the entrepreneur. “The market for corporate education is highly fragmented; there is still plenty of room for growth.” With the backing of its new, financially strong partners, Bertelsmann and the World Bank subsidiary International Finance Corporation (IFC), Affero Lab now aims to achieve this growth through economies of scale, but also and especially through the increased implementation of online solutions.

## LINKING THEORY AND PRACTICE

However, Affero Lab's road to achieving its present size has been a long one. When Alexandre Santille and Conrado Schlochauer founded their company, at the time called Lab SSJ, its first customers were students from a business university in São Paulo. "It was a typical university, very academically orientated," the entrepreneur recalls. "We then started introducing more practical, hands-on aspects to the university by bringing business students together with managers of large companies in Brazil, such as Volkswagen and Unilever." The first events of this kind were equally well received by the students and the participating companies, says Santille. The students were given fascinating insights into the workings of the companies, which before the advent of the Internet would have been practically unobtainable on other paths. The companies were able to make valuable contacts with potential employees. Entire courses quickly emerged from these initial events, designed to help bridge the gap between theory and practice.

These seminars led Lab SSJ to the conclusion that the students in São Paulo and elsewhere no longer wanted traditional classroom-only teaching, but different, more modern access to the content. "So we developed methods that were more interactive, that involved the students directly," explains Santille. And so Lab SSJ began to use role-playing games, games in general, group work, and interactive forms of discussion to convey the knowledge. "At the time, all this was new in this sector. Training programs had been very traditional, very regimented until then," Lab SSJ's founder recalls. "We wanted to be truly innovative – and we still live by this motto."

Until 2001, Lab SSJ's business model was fully focused on the students. The company fulfilled an urgent need by disseminating practical knowledge. "By that time, some 120,000 students had attended our courses," says Santille, giving an idea of the magnitude of Lab SSJ's business at the time. But over the years, the students became managers in positions of responsibility, who increasingly approached Lab SSJ about holding training courses at the companies where they now worked. So from 2002, Lab SSJ expanded its business from a purely

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Alexandre Santille

consumer-focused business (B2C) to business customers (B2B). “Our approach was just as innovative as it had been at the universities: We offered companies content tailored to their real needs, very practically and results-oriented,” says Santille. The expansion of the business brought Lab SSJ another growth spurt and collaboration with some of the largest companies in the country. Soon not only young professionals, but also long-serving employees with many years of professional experience became students in their training sessions.

## — MERGER WITH AFFERO —

Digitization brought another profound change for the company. Since around 2006, education experts in Brazil as elsewhere had been discussing the pros and cons of online courses and e-learning. “I have to confess, I was very skeptical at first,” says Santille. “The first offerings on the market were just awful.” But soon Lab SSJ came to the realization that the company itself would have to invest heavily in technology and the corresponding know-how to be able to exploit the opportunities of digitization. This is where Affero came into play, one of the largest Brazilian specialists for using technology in education. “Affero had the technological potential, the expertise and the experience – and Affero had similar ideas about the future of education as we had,” explains Santille. A perfect fit, which in late 2013 led to the merger of Lab SSJ and Affero to become the present company, Affero Lab, and gave the company as a whole a technological boost. Moreover, with Affero came not only technological expertise, but also an experienced management team around Fabio Barcellos. Barcellos, a founder of Affero, is still a partner of Affero Lab today and is responsible for innovation, Research & Development and Mergers & Acquisitions as a member of the executive team.

However, in Brazil as elsewhere, the online revolution in education, i.e. the radical shift from classroom to online courses, has not been accomplished anywhere near as quickly or thoroughly as predicted by



many experts. Santille sees the reason for this not least in the country's lack of infrastructure. "The insufficient dissemination of suitable devices and the lack of bandwidth in Internet connections have led to our failure to experience an e-learning revolution in Brazil so far." Hence, for this phase, the Affero Lab CEO sees great potential for blended learning solutions. "We increasingly integrate digital solutions into the traditional delivery," he says. "This way, we can make the training more flexible and effective for participants; we can train more participants at lower cost, and thereby generate value for our customers and achieve further growth for our company. Finally, we want to be at the forefront of digital learning solutions, to be the market leader not just in size but also leading the shift to blended and online-based training in Brazil."

## ———— BACK TO THEIR ROOTS ————

Blended learning and new online offers will also allow Affero Lab to revive its original business of directly training students. "Today, we only still do this in exceptional cases, if directly commissioned by our corporate customers," explains Santille. From now on, however, Affero Lab wants to be increasingly active in the B2C business again. "We've identified certain professional fields that are attractive for us, 'verticals' like healthcare and finance in which we want to expand our training solutions and certifications for corporate clients as well as directly to the end customer," says Santille.

When it comes to health education, the Affero Lab CEO sees the new sister company Relias Learning in the U.S. as an inspiration for his own business. "We are currently conducting market research and are having many discussions with market participants to see what extent we can build a similar business here in Brazil," he says. Although the U.S. healthcare market is much more regulated than in Brazil, and the need for certificates is accordingly higher in the U.S., Santille sees



Market leader

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*Today, Affero Lab – here, a view of the offices – is a leader in corporate training measures in Brazil.*

a clear trend in this direction in his homeland: “So far, there are not many sizeable players in the healthcare training sector. We launched our first project recently, and Escola de Saude (‘Health School’) has already developed 120 hours of online courses for nurses and we will definitely develop this field further – organically and through M&A,” he adds.

A second priority for Santille is the finance vertical. Already today, many large banks and financial institutions are key customers of Affero Lab, using a variety of the company’s training programs. Based on the insights and experiences gained from these clients, Affero Lab started to build new, innovative solutions for certification. Santille explains: “Brazilian regulations demand that banking employees need to be certified regularly. Up to now, training for these certifications was conducted in the classroom. We saw a great opportunity here to provide a comprehensive online solution that allows the banking employees to study at their own pace for these certifications, anytime, anywhere. And on the other hand, we achieve this at significantly lower cost for our banking clients. It was a clear win-win.” The success of these new online courses proves Santille right. Affero Lab was able to reduce the training costs for the banks by more than 40 percent and has already trained 9,000 banking employees in the first year.

Finally, Santille sees prospects for his company outside Brazil in the medium term. For instance, Affero Lab has already been active in several Latin American countries, but always based on direct commission by its Brazilian corporate customers looking to train their employees abroad as well. Affero Lab has even made the move to Europe: Since October 2014, the company has maintained its own research and development center in Ireland, to develop new solutions for the digital education market. “It’s much easier and more cost-effective for us to win qualified personnel for this kind of work in Ireland than in Brazil,” explains Santille.

## — CHOOSING THE RIGHT PARTNER —

Bertelsmann's and IFC's investment in Affero Lab marks another landmark moment in the company's history. The contact with Bertelsmann came about through the technology company Affero, which first was in talks with Bertelsmann about a possible investment in 2013. Following the merger between Affero and Lab, the question came up again. "We weren't just looking for capital," says Santille. "That's easy to come by. We were looking for a partner who shares the same values as we do and has the same ideas about the future of education." And, he says, they have found precisely this kind of partner in Bertelsmann and IFC; both have similar values and share the conviction that Affero Lab can become an even better, even more innovative company.

In addition, the Affero Lab CEO sees a whole slew of further advantages for his company in the association with Bertelsmann. Bertelsmann has a "digital mindset," he says, that is, it is capable of properly dealing with the topic of digitization based on its own experiences. The media company also brings a global perspective and at the same time strong local support to the company, he adds. "And importantly for us, Bertelsmann thinks long term and commits long term," says Santille. "That gives the company and its employees planning security and future prospects."

In early June 2015, the investment agreements between IME, Bertelsmann, and Affero Lab were finally signed. Santille remarks that, "from this moment on, we started to write a new chapter of our company's story." He continues, "I am very confident that we will be able to accelerate Affero Lab's development even further together with our new partners, in particular with new digital offerings and expansion into the verticals. It will be a lot of work, but also great fun."

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**Contact:**

Bertelsmann SE & Co. KGaA  
Corporate Communications  
Carl-Bertelsmann-Strasse 270  
33311 Gütersloh  
Germany  
Phone: +49 (0) 5241 80-2368  
Email: [benet@bertelsmann.de](mailto:benet@bertelsmann.de)

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