Do Price Resets Work?

Each year colleges and universities across the United States are challenged to determine the appropriate price for the following academic year. This analysis can help clarify the issues involved, provide decision-making tools and lay out a path for those colleges that decide to set aside the current pricing model by resetting tuition.

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As colleges and universities struggle to meet their enrollment goals, more college leaders are realizing that the strategy of raising their published tuition every year by several percent and concurrently increasing their financial aid to entering students to offset some or most of the increased price is no longer effective.

Between 2006 and 2017, private colleges on average increased their tuition by 29% in 2017 dollars, while their average net price increased only 6% in 2017 dollars over this period (College Board Trends). This means that the colleges received little of the revenue from their price increases, and some institutions experienced decreases in net price. Further compounding the price issues for private colleges is that the average income of families of students at public four-year institutions is higher than it is at private colleges, indicating that many middle-income families choose public colleges which have much lower published prices than most private colleges. Thus students and their families know that they can afford the tuition before waiting to see what their financial aid offer is from a high-priced private college. Today, the average discount rate for institutional financial aid for new freshmen at private institutions is 50%, according to the latest survey by the National Association of College and University Business Officers. This means that the average freshman at a private college or university pays only half the published price, and many pay significantly less than half the price. Also, at a significant number of private colleges and universities, there are no students who pay the full price.

A study by Longmire Associates found that 60% of students and their parents are unaware that private colleges discount their price. A study by Sallie Mae (p. 70) indicated that 35% of parents and 45% of students eliminated potential colleges based on price before even researching the college, and 47% of parents and 61% of students eliminated institutions based on price before applying.

The confluence of these factors, along with the serious enrollment and net tuition revenue issues that both public and private higher education institutions face, has led many institutions to question their high aid/high discount pricing policies. The impetus to change pricing strategies at private colleges has been further motivated by increased competition from public colleges, especially strategies that public colleges are adopting to attract more out-of-state students. The University of Maine, an early adopter of a significant change in pricing strategy, announced a few years ago that students from the surrounding states could attend the University of Maine for the in-state price at public universities in their home state. This strategy has been effective in increasing the number of out-of-state students at the University of Maine. Jumping on this bandwagon are Central Michigan University and Southern Illinois University Edwardsville which will charge U.S. students from anywhere in the country their in-state tuition rate. The University of Nebraska at Kearny, like many public universities, offers in-state rates to students from nearby states to raise access to programs and increase enrollment.

The Data

This paper is based on analysis of data from 24 private colleges that lowered their published tuition price between Fall 2010 and Fall 2016. IPEDS data were sent to the president of each institution, who was asked to review it and submit any corrections. Corrections to IPEDS data made by many of the presidents are reflected in this paper. Institutional names are provided in this study as all the data are publicly available. While some colleges offered additional commentary, for most of the institutions only data were studied. This paper does not provide case studies of these institutions as an earlier paper on this subject did.

In the review of the IPEDS data, it appeared that several more colleges and universities had reduced their price but on consultation with the institutions, it became apparent that there were errors in the reported data primarily due to changes in the number of credit hours that the college reported as full-time tuition and/or the inconsistent inclusion or exclusion of fees in the reported tuition data.

Tuition Before and After the Reset				
Institutions	Year of Tuition Reset	Tuition year before reset	Tuition year of reset	Tuition year after
Alaska Pacific University	2013	$29,810	$19,610	$20,310
Alfred University	2012	$27,794	$25,430	$27,078
Ashland University	2013	$29,836	$19,852	$20,392
Ave Maria University	2013	$23,000	$17,940	$19,128
Belmont Abbey College	2012	$27,622	$18,500	$18,500
Brewton-Parker College	2011	$13,790	$12,760	$16,960
Cabrini University	2011	$33,176	$29,000	$30,588
College of Mount Saint Vincent	2014	$31,290	$22,902	$35,180
Columbia College	2010	$7,016	$6,034	$21,936
Concordia University-Saint Paul	2012	$29,700	$19,700	$21,250
Converse College	2013	$29,124	$16,500	$17,000
Grace College and Theological Seminary	2015	$24,670	$22,450	$23,670
Hardin-Simmons University	2013	$23,460	$22,350	$25,830
Hebrew Theological College	2011	$19,120	$18,030	$16,860
Iowa Wesleyan University	2015	$27,286	$23,516	$23,516
Lesley University	2013	$32,375	$24,375	$25,875
Lincoln College	2012	$23,000	$17,500	$17,700
Ohio Northern University	2014	$36,720	$28,050	$28,810
Rosemont College	2016	$32,500	$19,480	$19,480
Sewanee-The University of the South	2010	$35,862	$32,292	$34,714
University of Charleston	2011	$25,181	$19,681	$29,900
Utica College	2016	$34,466	$19,996	$20,676
William Peace University	2011	$25,886	$23,900	$27,080
Wilmington College	2015	$29,120	$24,500	$25,000

Source: IPEDS Data reviewed and corrected by institutions

More than half of the colleges that instituted a reset had tuition between $20,000 and $30,000, and none had tuition higher than Ohio Northern's tuition of $36,720.

Percent Change in Tuition: Reset Year and Year After Reset		
Institutions	**% Reduction in tuition for reset**	**% Change in tuition year after reset**
Alaska Pacific University	34%	4%
Alfred University	9%	6%
Ashland University	33%	3%
Ave Maria University	22%	7%
Belmont Abbey College	33%	0%
Brewton-Parker College	7%	33%
Cabrini University	13%	5%
College of Mount Saint Vincent	27%	54%
Columbia College	14%	264%
Concordia University-Saint Paul	34%	8%
Converse College	43%	3%
Grace College and Theological Seminary	9%	5%
Hardin-Simmons University	5%	16%
Hebrew Theological College	6%	-6%
Iowa Wesleyan University	14%	0%
Lesley University	25%	6%
Lincoln College	24%	1%
Ohio Northern University	24%	3%
Rosemont College	40%	0%
Sewanee-The University of the South	10%	8%
University of Charleston	22%	52%
Utica College	42%	3%
William Peace University	8%	13%
Wilmington College	16%	2%

Source: Calculation from IPEDS Data reviewed and corrected by institutions

The size of the tuition resets varied from 10% or less at Alfred University, Brewton-Parker College, Grace College and Theological Seminary, Hardin-Simmons University, Hebrew Theological College, Sewanee – The University of the South and William Peace University, to more than 40% at Converse, Utica and Rosemont Colleges.

At Hebrew Theological College, another tuition reduction occurred the year following the first reset, and at three of the institutions there was no change in the tuition the year following the reset. At six of the institutions, tuition was raised more than 10% the year following the reset, while at the majority of the institutions, tuition was increased less than 10% the following year. Eight of the institutions increased tuition 5 percent or less the year following the tuition reset.

Are Price Resets Successful?

This is a difficult question to answer. Success depends on the goal(s) of the institution, and this study does not have that information. For most institutions, a successful price reset would result in increases in the applicant pool (data that we don't have), which would result in an increase in enrollment; this can be achieved through gains in both freshmen and transfer enrollment as well as stability in the retention rate for continuing students. Furthermore, success for most institutions would mean that the net total tuition revenue of the new students was equal to or greater than what it was before the reset. For some institutions increased access may be their measure of success, while for others it can be the ability to be more selective given an increase in the applicant pool thus affording the institution greater choice among students that they decide to accept without necessarily garnering an increase in enrollment.

Using IPEDS data, we can measure the enrollment in the year prior to the reset and compare it with year(s) after the reset depending on when the reset was done. Assuming that an increase in freshman and transfer student enrollment is the goal, the data are positive although not overwhelmingly so. Half of the colleges and universities had freshman enrollment increases in the year that that the reset was done as compared with the year before the reset. Only 43% of the colleges had freshman enrollment increases in the year after the reset as compared with the year before the reset, while 67% had an increase in their freshmen class two years after the reset as compared with the year before the reset.

	Number of Institutions		
	Reset Year	Reset + 1 year	Reset+2 years
Freshmen			
Enrollment increase	12	10	14
Enrollment decrease	12	13	7
Transfers			
Enrollment increase	13	13	12
Enrollment decrease	11	9	8

When we look at transfers, the picture is more positive. More than half of the colleges had an increase in their transfer enrollment the year of the reset and 60% had an increase in their transfer enrollment as compared with the year(s) before the reset in the two years following the reset.

A price reset itself, with no changes in recruitment and marketing strategies, is not likely to be successful. A price reset should impact the applicant pool, meaning that an institution needs to change its recruitment strategy to attract students who are more price sensitive than those who are currently in their applicant pool. This usually involves marketing to students who are looking primarily at the institution's public competitors. It often takes an institution a year or two to make these adjustments and to become known among this new pool of students, helping to explain the lag in enrollment growth.

Beyond enrollment increases, institutions are concerned with the net tuition revenue that they receive from their students. When an institution resets tuition, it also must change its discounting strategy. In most cases, the institution would like its net tuition revenue per student after the price reduction to remain stable, thus requiring a significant decrease in its discount rate. Some colleges have planned to increase total net tuition revenue by increasing the number of students and thus decreasing the net tuition revenue per student, but the safer approach is to try to maintain the net tuition revenue per student.

	Net Total Tuition Revenue for First-Time, Full-Time Students: Year Prior to Reset, Year of Reset and Most Recent Year		
Institutions	Net total tuition for FTFT undergrads year before reset	Net total tuition for FTFT undergrads year of reset	Net total tuition for FTFT undergrads year of latest data (2015-16)
Alaska Pacific University	$632,513	$204,215	$507,088
Alfred University	$7,483,498	$5,544,390	$5,275,189
Ashland University	$7,027,640	$797,318	$6,669,489
Ave Maria University	$2,418,808	$1,057,023	$2,621,198
Belmont Abbey College	$4,052,592	$1,273,939	$3,922,140
Brewton-Parker College	$837,060	$987,597	$1,095,382
Cabrini University	$5,357,902	$4,103,279	$6,185,705
College of Mount Saint Vincent	$6,283,000	$2,554,742	$9,130,121
Columbia College	$69,608	$3,069,120	$10,722,734
Concordia University-Saint Paul	$2,994,795	$500,009	$3,111,712
Converse College	$2,719,518	-$11,697	$2,880,515
Grace College and Theological Seminary	$4,929,446	$4,579,510	5,866,817
Hardin-Simmons University	$6,146,365	$5,376,504	$5,374,773
Hebrew Theological College	Missing data	Missing data	Missing data
Iowa Wesleyan University	$1,039,152	$854,328	$854,328
Lesley University	$6,520,609	$3,103,656	$6,028,472
Lincoln College	$5,181,676	$4,489,296	$3,768,832
Ohio Northern University	$7,484,699	$6,465,597	$6,855,247
Rosemont College	$1,162,420	$1,835,785	N/A
Sewanee-The University of the South	$7,815,286	$6,705,548	$12,358,383
University of Charleston	$2,967,338	$581,850	$4,735,211
Utica College	$9,256,176	$9,578,530	$11,330,448
William Peace University	$2,366,949	$1,558,321	$1,027,935
Wilmington College	$4,657,954	$4,004,035	$5,201,755

Source: Calculated from IPEDS new freshmen, tuition and institutional aid data
Red numbers indicate that the net total tuition revenue was lower than the year prior to the tuition reset

The data show that more than 80% of the colleges and universities had freshmen net total tuition revenue lower in the year of the reset than the year prior to the reset. This is due to a combination of lower enrollment and a tuition discount rate that was not adjusted down enough. It is very challenging to recalibrate the leveraging matrix without any history; this task requires a combination of science, sophisticated econometrics, and art. It is also often difficult for the admissions and financial aid staff to feel comfortable with the significantly reduced financial aid awards that they need to give to students. This takes training and a renewed focus on the net price as compared with the size of the award. In the latest year that we have data, only 45% of the colleges had freshmen net total tuition revenue that was lower than in the year prior to the reset. Thus, with experience, 55 percent of the institutions were able to both increase enrollment and net tuition revenue per student.

The data indicate that a majority of the institutions are able to recalibrate their awards within a year or two of the tuition reset and that in the years following the reset, they are able to generate net freshmen tuition revenue that is greater than it was in the year prior to the reset.

What's the Bottom Line?

The great unknown is what would have happened to the enrollment and net tuition revenue at these institutions without a tuition reset. Although the results of the tuition reset are mixed, would the colleges have been better staying the course of continuing with price increases and working to moderate their discount rate or did the price reset result in better outcomes for most of the institutions. As we cannot test this hypothesis, each college needs to make its own decision.

Based on my work with many higher education institutions, colleges that effectively execute their tuition reset usually achieve positive results. Good execution includes the following:

Twelve Elements of Effective Execution

1. Decide to make a price change at least 18 months prior to the enrollment of the first class that will be affected by the price change.
2. Educate the board so they understand the rationale for the price change and are in favor of it when it comes up for a vote.
3. Announce the price change at least 11 months before the first class that will be affected by the change enrolls.
4. Invest in significant planning regarding the changes in recruitment strategy.
5. Conduct significant planning of the marketing roll-out of the price change, preferably bundled with other changes that the institution is making in terms of facilities, curriculum and co-curricular activities.
6. Increase and target the institution's investment in marketing.
7. Engage in simulation work on the financial aid leveraging matrix to develop a new matrix with the lower tuition price.
8. Educate high school counselors at your key feeder institutions about the price change.
9. Educate admissions and financial aid staff to talk about the net tuition students will pay rather than the size of the award and make them feel comfortable with this rather than apologetic.
10. Send personal notes to each continuing student and his or her parents on the day that the price change is announced, showing the impact on the student.
11. Educate the faculty and staff so that they understand the price change and the rationale for it.
12. Carefully review the applicant pool and net tuition revenue as you go through the admissions cycle, making adjustments as necessary.

Among colleges that I have consulted with, most that have carefully followed all these steps and have been successful with their tuition resets. Many of the 24 colleges examined in this article announced their resets just a few months before the class was about to enroll, neglected to make additional investment in marketing and retained their old recruiting strategy. Other pitfalls included lack of attention to redoing the financial aid leveraging matrix or training admissions and financial aid staff to speak confidently about students' smaller institutional aid awards. These are the colleges where, for the most part, the results have been negative.

What's Next?

Many colleges and universities are considering price resets. The competing concerns that most of these colleges have are whether a price reset would be viewed as a sign of weakness and how the institution would stack up compared with its peers versus the expectation that more students will look at the institution and that there will be more transparency in pricing as the gap between net and published price shrinks. Finally, as more colleges fail to meet their enrollment targets and experience stagnant net tuition revenue per student as they continue to raise their published price, an increasing number are concluding that a different strategy is warranted than the high price/high aid approach that most private schools have been following for the last several decades.

When to Consider a Reset

Colleges and universities with at least four of the following characteristics should consider a price reset:

1. Inquiry and applicant pools have been declining.
2. Enrollment has been declining.
3. The college is under capacity.
4. The tuition discount rate is above 50%.
5. Almost all students receive institutional grant aid.
6. Many competitors have lower published prices.

Four colleges reduced their published price in fall 2017, 13 in fall 2018 and six have announced that they will reduce their tuition in fall 2019. Many additional colleges and universities are thinking about resetting their tuition in fall 2020.

Colleges That Have or Will Reduce Tuition : 2017-2019

Fall 2017	**Fall 2018**	**Planed for Fall 2019**
College of St. Mary	Avila University	Albright College
Immaculata University	Benedict College	Capital University
La Salle University	Birmingham-Southern Col.	Elizabethtown College
Marian University	Canisius College	Elmira College
	Cleveland Inst. of Music	St. John's Col. - Annapolis
	Cornerstone University	St. John's Col. - Santa Fe
	Drew University	
	Mills College	
	Sweet Briar College	
	University of Detroit Mercy	
	University of the Sciences	
	University of Sioux Falls	
	Warner Pacific University	

Other Pricing Strategies

Beyond across-the-board price reductions, colleges are reducing their price to certain populations of students. Oglethorpe University in Atlanta announced its Flagship 50 program that will match the in-state tuition of the flagship university for all high ability students from their home state. Robert Morris University in Pennsylvania introduced its Public Price Plus Match Guarantee Program under which it will match the in-state tuition at Pennsylvania State University and University of Pittsburgh and provide an additional $3,000 scholarship for students who are admitted to both one of the public universities and Robert Morris. Rice University just announced that all students from families with incomes below $60,000 will receive free tuition, room and board and those from families with incomes between $60,000 and $130,000 will receive free tuition. Simpson College guarantees free tuition for all qualified Iowa residents with family incomes below $60,000 through its Simpson Promise.

Capital University in Ohio will charge half price to anyone whose family is working in a “mission-centered” nonprofit or public service job. Marion Technical College, a two-year institution, will offer the second year tuition free for all students who complete 30 hours of college with a 2.5 GPA or better. The college also provides book grants of $100 in both the first and second years. Programs like these allow colleges to publicly cut tuition to specific populations of students so that these students know what they will pay to attend before applying. These selective price reductions allow colleges to target certain populations of students while maintaining their published price. Some colleges that have been holding their price fixed for one or more years; these include Purdue University, which has not increased its price since 2012; the University of Illinois which will hold its tuition fixed for the fourth year; Alverno College in Wisconsin which has held its price for the last two years; and Southern New Hampshire which froze its undergraduate tuition for this fall.

Other colleges and universities provide price guarantees. George Washington University, Bowling Green University, University of Colorado Boulder, Viterbo University, and Baylor University all provide a four-year price guarantee. The University of Dayton provides a net price guarantee. Colleges that hold price constant while a student is enrolled provide positive price incentives to improve retention, whereas colleges that increase the price for all classes every year find that annual price increases exacerbate the financial pressure that causes many students to drop out or transfer.

As more colleges and universities struggle to make the current pricing model work, the number of tuition resets is likely to grow. These colleges will have the advantage of avoiding mistakes of the pioneers who preceded them. Higher education institutions that execute their plan using the 12 elements outlined in this article are likely to achieve their reset goals.

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