A Market Assessment of Published Price and Net Price: The Impact on Enrollment and Retention

A collaboration of Lapovsky Consulting and SightLine, January 2021

Higher Education institutions are facing financial pressures due to generally declining applicant pools, declining federal and state funding, and increasing skepticism over return on investment of higher education. These financial challenges are anticipated to increase over time as institutions compete for a shrinking pool of high school graduates over the coming decade. Also, according to a plethora of higher-ed articles, challenges have been exacerbated by the COVID-19 pandemic over the last two years.

Most recently the higher-ed landscape has included increasing numbers of college closures and consolidations. There was a 9.5% decline in the number of higher-ed institutions in the US between academic years 2017-18 to 2020-21[1]. Of the 579 closures, 453 consist of for-profit institutions, 72 non-profit private four-year institutions closed, and 54 public four-year institutions opened during the same time. The search for solutions is complicated as institutions consider price resets, financial aid optimization, and the impact of these factors on student success.

Price Resets: Setting a New Published Tuition and Net Price

Every year, colleges and universities work with their boards of trustees to make proactive decisions on annual published tuition prices. Most schools have consistently increased their published price by 2-5% per year. In recent years these tuition increases have resulted in little to no increase in net tuition revenue per student, bringing this tuition strategy into question particularly as tuitions begin to approach numbers they had never expected. These tuition increases compounded with disappointing enrollment results has led many administrators and boards of trustees to question this policy of continually raising tuition.

Many institutions are considering new pricing options and enrollment strategies, one of which is a tuition decrease, otherwise referred to as a tuition reset. In a 2020 survey study by Sallie Mae, 57% of families surveyed eliminated schools from consideration based on price alone before deciding which ones to apply to[2]. This indicates the importance of published tuition rates, room and board, and published fees to the potential applicant pool. These students are eliminating colleges before even knowing what their net price will be as they will not have received their financial aid awards.

At SightLine, we wanted to assess whether student enrollment decisions are primarily based on published price, net price, or a combination of the two. We present a case for institutions to consider reducing their published tuition, pursuing price transparency with lower discount rates, and simplified and digestible awarding structures. We recommend institutions assess their competitive market and relative pricing before implementing a significant price reduction.

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[1] https://nces.ed.gov/ipeds/search?query=&query2=&resultType=table&page=1&sortBy=date_desc&surveyComponents=12-month%20Enrollment%20(E12)&surveyComponents=Completions%20(C)&surveyComponents=Institutional%20Characteristics%20(IC)&collectionYears=2020-21&sources=Tables%20Library&overlayTableId=25207

[2] https://files.eric.ed.gov/fulltext/ED608915.pdf

Assessing the Relationships between Published Price, Net Price, and Enrollment

Sightline assessed Integrated Postsecondary Education Data System (IPEDS) enrollment and pricing data from 2019[3]. Our goal was to visualize and quantify the relationships between pricing structures and enrollment yield rates. Due to complexities in varying student segments and markets across the US, we decided to focus our study on one region and institution type. The following analysis may be applied to any combination of region and institution type to identify differing markets, student characteristics and enrollment psychology. We decided to focus our analysis on private four-year universities in the Midwest region for this case study, a region with a plethora of four-year private institutions.

They key variables of interest for this analysis were total published price, net price, discount rate and the resulting enrollment yield rate. All financial variables include the cost of room and board because the cost of living is important for any student's decision to pursue higher education.

We grouped pricing and discount ranges by deciles and created corresponding box plots related to enrollment yield rates for all four-year private institutions within the Midwest region during 2019 (figs. 1,2,3). Each box and whiskers contain an equal number of institutions, divided into ten intervals, or deciles within the x-axis. The red square on the box plots represents a single institution's pricing and corresponding yield rate in 2019. This selected institution can be used as an example of how to compare a single institution to the surrounding regional market. The graphic to the right of each boxplot provides an explanation of the components of a boxplot.

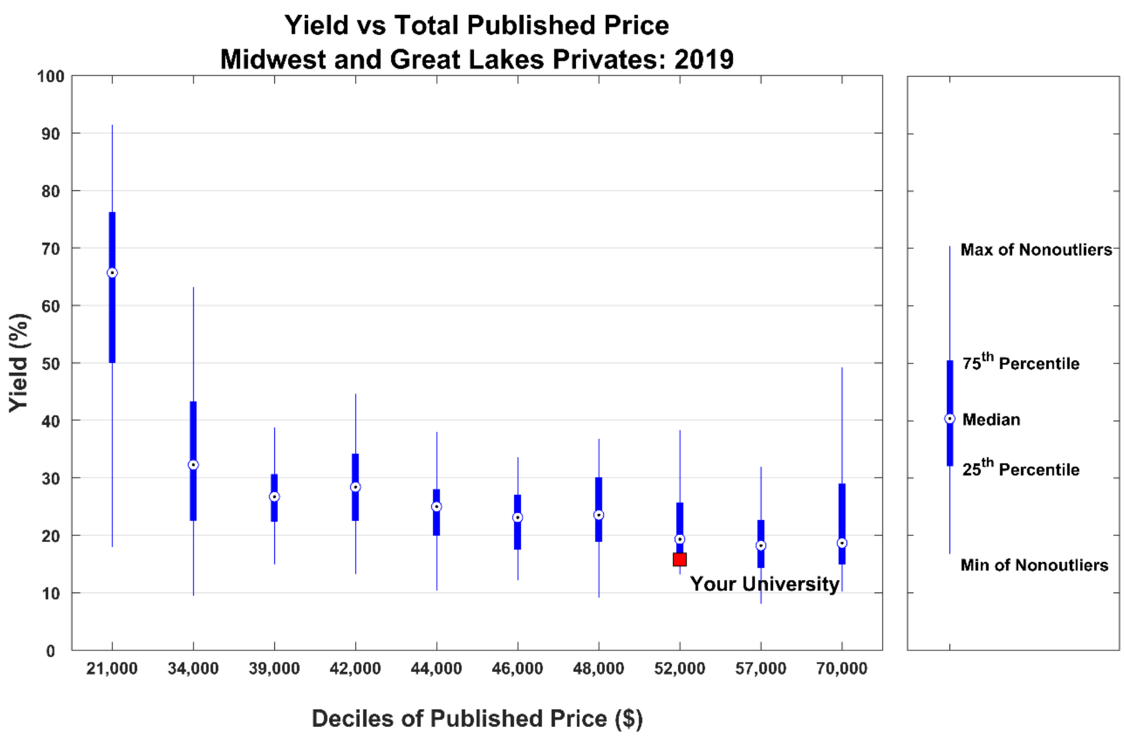

Figure 1 Enrollment yield rate versus published tuition including room and board costs for private 4-year institutions in the Midwest region during 2019.

In assessing the relationship between published price and enrollment yield rates, the median yield rate generally decreases as the publish price increases (fig. 1). In the case of this example university

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[3] https://nces.ed.gov/ipeds/use-the-data

represented by the red box, a price reduction may have a beneficial impact on their enrollment yield rate. This university is currently close to the lowest enrollment yield rate by published price decile within the Midwest region.

The change in median enrollment yield rates between net price deciles is relatively flat within the range of $25K and $35K (fig 2). This indicates that varying net price within this range, may not result in a strong impact on enrollment yield rates. To increase enrollment rates, the net price below $25K would be beneficial according to this market level data. If net revenue is a greater concern than overall enrollment, this analysis may also indicate the ability to increase the net price without a significant change in enrollment yield rates.

On an individual institutional basis, we have found that students are sensitive to net price and financial aid leveraging or optimization can be used to increase student enrollment. Though the relationship is less clear from an assessment of the broader market as demonstrated here.

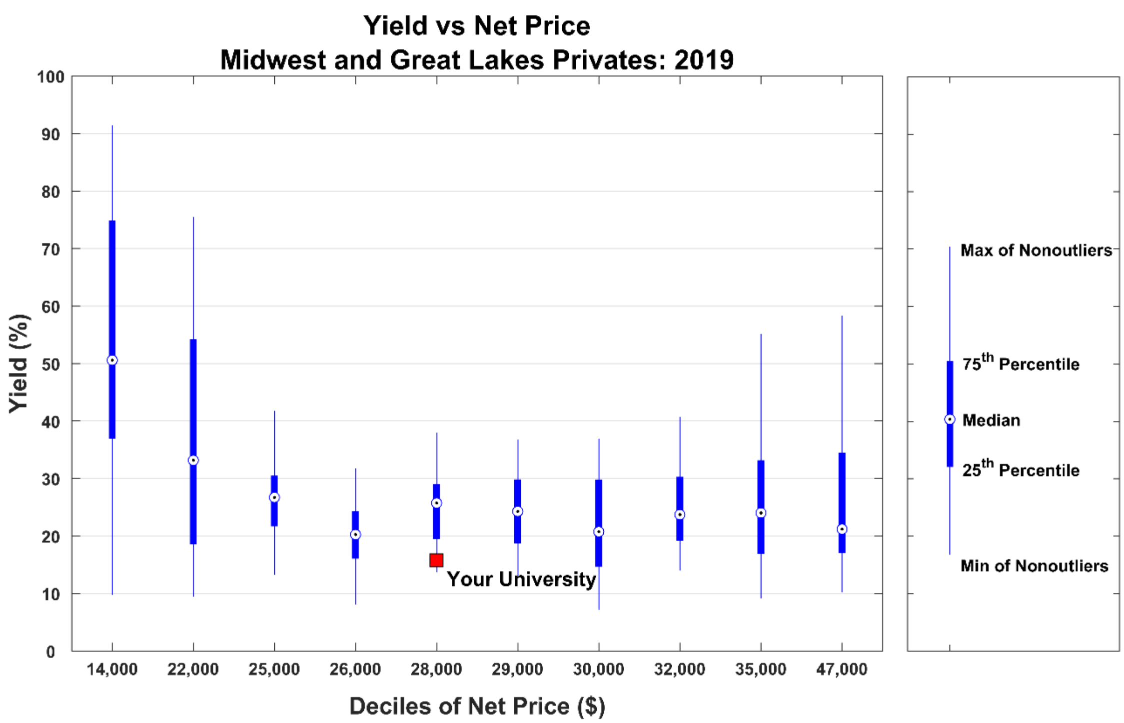

Figure 2 Enrollment yield rate versus net price including room and board costs for private 4-year institutions in the Midwest region during 2019.

To understand the interaction between published price and net price, we assessed discount rates in relationship to enrollment yield rates (fig. 3). Room and board costs were included in the published price and are therefore part of the discount rate estimate. This discount rate is defined as the average percent of the total published tuition price that is reduced by scholarships and grants for an individual institution. SightLine found that on average, enrollment yield declines with increasing discount rates. These results also suggest that high published prices may deter students, particularly when discount eligibility is unclear in award letters. This finding was consistent with the above Sallie Mae study.

The example institution has below average enrollment yield rates relative to other private institutions in their region with similar published price, net price, and discount rates. This indicates that other factors aside from just price structure may be contributing to low enrollment rates, such as their value proposition in terms of perceived return on investment as well as lack of clarity in their marketing, messaging, and communications which may relate to the lack of a strong value proposition.

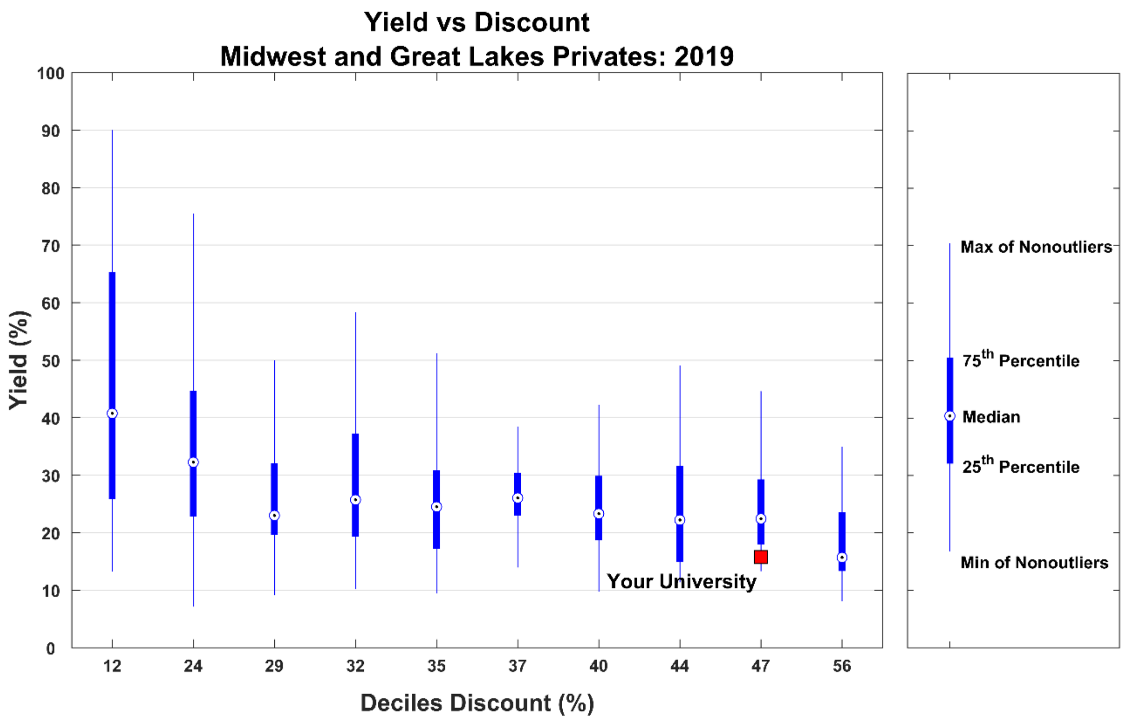

Figure 3 Enrollment yield rate versus discount rate for private 4-year institutions in the Midwest region during 2019.

Taken together, these results suggest that reduced published prices and price transparency through low discount rates may provide opportunities for institutions to slow or reverse declining enrollments. Price transparency can most easily be communicated with a simplified award structure with awards explicitly explained on the university website. We recommend creating an award structure that recognizes student financial need and academic merit but also results in a net price that is relatively close to the institution's published price—resulting in a low discount. Specific award amounts and structures should be determined through a financial aid optimization and leveraging process. Such an approach should be accompanied by a strong communications effort, training recruiters to explain the new strategy aimed at price transparency. A simplified application cycle creates savings for the university and reduces financial stress to the benefit of students.

Impact of a Price Reset on Continuing Students

Many schools are concerned about the impact of a price reset on continuing students. Most schools have chosen to reduce the price for continuing students to the new price and reduce their financial aid awards down so that the students are paying the same net price as they did the previous year. It is important that communication with continuing students and their parents occur simultaneously with the price reset and that the communication is very clear and transparent. Problems often occur when the price reduction is announced before clarifying its impact on continuing students. Some schools have chosen to provide some small price reduction for continuing students so that they feel that they are benefitting from the price reduction. Others show clearly that the continuing students are benefitting by virtue of the fact that future price increases will occur off of a lower tuition which will save them money over their entire college career.

Recently, Fairleigh Dickinson[4] and Rider[5] each implemented price resets which they only applied to new students. Fairleigh Dickinson explicitly noted that the net tuition that most continuing students were paying was less than the new, lower tuition and invited continuing students to contact them if they had questions. Irrespective of the strategy used by schools which have done price resets, there has been very little push-back from continuing students.

Financial Aid Optimization and Leveraging

Lapovsky Consulting and SightLine have been tracking and evaluating outcomes of roughly 30 institutions that have undergone a recent price reset. Many institutions that implemented a price reset or published price reduction worked to fine-tune their net price in the years following the price reset. A challenge with a price reset is that the institution does not have historical data on which to base its leveraging matrix; it takes a few years to have the data necessary to fine-tune the matrix to maximize yield and net tuition. The missteps that often occur in the year or two after a price reset can often be minimized by carefully tracking the enrollment funnel throughout the admissions cycle.

Before a price reset occurs, a financial aid leveraging study should take place to find the optimal net price to enroll students. This study should include members of the admissions team, financial aid team, enrollment leaders, and the CFO to create a cohesive pricing and awarding strategy.

Financial aid leveraging is a process of determining which award types and amounts will result in the highest overall enrollment, while increasing net tuition revenue per student. At SightLine, this process is based on enrollment probabilistic modeling and simulating hundreds of 'what-if' awarding scenarios. These simulations allow us to test awarding scenarios and predict the impact on enrollment, net revenue, and the impact on supporting strategic student demographics. Adding constraints to these simulations to verify that we are positively impacting strategic student demographics is critical to long term student success and university sustainability. We recommend maintaining supplemental or strategic scholarships that are based on student financial need rather than merit. Need-based awards do not need to be leveraged to increase enrollment, but rather to support students.

Proactively creating a cohesive strategic plan to set published prices, rates for room and board, fees as well as a comprehensive awarding strategy is paramount for a successful price reset rollout plan. To do this successfully, both external market level data and internal student level data should be rigorously analyzed to assess the competitive market context and price sensitivities for a particular institution. Furthermore, after a price reset, schools should carefully monitor their applicant pool as it develops to see if it is coming in as predicted in the modeling done prior to the reset. Schools should be nimble to adjust if the actual results are somewhat different than what was modeled to ensure that the ultimate enrollment and net tuition result in the desired institutional outcomes.

University Investment in Scholarships and Student Outcomes

Setting published tuition and developing a coherent awarding structure for first time incoming students serves as an investment for the university which will yield results for the following four years. Creating a clearly stated award package that communicates what a student can expect to pay during their first year and onward is critical to help reduce student's anxiety around making a long-term commitment to their education. Changing student trends and interests will continue to drive the need for data-informed recruitment, enrollment, and retention strategies. Simulating the impact of the financial aid awarding strategy on retention is critical and something which is often overlooked by many schools which depend

[4] https://www.fdu.edu/access-and-opportunity/
[5] https://www.rider.edu/tuition-aid/tuition-fees/undergraduate

on increases in net revenue annually from continuing students. This is why we believe that a university's financial success and student success go hand-in-hand.

About Sightline

SightLine is a certified women owned business dedicated to empowering universities to help students succeed using predictive analytics. Our data science experts have developed and proven to inform strategies that have measurable impact on student outcomes, from recruitment all the way through graduation. We are proud to be the only provider in the market using advanced machine learning to craft customized solutions for each individual institution without deploying software- no out-of-the-box software or cookie-cutter solutions here.

About Lapovsky Consulting

Lapovsky Consulting is a female owned and operated business dedicated to working with schools and colleges on strategic financial issues including, but not limited to, pricing and discounting. Lucie Lapovsky, a former college president and CFO, has been writing about pricing, enrollment management and tuition discounting since 1990. She is known as a thought leader and is widely consulted by governing boards, presidents and administrators for advice.