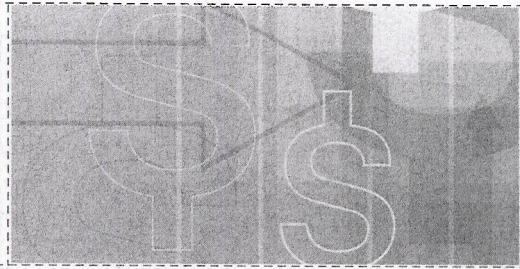


MoneyMatters

Setting Tuition: Key Factors to Consider

Higher ed, like any business, must listen to the "voice of the customer" in pricing deliberations.



BY KATHY KURZ AND JIM SCANNELL

It's not like 15 years ago, when most colleges and universities set price based on what was necessary to balance the budget (and, for public institutions, what would be politically acceptable). Now, more higher education institutions understand that market forces factor into the price-setting deliberations. To appropriately factor in market considerations, however, there are eight key points to mull over:

1 INCLUDE THE RIGHT PEOPLE IN THE DISCUSSION

Budget committees often lack members that can bring an external perspective to pricing questions. Including representation from enrollment-related offices of admissions and financial aid, or at least gathering their input early in the process, is critical.

2 SELECT THE RIGHT COMPARISON GROUP

When benchmarking with other institutions on things like faculty salaries and endowments per student, institutions often use a set of peer or aspiration institutions, with little consideration given to whether these institutions are actually its competitors.

The most relevant price comparisons, however, are with the institutions that most frequently appear in the choice sets of students who are part of your applicant pool. To identify this group, many institutions conduct research with admits to understand where non-matriculants are going and where matriculants *would* have gone as their number one choice.

Another option for establishing your competitor set is to look at SAT/ACT score overlap reports that show where else students send their scores when they send them to your institution. Finally, for schools that participate in the National Student Clearinghouse, using the EnrollmentSearch option can provide information on where non-matriculants (as well as those who attended and subsequently transferred) are attending school now.

3 LOOK AT MORE THAN JUST STICKER PRICE

We have found a strong correlation between sticker price and prestige across the country, as measured by such factors as mid-50 percent SAT/ACT scores, selectivity, and rank in *U.S. News & World Report*. Institutions that are at the top of their competitor set in

terms of sticker price, but toward the bottom in terms of prestige measures, typically face significant challenges in meeting their enrollment goals. Therefore, when benchmarking with competitors, it's vital to compare prestige as well as sticker price.

In addition, data should be collected to understand the net price being charged by your competitors, not just the sticker price, because sticker price discounts can vary widely from institution to institution.

For example, in conducting this analysis for a recent client, Scannell & Kurz found that the institution went from the lowest priced in its competitor set based on sticker price to the highest priced based on net price. To estimate net price, you can calculate any institution's freshman discount rate from the financial aid data it provides to IPEDS, which is publicly available (albeit a bit outdated) on

the National Center for Education Statistics website (go to: www.nces.ed.gov/ipeds/cool/index.asp).

To calculate the discount rate, go to the financial aid page of a selected institution. Once there, find the percent of the freshman class receiving institutional aid and the average institutional aid provided. These figures can be used to calculate an average award across the whole freshman class [(percentage * average award) ÷ 100]. This figure divided by the tuition charge from the same year (found on the detail page) is the freshman discount rate.

(This approach is only as reliable as the data provided to IPEDS, and, as a result, sometimes produces questionable results.)

4 PAY ATTENTION TO THE BEHAVIOR OF YOUR APPLICANT POOL

If you are having trouble yielding full-pay admits, this may be an indication that you are already priced above your perceived value in the marketplace. Therefore, it is critical that attention be paid to student matriculation rates, based on whether or not they ▶

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apply for aid, their level of need and discount rate, their quality profile, and so on. This will help clarify how a significant price increase may impact the achievement of your institution's enrollment goals.

Some institutions are becoming quite sophisticated at using econometric analysis to understand the price sensitivity of their pool, based on historical responses to aid offers. Other institutions that have not provided much financial aid in the past (or that want to understand the price elasticity of populations not yet in their applicant pool) conduct market research to assess how students might react to various price increases. (Go to the Stamats website for a description of one such service: www.stamats.com/consulting/default.asp.)

Bottom line: Higher education institutions, like any business, need to find some way to factor the "voice of the customer" into their pricing deliberations.

5 CONSIDER THE ADVANTAGES (AND DISADVANTAGES) OF DIFFERENTIAL PRICING

Although more common at public institutions than private institutions, setting different prices for different institutional "products" is becoming more popular. The **University of Pittsburgh** (Pa.), for example, charges \$2,600 more for its in-state nursing major than for in-state arts and sciences majors.

Similarly, statewide systems often charge less for regional campuses than for the system "flagship." Some institutions charge a different rate for cohort-based, accelerated programs than for traditional, semester-based courses. These differential pricing schemes, ideally, reflect differences in the market's "willingness to pay." However, when considering such approaches, it is important to ensure that the resulting tuition schedule does not become so complex that it is difficult to explain.

Moreover, once the differential has been established, be aware that across-the-board percentage increases can impact different populations very differently.

The best example of this is resident versus non-resident tuition charges in public institutions. A 5 percent increase in in-state tuition could translate into a \$300 bump, while the same percentage on out-of-state tuition could result in a \$1,000 increase.

If out-of-state students are more price sensitive than residents, it may be necessary to consider implementing an across the board *dollar* increase instead.

6 THINK LONG-TERM

At many institutions, setting price is viewed as an annual decision. While it is certainly important to review assumptions an-

nually, the institution should have a longer-term strategy in mind that annual decisions about price should support.

For example, the **State University of New York** system recently announced a plan to tie tuition increases for incoming freshmen classes to the Higher Education Price Index (HEPI), and then freeze tuition at that level for the duration of that cohort's program (typically four years).

While this particular plan would not be appropriate for every institution or system, it makes sense in New York. Historically, SUNY tuition is often held constant for years at a time, only to increase suddenly and significantly. This longer-range approach represents a much more rational and predictable model for the institution to explain, and for parents to plan.

7 REMEMBER THAT MARKET PERCEPTIONS LAG

Some institutions make the mistake of thinking that they can immediately charge more because they have made desirable changes in or investments to facilities or programs. While those investments may well change the perceived value of the institution in the marketplace over time—thus increasing the market's willingness to pay—it is unlikely that the change in perception will be immediate.


Pricing changes need to *follow* a change in the perceived value of an institution, not lead it. The "Chivas Regal" effect (if you charge more then you must be worth it) no longer applies in a higher education marketplace where much more information about institutions and how they compare to (or rank against) one another on a number of measures is readily available to the public.

8 CONSIDER THE ECONOMIC CONDITIONS OF YOUR PRIMARY DRAW AREA

If your institution has a local or regional market, you need to factor into your pricing deliberations the current economic conditions of the area. For example, if unemployment is at an all-time high, a significant tuition increase may not be sustainable, even though demand among non-traditional age students may be increasing.

Similarly, public institutions in states with significant populations at every income level may be better able to successfully implement significant tuition increases than those institutions in states that have a predominately middle-class population, as long as aid for needy students is adjusted.

The good news is that higher education is becoming more market-aware in establishing pricing and discounting policies. However, many institutions have a long way to go in terms of the sophistication of their market assessments.

It requires discipline and time to gather and analyze the data needed to measure the perceived value of your institution. But it is that perception that determines what people are willing to pay and, therefore how you should price, and discount, your educational "products." 

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