Tuition Reductions

Practical Advice and Perspectives of an Emerging Pricing Strategy

Presented at CACUBO 2018 Annual Meeting
by Sarah Kottich, Ed.D, MBA, CPA
Tuition Reductions in the Private Not-for-Profit Sector

College of Saint Mary’s Reduction

Decision Framework
Tuition Reductions: A Quantitative Analysis of the Prevalence, Circumstances, and Outcomes of an Emerging Higher Education Pricing Strategy
Higher Education Pricing

Net Tuition Revenue
- Stated tuition rate
- Institutional financial aid
- Discount rate

Approaches
- High tuition / high discount
- Low tuition / low discount

Strategies
- Incremental increases
- Tuition reduction / reset
- Tuition freeze
- Tuition / graduation guarantee
- Accelerated degree programs
- Elimination of fees
Higher Education Pricing Trends

Average published tuition and fees, grant aid and tax benefit, and net tuition and fees by sector for 1996/97 and 2016/17 (CollegeBoard, 2016).
Prevalence of Tuition Reductions

Private not-for-profit institutions with verified tuition reductions for full-time undergraduates

(Kottich, 2017)
## Magnitude of Tuition Reductions

<table>
<thead>
<tr>
<th></th>
<th>$ Reduction</th>
<th>% Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maximum</strong></td>
<td>$14,500</td>
<td>53%</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>$4,300</td>
<td>23%</td>
</tr>
<tr>
<td><strong>Minimum</strong></td>
<td>$970</td>
<td>7%</td>
</tr>
</tbody>
</table>

(Kottich, 2017)
<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Enrollment size</th>
<th>Geographic region</th>
<th>% Transfer students</th>
<th>% Pell undergraduates</th>
</tr>
</thead>
<tbody>
<tr>
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</table>

- Endowment size
- Religious affiliation
- Financial health
Consistent with the Sector

• Enrollment size
• Geographic region
• Proportion of transfers
• Financial health

Inconsistent with the Sector

• Higher proportions of high need students
• Smaller endowments
• More likely to be religiously affiliated

(Kottich, 2017)
Prevalence by Financial Strength

15 institutions with a CFI=>3.0 in the year prior to a tuition reduction

14 institutions with a CFI<3.0 in the year prior to a tuition reduction

Deploy resources to achieve robust mission (7.5 to 10)
Allow experimentation with new initiatives (6.5 to 7.5)
Focus resources to compete in future state (4.5 to 6.5)
Direct resources to allow transformation (2.5 to 4.5)
Re-engineer the institution (1 to 2.5)
Consider substantive programmatic adjustments (-1 to 1)
Assess debt and Department of Education compliance and remediation (-2 to -1)

(Kottich, 2017)
Operational Outcomes

Enrollment
- New full-time undergraduates
- FTFT retention

Student affordability
- Net price per FTFT
- Average annual loans

Student access
- % Pell undergraduates

Institutional financial health
- Net tuition revenue
There is a statistical difference in this outcome for tuition reducers as compared to the sector. (Kottich, 2017)
College of Saint Mary

• 1,100 students
• High level of transfers
• Mission driven
  - 43% high financial need
  - 29% first generation
  - 13% single moms
• Strong health professions
• Financially stable
Vision 2021 Strategic Plan

ACCESS & AFFORDABILITY

The University will increase the affordability of a CSM education in both reality and perception.
CSM vs National Pricing Trend

College of Saint Mary:
- 2005/06: $17,750
- 2007/08: $25,624
- 2009/10: $28,964
- 2011/12: $32,405
- 2013/14: $32,405
- 2015/16: $32,405

Nonprofit National Average:
- 2005/06: $25,624
- 2007/08: $28,964
- 2009/10: $25,624
- 2011/12: $28,964
- 2013/14: $28,964
- 2015/16: $28,964

(College Board, 2015)
Perceptions

High tuition = High quality

High tuition = Out of reach
% of students who rule out colleges based on sticker price

- Low-income: 58%
- Middle-income: 62%
- Affluent: 48%

(Student Poll, 2012)
College of Saint Mary Pricing Trends

- Tuition Rate Increase
- Tuition Rate

- 2003/04: $15,770
- 2004/05: $19,950
- 2005/06: $29,954
- 2006/07: $19,950
- 2007/08: $19,950
- 2008/09: $19,950
- 2009/10: $19,950
- 2010/11: $19,950
- 2011/12: $19,950
- 2012/13: $19,950
- 2013/14: $29,954
- 2014/15: $19,950
- 2015/16: $19,950
- 2016/17: $19,950
- 2017/18: $19,950

33% DECREASE
Advantages of a Tuition Reduction

• Greater transparency
• Increased perception of affordability
• Lower financial burden for students
• Heighten awareness of the University
Risks of a Reduction

- Reputational Risk
  - Chivas Regal
  - Is the college desperate?

- Recruitment Strategy Risk
  - Loss of lure of big scholarships
  - Incorrectly predicting market reaction

- Stakeholder Satisfaction Risk

- Financial Risk
Elements of the Plan

• Shifting the business model

• New program development

• Increase in donor-funded scholarships

• Increased affordability for undergraduates

• Well planned communication strategy (College of Saint Mary, 2017)
Shifting the Business Model

2016/17 Enrollment
1,014 Students

- Undergraduate, 745, 73%
- Graduate, 269, 27%

2021/22 Planned Enrollment
1,230 Students

- Undergraduate, 805, 65%
- Graduate, 425, 35%

+156 graduate students
+60 undergraduate students
Shifting the Business Model

2016/17 $16.0 Million
- Undergraduate, $10,488,635, 66%
- Graduate, $5,472,673, 34%

2021/22 Planned $18.7 Million
- Undergraduate, $8,302,726, 44%
- Graduate, $10,435,858, 56%

+$5M graduate tuition
-$2M undergraduate tuition
Impact for Continuing Students

• All saved at least $1,000 net

• Average net price 2016/17: $16,259

• Average net price 2017/18: $14,580

• Average student savings: $1,679 per student per year or 10%
Impact for New Students

• Lowered average annual borrowings from $10,242 per year in 2016/17 to
  
  • $5,184 per year in 2017/18 for students with high financial need (49% reduction)

  • $7,676 per year in 2017 for students without high financial need (30% reduction)
Improved Recruitment

# of new full-time undergraduates

<table>
<thead>
<tr>
<th></th>
<th>Fall 2015</th>
<th>Fall 2016</th>
<th>Fall 2017</th>
<th>Fall 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Without High Financial Need</td>
<td>111</td>
<td>136</td>
<td>144</td>
<td>127</td>
</tr>
<tr>
<td>High Financial Need</td>
<td>75</td>
<td>85</td>
<td>107</td>
<td>103</td>
</tr>
</tbody>
</table>

- Fall 2015 vs Fall 2016:
  - Without High Financial Need: +14%
  - High Financial Need: +26%
  - Total: +6%

- Fall 2016 vs Fall 2017:
  - Without High Financial Need: +12%
  - High Financial Need: +26%
  - Total: +14%

- Fall 2017 vs Fall 2018:
  - Without High Financial Need: -8%
  - High Financial Need: +4%
  - Total: +21%
## Improved Access

### % of new full-time undergraduates

<table>
<thead>
<tr>
<th></th>
<th>Fall 2015</th>
<th>Fall 2016</th>
<th>Fall 2017</th>
<th>Fall 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Without High Financial Need</td>
<td>60%</td>
<td>62%</td>
<td>57%</td>
<td>55%</td>
</tr>
<tr>
<td>High Financial Need</td>
<td>40%</td>
<td>38%</td>
<td>43%</td>
<td>45%</td>
</tr>
</tbody>
</table>

-2%  

**Without High Financial Need**

**High Financial Need**
## Student Financial Support

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
<th>2018/19 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Funded Scholarships (millions)</strong></td>
<td>$1.1</td>
<td>$1.2</td>
<td>$2.6</td>
<td>$2.9</td>
</tr>
<tr>
<td><strong>Discount Rate</strong></td>
<td>48%</td>
<td>49%</td>
<td>37%</td>
<td>43%</td>
</tr>
</tbody>
</table>
Advice to Those Considering a Tuition Reduction

- Steering committee
- Common understanding
- Articulate motivation for change
- Is a tuition reset appropriate?
- Consider alternatives
- Develop plans
- Launch
- Measure and assess

Motivation for change (Lapovksy 2016)
Advice to Those Considering a Tuition Reduction

- Why?
- Current Business Model
- What does success look like?
- Recruitment Strategies
- Competition
- Risks
- Resources to Implement

[College of Saint Mary Logo]
References


College of Saint Mary. (2016). We’re making a quality education more affordable for you. Omaha, NE. Retrieved from http://www.csm.edu/tuition33/


Questions / Discussion

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Decision Framework for Private Not-For Profit Leaders Considering a Tuition Reduction

Excerpt from Dissertation in Practice by Sarah Kottich, Tuition reductions: A quantitative analysis of the prevalence, circumstances and outcomes of an emerging pricing strategy in higher education.

<table>
<thead>
<tr>
<th>Why is your institution considering a tuition reduction?</th>
</tr>
</thead>
<tbody>
<tr>
<td>To grow enrollment</td>
</tr>
<tr>
<td>Because it is the right thing to do</td>
</tr>
<tr>
<td>To lower the financial burden for students</td>
</tr>
<tr>
<td>To differentiate your institution from your competitors</td>
</tr>
<tr>
<td>To align your pricing with competing public universities</td>
</tr>
<tr>
<td>To strengthen your institution’s financial health</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Do you understand your current business model?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current pricing approach and philosophy</td>
</tr>
<tr>
<td>Historical enrollment trends by type of student (undergraduate vs graduate, by academic program, full-time first-time vs transfers in, athletes vs non-athletes, residential vs commuters, high financial need vs middle income vs full paying)</td>
</tr>
<tr>
<td>Programs with excess capacity or room to grow</td>
</tr>
<tr>
<td>Enrollment funnel trends and conversion rates</td>
</tr>
<tr>
<td>Gross tuition and fee revenue by academic program</td>
</tr>
<tr>
<td>Institutional financial aid policy</td>
</tr>
<tr>
<td>Undergraduate discount rate by type of student</td>
</tr>
<tr>
<td>Student retention benchmarked with comparable institutions</td>
</tr>
<tr>
<td>Funded vs unfunded institutional financial aid</td>
</tr>
<tr>
<td>Net programmatic contribution (tuition &amp; fees, less institutional aid, less costs to run the program) for academic and co-curricular programs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Who are you competing with to attract students and what is their pricing strategy?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Using a programmatic lens</td>
</tr>
<tr>
<td>Using a co-curricular lens</td>
</tr>
<tr>
<td>Using a geographic lens</td>
</tr>
<tr>
<td>Using a mission lens</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>In addition to pricing strategy, have you considered other elements that could contribute to how much of the market you currently serve?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic programs that serve a specific niche</td>
</tr>
<tr>
<td>Quality academic programs that offer students a strong return-on-investment</td>
</tr>
<tr>
<td>Modality of programs (face-to-face, online, hybrid)</td>
</tr>
<tr>
<td>Effective marketing and promotion</td>
</tr>
<tr>
<td>Effective leaders in recruitment and retention</td>
</tr>
<tr>
<td>Systems that ensure maximization of recruitment and retention</td>
</tr>
</tbody>
</table>
Have you assessed and mitigated the potential risks of a tuition reduction? These could include:

<table>
<thead>
<tr>
<th>Reputational risk</th>
<th></th>
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<tbody>
<tr>
<td>Does lower tuition mean lower quality?</td>
<td></td>
</tr>
<tr>
<td>Is this a marketing gimmick?</td>
<td></td>
</tr>
<tr>
<td>Is the institution financially desperate?</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategy risk</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Are you accurately predicting how your target market will react?</td>
<td></td>
</tr>
<tr>
<td>Will reductions in scholarship levels negatively impact new student recruitment?</td>
<td></td>
</tr>
<tr>
<td>Will continuing students benefit from the change?</td>
<td></td>
</tr>
<tr>
<td>How will faculty, staff, alumnae react to the change?</td>
<td></td>
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<tr>
<td>Can you learn from the successes and challenges of similarly situated institutions which have reduced tuition?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial risk</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Do you have alternate revenue streams such as graduate programs?</td>
<td></td>
</tr>
<tr>
<td>Do you have donor support (through annual gifts or endowment) which will help lower the financial burden on students?</td>
<td></td>
</tr>
<tr>
<td>Do you have contingency reserves available in case operational results do not go as planned?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Do you have the following resources in place to successfully plan and execute a tuition reduction?</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Time for due diligence, planning, and implementing measures to mitigate risks</td>
<td></td>
</tr>
<tr>
<td>Decision makers who understand the business model, competition, risks, and potential rewards of a tuition reduction</td>
<td></td>
</tr>
<tr>
<td>An internal expert and champion to lead the effort</td>
<td></td>
</tr>
<tr>
<td>A focused and invested team to support the champion</td>
<td></td>
</tr>
<tr>
<td>An experienced marketing and communication team or partner</td>
<td></td>
</tr>
<tr>
<td>A multi-year strategic plan, which the tuition reduction is a part of</td>
<td></td>
</tr>
<tr>
<td>A multi-year financial plan informed and driven by the strategic plan</td>
<td></td>
</tr>
<tr>
<td>Revised financial aid policies to implement alongside of the tuition reduction</td>
<td></td>
</tr>
<tr>
<td>Short-term and long-term communication plans for key stakeholders</td>
<td></td>
</tr>
<tr>
<td>Recruitment leadership, staff, and systems which can successfully serve potential increases in student inquiries</td>
<td></td>
</tr>
<tr>
<td>The courage and wisdom to follow through or change course depending on what is best for the institution</td>
<td></td>
</tr>
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<table>
<thead>
<tr>
<th>What measurements would indicate that the tuition reduction was a success?</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Increasing or maintaining new student recruitment levels</td>
<td></td>
</tr>
<tr>
<td>Increasing or maintaining student retention</td>
<td></td>
</tr>
<tr>
<td>Decreasing the net price (tuition + fees – institutional aid) for students</td>
<td></td>
</tr>
<tr>
<td>Decreasing the average annual amount of loans borrowed by students</td>
<td></td>
</tr>
<tr>
<td>Increasing the proportion of undergraduate students awarded Pell grants</td>
<td></td>
</tr>
<tr>
<td>Increasing or maintaining the institution’s net tuition revenue by x%</td>
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