OUTCOMES OF TUITION RESETS AT SMALL, PRIVATE, NOT-FOR-PROFIT INSTITUTIONS

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ABSTRACT

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Tuition discount rates have been rising faster than published tuition prices at many small, private higher education institution resulting in a high-price, high-aid tuition model with decreasing net tuition revenue (NTR). In response to this pricing model, some institutions have decided to implement a low-cost, low-aid pricing approach, referred to as a tuition reset. A tuition reset reduces the tuition sticker price and discount rate. As a relatively novel phenomenon, the research on tuition resets and their impact is incomplete. This study serves to add to the limited collection of research surrounding the topic by studying 12 institutions that reset their tuition to understand the impact of a tuition reset on enrollment, NTR, and other observed outcomes. This study examined a subset of private, not-for-profit colleges and universities with total enrollment below 5,000 that reset their tuition between 2011 and 2014. The study used a mixed-methods approach, performing quantitative analysis of enrollment and financial data both before and after the tuition reset, and a qualitative analysis to understand other benefits observed by institutions that implemented a tuition reset. A semi-structured interview protocol was used with key institutional leaders to document their stories with results grouped into outcome categories.
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CHAPTER 1 – INTRODUCTION

In the fall of 2017, nearly a dozen small, private, not-for-profit colleges and universities announced tuition resets effective for the 2018-2019 academic year (National Association of Independent Colleges and Universities, 2017; Seltzer, 2017). Slashing thousands of dollars off of their published tuition prices, these institutions made headlines by reversing a trend of continually escalating tuition rates in U.S. higher education. By implementing tuition resets, these institutions changed the traditional pricing structure employed by most private postsecondary institutions from a high-price, high-discount model to a lower-price, lower-discount pricing model. The question that hangs over these decisions is if tuition resets are a successful strategy. The research on tuition resets and their impact remains incomplete. While the number of institutions implementing tuition resets continues to rise, there is not a substantial amount of published information about the effectiveness of this phenomenon. With an expanding group of schools resetting tuition, this phenomenon is becoming a trend and makes understanding the outcomes almost urgent. This study will ascertain if a tuition reset was a successful initiative by using five metrics and observed outcomes to compare 12 schools that reset their tuition.

Statement of the Problem

The pricing model prevalent at many private institutions has been tuition sticker price increases coupled with an increasing discount rate. A discount rate is “the ratio of total institutional grant aid relative to gross tuition revenues at an institution” (Association of Governing Boards of Universities and Colleges, 2017, para. 4). Tuition discount rates have been rising faster than their published tuition prices (Hanover Research, 2013). This results in a high-cost, high-aid business model in which “private
institutions are bringing in less net tuition revenue and experiencing diminishing returns on tuition discounts” (Hanover Research, 2013, p. 4). In 2012, 86.9% of first-time, full-time freshman received institutional aid at private colleges and universities with an average award of 53.1% of the institution’s sticker price (Kiley, 2013). The National Association of College and University Business Officers’ *Tuition Discounting Study* also identified the trend of increasing discounts at the nation’s private colleges and universities (Seltzer, 2016). The study included data from 401 private, not-for-profit institutions. The study found that “about 88 percent of first-time, full-time freshmen and 77.6 percent of all undergraduates were awarded aid, which averaged roughly half the cost of tuition and fees for both cohorts” (Seltzer, 2016, para. 3). The increasing discount rate of private institutions illustrates their dependency on sticker price reductions to appear affordable to potential students.

College and university leaders closest to their institution’s finances have acknowledged the challenges of higher education’s business model in the current operating environment. Confidence in the private higher education business model continues to fall. The *Inside Higher Ed* and Gallup 2015 Survey of College and University Business Officers found that “one in five college and university chief business officers are worried their institutions are at risk of shutting down in the foreseeable future” (Woodhouse, 2015, para. 1). Responses from chief financial officers (CFOs) at private, nonprofit institutions were twice as high as those from public universities were.

As a result of the high-cost, high-aid pricing model that has developed over the last several decades at private colleges and universities, some institutions have decided to
try a different low-cost, low-aid approach. This pricing approach to lower an institution’s sticker price became known as a tuition reset.

The sticker price of a college or university has implications on applications and enrollment. Recent enrollment data for private institutions have illustrated a decline in enrollment. NACUBO’s *Tuition Discounting Study* found that “37.5 percent of institutions reported enrollments declined in both their freshman classes and across their entire undergraduate bodies from 2014 to 2015” (Seltzer, 2016, para. 8). Students and their families gravitate to price, and “the bottom line is that most families feel, and have felt for some time, the squeeze of the rising price of college” (McGee, 2015, p. 43). Despite rising discount rates at private colleges and universities, many consumers are not aware of the high-price, high-discount strategy employed by these institutions. According to Lapovsky (2015), “A survey by Sallie Mae reported that 63% of students eliminate colleges solely on the basis of price and 56% of families eliminate a school without any research beyond its price” (p. 4). Lapovsky (2015) cited:

Another study, by Longmire and Company, reports that 32% of students and parents say they did not consider a private college on the basis of its published sticker price alone, and 60% say that they are unaware that most private colleges discount their sticker price so that freshmen pay less than the published tuition. (p. 4)

A combination of high sticker prices and families’ lack of knowledge about tuition discounting are negatively affecting applications and enrollment at many small, private institutions. Tuition resets are one opportunity for institutions to appeal to those students and families who are making application decisions based on lower prices.

A 2008 report by the Delta Cost Project found that, in 2005, tuition revenue provided between 54% and 71% of total funding for private institutions and that “tuition
increases are the primary source of new revenue” (Wellman, Desrochers, & Lenihan, 2008, p. 19). However, “as universities look to increase tuition as a way to solve revenue shortfalls, an assumption is too often made the tuition can be raised without adversely affecting enrollment” (Policano & Fethke, 2012, p. 52). Policano and Fethke (2012) described the link between tuition and demand for higher education by introducing the concept of tuition elasticity, or the percentage decrease in enrollment caused by a percentage increase in tuition. They explained that the demand curve for tuition relative to enrollment has a negative slope, indicating that higher tuition suggests lower enrollment. Thus, tuition increases may not be a viable source of increased revenue in the future. If tuition increases continue to exceed increases in median family income, it is unlikely that tuition increases will be sustainable (Breneman, 2010).

For many, the published cost of a private higher education seems out of reach. According to College Board (2016), “Average published tuition and fees at private nonprofit 4-year institutions rose by $1,150 (3.6%), from $32,330 in 2015-16 to $33,480 in 2016-2017. Average total charges are $45,370” (p. 3), including tuition, fees, room, and board. The College Board’s (2016) *Trends in College Pricing* report also provides data on how much the cost of education has increased over the past 20 years. Adjusting for inflation, the average tuition and fees paid at a private, nonprofit, 4-year institution in 2016-2017 is 2.3 times as high as it was in 1986-1987 (College Board, 2016).

The result of sticker price increases does not necessarily result in a corresponding increase in net revenue. According to Wellman et al. (2008), “Though sticker prices have risen in all sectors, these increases do not translate to comparable increases in net revenue from tuition, because many students receive tuition discounts” (p. 21). Tuition
discounting, as defined by Baum, Lapovsky, and Ma’s 2010 College Board report, is a combination of institutional grant aid, athletic awards, and tuition waivers. Institutional grant aid is comprised of restricted funds designated for grant aid; “however, much of the aid is unfunded and is derived from the general revenues of the college, which are composed primarily of student tuition and fees, unrestricted endowment income or gifts” (p. 2). When the tuition discount is applied to the sticker price, the result is the net tuition.

Wellman et al. (2008) found in their Delta Cost Project report that, at private institutions between 1998 and 2005, the net tuition revenue (NTR) per student increased about $1,500 to $2,500, which is about half the increase in sticker price over the period. Therefore, while sticker prices continue to increase, the average discount rate is increasing at a greater amount. The result is an escalating sticker price at many private institutions that is not reflective of the net tuition students actually pay. The smaller increase in net tuition compared to sticker price is due to the growth in discount rate (Baum et al., 2010).

Concerns with the traditional pricing structure of private higher education has prompted some non-elite institutions to question the model. A tuition reset is one option that is gaining in popularity, which universities can use to reverse the trend of increasing sticker prices and discount rates prevalent at many private institutions. Over the past decade, several higher education institutions have implemented tuition resets to change their pricing model to a low-cost, low-aid model. As more institutions reset tuition, more data become available to study the effectiveness of the phenomenon.
Purpose of the Study

This study serves to add to the limited literature and research findings focusing on tuition resets by studying 12 institutions that reset their tuition between 2011 and 2014. The motivation of the study was focused on understanding the outcomes experienced by institutions that have reset their tuition. This includes tangible benefits and sustainability. The two general categories of tangible benefits researched include both detailed, documented, quantitative data and a qualitative analysis of the impressions’ of campus leadership resulting from the tuition reset. For institutions that reset their tuition 3 or more years ago, the same quantitative and qualitative analysis was used to determine the sustainability of a tuition reset. The study asked two basic research questions:

1. What are the tangible benefits experienced by an institution following a tuition reset?
2. Is a tuition reset sustainable over a period of multiple years?

To answer the research questions proposed in this study, a mixed-methods approach was used. Mixed-methods methodology is “one that bridges qualitative and quantitative research” (Creswell, 2013, p. 5). The quantitative research relies on published enrollment and financial data. The qualitative research requires a case study methodology that employs semi-structured interview questions addressed to institutional leaders.

Since the year 2000, over two dozen postsecondary institutions in the United States have implemented pricing strategies to cut tuition (Edvisors, 2017). The majority of these institutions have been small, private, not-for-profit colleges and universities that have generally employed one of two strategies: freeze tuition or reset tuition (Affordable Schools, 2017). For institutions contemplating a tuition reset, it is important to
understand the effect that a tuition reset has on enrollment, the impact on NTR, and if the resulting business model is sustainable moving forward. Additionally, through targeted interviews with select institutions that have implemented tuition resets, this study sought to understand what other tangible results, if any, institutions have witnessed beyond financial and enrollment numbers.

The 12 institutions included in this study are all private, not-for-profit colleges or universities that reset their tuition between 2011 and 2014. The tuition reset must have occurred no later than 2014 to provide at least two cycles of enrollment and revenue data following the reduction in sticker price. The institutions purposefully were not identified by name in the study. Each institution has a total undergraduate enrollment below 5,000 students, and they are located in nine different states in various regions across the United States. See Table 1 for a summary of the percentage reduction in tuition sticker price.

For many institutions, the primary goals of a tuition reset are to increase both enrollment and tuition revenue. The impetus behind these goals could be to strategically grow the size of a university, fill excess capacity, reverse a trend of enrollment and revenue declines, and/or appeal to new or different student demographics. Chapters 2, 3, and 4 (Enrollment, Tuition, and Sustainability) outline the results of 12 institutions that reset their tuition between 2011 and 2014. Key points of the enrollment management funnel (i.e., applications, accepts, enrolled), NTR, and NTR student per full-time equivalent (FTE) for 2 years before and after the tuition reset are presented. The source of enrollment and financial data is the Integrated Postsecondary Education Data System (IPEDS, n.d.). A comparator institution was selected for each of the 12 reset schools. Using a comparator school for each institution studied assisted in the ability to attribute
Table 1

*Summary of Percentage Reduction in Tuition Sticker Price at Participating Institutions*

<table>
<thead>
<tr>
<th>Institution</th>
<th>Sticker Price Reduction</th>
</tr>
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<tbody>
<tr>
<td>A</td>
<td>33%</td>
</tr>
<tr>
<td>B</td>
<td>13%</td>
</tr>
<tr>
<td>C</td>
<td>34%</td>
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<tr>
<td>D</td>
<td>43%</td>
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<tr>
<td>E</td>
<td>20%</td>
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<td>F</td>
<td>17%</td>
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<tr>
<td>G</td>
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<td>H</td>
<td>34%</td>
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<td>I</td>
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<td>22%</td>
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<td>K</td>
<td>10%</td>
</tr>
<tr>
<td>L</td>
<td>8%</td>
</tr>
</tbody>
</table>

observed results to the tuition reset. The only way to ascertain that the reset was working was to compare results to institutions that did not reset tuition. The comparator institutions were all private, not-for-profit institutions within a 100 mile radius of the reset school that did not reset or freeze tuition during the observed time period. (Due to the unique geographic location of one institution, a comparator was not found within a 100-mile radius. A comparator institution was identified in the next state and with similar characteristics.) Each comparator college/university had similar enrollment numbers. The comparator institutions acted as a benchmark—both individually and as a collective group—to determine if any changes in enrollment and tuition revenue were unique to the institution(s) that reset tuition.
CHAPTER 2 – ENROLLMENT

*I think they kind of felt that one of the things leading to their enrollment decline was that they were overpriced.*

( Participant at Institution B)

Recent data for private institutions have illustrated a decline in undergraduate enrollment (Seltzer, 2016). Ten of the 12 institutions studied saw enrollment declines in either one or both of the years preceding their tuition reset. In interviews with campus leaders, each interviewee discussed increasing enrollment as at least a factor, if not the primary driver, in their institution’s decision to reset tuition. An enrollment management professional at Institution B described a multiyear decline in enrollment:

> The school had been in a declining enrollment phase. They had about four to five years of declining enrollment where they went from having incoming freshman classes at around 500 to 520 down to the year before the tuition reset down to 333.

While this overall reduction in enrollment is substantial, Institution B is not unique among the small, private institutions studied. A campus leader from Institution K described the institution prior to resetting tuition as having to accept nearly two thirds of their applicants and seeing the discount rate continue to increase to recruit a diminishing number of first-year students:

> Any one of those things would not necessarily have been a cause of concern. Even collectively, they were not a cause of panic. But you put them all together and you say, do we need to revisit some basic assumptions.

One factor most interviewees attributed to enrollment declines at their institutions was an increasing sticker price. Research has indicated that sticker price is playing an increasing role in application decisions.
With almost a third of families not considering a private college or university based purely on sticker price (Lapovsky, 2015), reducing price through a tuition reset has the potential to attract these students and families who would have otherwise not considered the institution. The result for colleges is that “it doesn’t eliminate us from choice sets as early as it may have if we hadn’t done the reset,” according to a participant from Institution E. The thought is that a tuition reset will expand the top of the enrollment management funnel. Marketing and student recruitment firm ICEF defines the enrollment management funnel, “as the term suggests, the funnel is a way of imagining and managing the process of advancing students from a (relatively large) pool of prospects through several key ‘conversions,’ such as enquiry, application, admission, and, if all goes to plan, enrollment” (“The Enrollment Funnel,” 2015, para. 5).

Most interviewees described a positive impact on the top of the enrollment management funnel following a tuition reset. A participant at Institution C said:

The strategy is again top of funnel that keeps people in the funnel longer so that they have a chance to engage with institution. . . . You get to get them on campus because we all know that if we get them on our campuses, our close rate is much higher because then we can get them to talk to our faculty and they can find that personal connection which it ties the emotive element to the physical element.

For some institutions that reset tuition, the increased pool of interested students and applicants progressed through the enrollment management funnel and resulted in increased enrollment. The year-over-year results of applicants, accepted students, and student enrollment are detailed in Figures 1, 2, and 3. The figures illustrate the average annual percentage change of the reset institutions compared to the comparator group.

Results of the individual reset institutions vary greatly, but the average enrollment trend was positive during the reset year. In the 2 years prior to the tuition reset, average
Figure 1. Applications: Average annual percentage change.

Figure 2. Accepted students: Average annual percentage change.

Figure 3. Undergraduate enrollment: Average annual percentage change.
fall enrollment at the 12 institutions was decreasing year over year. There was an average increase of 13% during the reset year followed by another double-digit increase in the year immediately following the reset and then a more modest average increase in enrollment of 3% two years after the tuition reset. As illustrated in Figure 3, average enrollment growth across the 12 reset institutions peaked in the year of the tuition reset.

Data indicated that, as a group, the schools that reset their tuition were experiencing enrollment declines in the 2 years prior to the reset. Comparator institutions had a slight increase in enrollment the year prior to the reset. The average student enrollment results of the group of reset institutions was greater during the reset year and 2 years following compared to the average annual change in enrollment among the set of comparator schools. Prior to the reset year, fall enrollment was declining, as a group average, at the reset schools. In the year before the tuition reset, there was an average enrollment decline of 3% versus an average 2% increase at those institutions that did not reset tuition.

While looking just at the average results illustrates that the tuition reset reversed a 2-year trend of declining enrollment, individual school data vary significantly from the group average. The data show that, for half of the institutions that reset their tuitions, year-over-year fall enrollment either declined or remained flat during the year of the reset. Essentially, there was a 50% success rate at increasing enrollment during the year of the tuition reset. This success rate of student enrollment growth at the reset schools was greater than the individual results of the comparator institutions where eight of the 12 schools witnessed either flat or declining fall enrollment during the same year as the resets. Individual enrollment results for the 12 reset institutions are graphed in Figure 4.
Figure 4. Annual percentage change in enrolled students by institution.

The data illustrate a trend of increased enrollment the year of the tuition reset. Institution H is an anomaly to the overall enrollment trends; to show this pattern, the scale of Figure 4 was altered.

Figure 4 illustrates a visible lift in enrollment for half of the institutions during the reset year. Of the six reset institutions that experienced flat or declining year-over-year enrollment the year of the reset, four of these institutions (A, H, I, and J) increased fall enrollment the year after the reset. However, the trend is not unique to the reset institutions, as similar increases in enrollment results were observed at their comparator institutions. Therefore, it is not possible to conclude that the increased enrollment witnessed a year after decreasing sticker price was a delayed response to the tuition reset.
As a group, the average number of applicants and admitted students increased during the year of the reset and in each of the following 2 years for institutions that reset tuition. An applicant, as defined by the National Center of Education Statistics (NCES, 2018), is

an individual who has fulfilled the institution’s requirements to be considered for admission (including payment or waiving of the application fee, if any) and who has been notified of one of the following actions: admission, nonadmission, placement on waiting list, or application withdrawn by applicant or institution. (p. 3)

Admitted students, or admissions, are defined by NCES (2018) as “applicants that have been granted an official offer to enroll in a college or university” (p. 2). The details of each institution’s year-over-year application and admitted student results are presented in Figures 5 and 6.

While there is a visible enrollment trend among reset institutions, with one outlier (Institution H, indicated in Figure 4 with a dotted line), application results were less consistent. Figure 5 illustrates the variability in year-over-year change in applications. While most institutions experienced at least a slight increase during the reset year, there is no consistency in results prior to or after the tuition reset.

Individual results of both applicants and admitted students varied. A campus leader from Institution C remarked:

We initially had an increase in campus visits, and then, applicants to the university. It continued from, all the way from Inquiry to Enrolled Student. So we had a record number of applications, admitted students and enrolled students that year. And then, that has continued each year since.

Two of the institutions (H and J) that reset tuition saw applications drop during the year of the reset. This was the second year of application declines for Institution J, but for
Institution H, the reset reversed a prior year increase in applications. Year-over-year declines for these two reset schools were also unique compared to their comparator institutions. These results set the stage for their entire enrollment management funnel with lower accepted students and enrolled students. When interviewed, a participant from Institution J agreed that the tuition reset did not work for increasing enrollment at the institution.

The quantitative results illustrate that a tuition reset was not successful at increasing enrollment or the enrollment management funnel for all institutions. The responses from campus leaders echoed the quantitative results and were similarly mixed.
in regard to the tuition reset’s impact on enrollment. A campus leader from Institution D specifically credited an increase in enrollment to the tuition reset: “I think our enrollment growth is attributed to the tuition reset, and this year, we had the largest undergraduate population on campus in our history.” Conversely, a campus leader from Institution J was clear that the tuition reset did not have a positive impact on enrollment: “When we look at it, a couple of years later, we found out that the undergraduate enrollment had gone down a little bit, not dramatically, but a little bit, and it hadn’t gone up.” Further analysis of the study’s findings are detailed in Chapter 6.
CHAPTER 3 – TUITION REVENUE

And as much as you’d like to be able to focus on the bottom line it’s that initial sticker price that sort of guides the interest.

(Participant at Institution E)

Multiple studies have established a counter relationship between tuition price and student demand (Heller, 1997), yet postsecondary tuition sticker prices have continued to rise at rates higher than inflation (College Board, 2016). At the same time, many private institutions have been increasing their discount rates at higher percentages than tuition. The result has been a reduction in NTR per student (Wellman et al., 2008). With tuition revenue as the number one source of operating funds for private institutions, the reduction in net revenue highlights a flaw in the high price-high discount tuition pricing model of private higher education.

Tuition revenue provides the majority of revenue at most non-elite, private institutions (Wellman et al., 2008)—an institution’s resources are limited by their students’ willingness and ability to pay tuition. Willingness to pay is influenced by many “factors, including family income, dynamics, social demographics, and perceived value in the return of education (benefit) to both individuals and society” (Policano & Fethke, 2012, p. 28). A willingness-to-pay schedule is reflective of an inverse demand curve with higher tuition implying lower enrollment (Policano & Fethke, 2012). Willingness to pay is “the price or dollar amount that someone is willing to give up or pay to acquire a good or service. Willingness to pay is the source of the demand price of a good” (Glossary.EconGuru.com, 2008). A 2007 report by the U.S. Government Accountability Office (2007) contains similar findings: “When enrollment and tuition trends are jointly 17
considered, overall, the majority of students today attend institutions that have the lowest average tuition” (p. 3).

There is clear evidence of a relationship between price and demand in the market for postsecondary education. Many studies confirming this relationship built on the work done by Leslie and Brinkman (1987) who found that every $100 increase in price resulted in a decrease in demand of about three quarters of a percent. A decade later, Heller (1997) published a review of “approximately twenty quantitative student demand studies” examining “their new findings in comparison to those of Leslie and Brinkman” (p. 625). The first key observation of Heller’s (1997) review relating to tuition sensitivity confirmed the work of Leslie and Brinkman in that “increases in tuition lead to declines in enrollment” (p. 650). Baum (2001) supported these findings, stating, “There is considerable evidence that for many students, price is a significant factor in the decision to enroll in college and in the choice of a college or university” (p. 16). The takeaway is that tuition price has a considerate impact on an institution’s revenue.

Deciding to reduce an institution’s sticker price is a risk the institution must carefully examine. All but one of the campus leaders interviewed in this study conducted studies, frequently with third-party consultants, to create projections and models to understand and predict the potential net revenue impact of reducing their sticker price. Studies included price sensitivity studies with students, prospective students, and their parents; cost studies (such as cost of attendance); and market studies. Two primary strategies emerged for implementing the tuition reset: reduce the discount rate so that NTR per student would not decrease and/or make up tuition revenue loss on a per-student basis by increased volume (enrollment).
Figures 7 and 8 illustrate the average annual percentage change in NTR and NTR per student FTE at both the reset sample and comparison sample of institutions. NTR per FTE was calculated by dividing the total NTR by the FTE enrollment reported to IPEDS.

As a group of institutions, the average NTR of the 12 institutions that reset tuition rose by 1% during the reset year compared to the year prior to the reset. This slight increase in NTR during the reset year reversed a trend of flat and declining NTR in the 2 years prior to the reset. Additionally, in the 2 years after the reset, the average NTR for schools that reset their tuition continued to increase. The modest increase in NTR the year of the reset and the next year where not substantially different than the group of comparator institutions.

NTR per student FTE decreased for the reset group during the year of the tuition reset. With only a minimal average lift in NTR of 1%, combined with an average enrollment increase of 13%, this result was to be expected. As net tuition continued to grow after the reset and enrollment growth slowed, the per-student NTR results realigned closer to the comparison group of institutions.

Both total NTR and NTR per student FTE are reported for each school in Figures 9 and 10. Similar to the enrollment outcomes, the 12 institutions that reset tuition observed varying results for both total NTR and NTR per student FTE in the year of the reset and following years. Seeing the individual results, it is difficult to determine any clear trends in the data the year of the tuition reset and 2 years proceeding.

Individually, the NTR results of the reset institutions were mixed with half of the institutions experiencing either a decline or flat NTR the year of the tuition reset compared to the previous year. These outcomes indicate that the reduction in tuition
sticker price was not offset by a large enough increase, either individually or in combination, in enrollment or reduction in discount rate to cover the decrease in NTR per student. Unsurprisingly, with a drop in tuition price, the NTR per student FTE decreased for the majority of institutions that reset tuition. Nine of the 12 schools saw a decrease in NTR per FTE the year tuition was lowered.
Only one of the campus leaders interviewed mentioned that they projected a revenue loss the first year. Based on that projection, the institution planned ahead to cover the loss. The campus leader shared:

We had projected, and it turned out to be true that the net tuition revenue loss would be just in that first year, and that was the case... we were able to operate without a budget deficit in every year except that first one.

The results of the 12 institutions illustrate that, for three quarters of the studied schools, their implementation of a tuition reset was not successful at increasing either total NTR...
Figure 10. Annual percentage change in NTR per student FTE by institution.

or NTR per student FTE in the year of the reset. With small, private institutions dependent on tuition revenue to fund operations, these results call into question the impact a tuition reset may have on the financial sustainability of an institution.
CHAPTER 4 – SUSTAINABILITY

I guess the experience helps us underscore in people’s minds how important net revenue is, and there’s great consciousness about how critical those numbers are.

(Participant at Institution J)

Examining an institution’s NTR and fee revenue, as well as NTR per student FTE, provides indicators of financial sustainability following a tuition reset. Beyond the initial 1 or 2 years post-reset financial data described in Chapter 3, five of the 12 institutions in this study reported financial results for an additional 1 or 2 years. Average results are provided in Figures 11 and 12 for the subgroup of five reset institutions with additional NTR data. Average comparator institution data are also provided as a reference to compare the observed results of the institutions that reset tuition.

Average NTR growth for the subgroup of five reset institutions outperformed the results of the comparator group. Note, however, that the average of both groups during the reset year was below 0%, meaning that these five institutions and their comparators experienced a year-over-year decline in NTR during the year of the tuition reset. Over the next 3 years, NTR increased for the subgroup of reset schools but did not exceed 4%. The average annual percentage increase can likely be attributed to annual tuition increases. An initial decrease in NTR per student FTE was reversed for the reset subgroup 2 years after the reset, and this trend continued in the next year(s). The average results for both total NTR and NTR per student FTE of these five institutions outperformed their comparator school average over an extended period. While the average NTR of the comparator group declined annually, the subgroup or reset schools experienced annual revenue growth for 3 or more years after resetting tuition.
In the third year after resetting tuition, three of the five institutions with 4 or more years of published financial data reported higher NTR than prior to their tuition reset. This is illustrated in Figure 13. Two institutions also yielded an overall increase in net tuition and fee revenue per student FTE, illustrated in Figure 14. Only one university,
**Figure 13.** Annual percentage change in NTR 3 years post-reset by institution.

**Figure 14.** Annual percentage change in NTR per FTE 3 years post-reset by institution.
Institution K, witnessed a multiyear, upward trend in both net tuition and fee revenue and net tuition and fee revenue per student FTE. Due to the timing of the tuition reset, an additional year of financial data was also available for Institution K. Four years after their reset, the positive increase in NTR and NTR per student FTE continues to increase. It should be noted that Institution K had the second lowest percentage decrease in sticker price of all institutions in this study, reducing their tuition by 10%.

Institution J and L, like Institution K, had a 4-year upward trend in NTR growth. Institution L’s tuition reset had the lowest percentage decrease in tuition sticker price at 8%. Institution J was not satisfied with the initial results of their tuition reset and “undid the reset,” according to a participant from Institution J, by increasing tuition prices over a 3-year period to where they would have been if they had not reset. Thus, the financial results for Institution J, after the initial reset year, were not entirely reflective of the low-price, low-aid model a tuition reset can create.

Campus leaders at Institutions C and F discussed positive NTR results for their institutions over a multiyear period. Published data for the most recent fiscal year are not available to confirm these assertions; however, interviewees observed a trend of increasing net revenue. A participant from Institution C stated, “In addition to seeing increased enrollment, [we] also saw increased net revenue from students . . . net revenue as a whole went up.” A campus leader from Institution F observed similar, continued, positive financial results over several years: “NTR was not impacted, it was not negatively impacted by this. It was more positively impacted. Our NTR has incrementally increased with the tuition reset.”
Managing net revenue after a tuition reset is critical in sustaining the success of the reset. A participant from Institution C suggested that maintaining a focus on net revenue impacts how an institution adjusts tuition rate increases and their discounting: “Those are two big things that a leader has to manage on their institution going forward after announcing. Otherwise they can fall back quickly into that game and lose the long-term value of the strategy.” While not universally witnessed, the comments by several campus leaders and multiyear financial results of institutions in the study suggest that the resulting low-cost, low-aid business model of an institution after a tuition reset can be sustainable. However, available data indicate that the two institutions that saw 3 or more years of tuition revenue growth following their tuition reset were the two institutions with the lowest percentage cut in sticker price when they reset tuition.
CHAPTER 5 – PRICING

. . . if setting our price was a financial decision, we'd all be charging more.

(Participant at Institution K)

**Price and Quality**

Higher education research illustrates that tuition sticker price plays an important role in the perception of an institution. McKeown and Mullin (2014) wrote:

Price and value will continue to be important aspects of the student perspective of higher education as some suggest the paradigm shift has begun from “what is the most expensive is best” to “the institution providing the greatest value is the best option.” (p. 293)

The shift in perceived value illustrates a consistent theme in the interviews with campus leaders about how students and their families view an institution based on price. A participant from Institution C provided his perspective on value and price:

The other big piece for us is to not be as scared about this idea that price equals value and I think that has really eroded so far when you see high price-high discount. That is really the shell game that people have. It’s really misrepresenting to families that that sticker price is the actual value they’re purchasing when in fact it’s usually as you know, 50 or more percent of that is actually discounted out. So, families are switching now to show me the proof to the value of the experience.

Reducing a college’s tuition price is not universally perceived as a move to address affordability, access, and completion. For some consumers, a higher price equates to a higher quality education. Referred to as the *Chivas Regal effect*, price is sometimes interpreted as a signal of quality and prestige in higher education (Baum, 2001). Price signaling is when the cost of a good or service reflects that product’s perceived quality. Higher tuition sticker prices are a part of many colleges’ marketing strategies, with some schools finding that raising tuition attracts more applicants (Wang, 2008). The belief, as
described by a Participant from Institution K, is that “it’s the sticker price that establishes where you are in the qualitative marketplace.”

The potential mixed reaction to a sticker price reduction from students and their families was an initial concern for many of the institutions interviewed in this study:

It’s kind of a dual-edged sword. The one hand you have some students who look at it and say, “Wow, I think you’re more affordable now.” On the other hand you have . . . it’s really based on probably just the compression. You might have some other students who see the reduction and think, “Is there something wrong there? Why are you reducing it?”

However, for most of the institutions interviewed, and the majority conducted price sensitivity studies prior to the reset, the consensus was that the connection between price and quality is changing. A campus leader from Institution D stated, “I think it’s diminishing, and I actually think it’s going to recede into only the elite.” At Institution F, a campus leader noted, “A lot of institutions do not want to move their price. I think what happens is institutions and trustees get hung up that price equals prestige. I think that has shifted in this marketplace.” Their belief is that the Chivas Regal effect plays less of a role in determining the perceived quality of non-elite institutions and is not a substantial influence for institutions implementing a tuition reset.

Transparency in Tuition Price: A Low-Price, Low-Aid Model

Moving away from the traditional high-price, high-discount pricing model commonly used by private institutions creates an opportunity to be more transparent with pricing. A lower sticker price and lower discounting moves a tuition bill closer to an institution’s net price. A campus leader at Institution C explained their thoughts on a lower, more transparent tuition sticker price:
I think that really speaks to or reinforces our thought process, our premise that, we want to demystify the idea of high tuition, high aid. It makes more sense to people to see exactly what the tuition is, and what kind of scholarship they can get, and have that tuition be at a lower price point that seems more accessible.

The low-price, low-aid strategy was not always clear to students or the media. Institutions have found communicating the change in pricing is critical to developing an understanding among consumers in the higher education market. Institution D experienced this situation, and a participant from Institution D described how they managed the media’s questions around their sticker price reduction:

The first question the media asked was, “How can you do this? How can you cut your tuition 43%?” That’s where we had to try to explain, “We’re not cutting tuition 45%. We’re cutting the sticker price, and what we’re doing is we’re bringing the products closer to the actual cost of education, so that students have a more honest picture of what we’re doing, and also so that future tuition increases will be on a lower dollar base.”

The revised pricing model following a tuition reset of lower price, lower discount does not appeal to all students. At two institutions where their tuition resets did not successfully increase enrollment or tuition revenue (B and J), both referenced the positive influence that large scholarships can have on a student’s (and their family’s) decision to enroll. A participant from Institution B noted, “There’s always going to be that group of students and parents who say, ‘Joey got a $20,000 scholarship to whatever school.’ They want those bragging rights.” These students and their families are not always focused on the bottom line, or direct out-of-pocket costs, but instead equate the larger scholarship amount to a receiving a better deal at a higher-priced institution. Several campus leaders mentioned having these conversations with some students and their families. A participant from Institution J described his experience around changes in scholarship amounts following a tuition reset:
I think it hurt us a little because the perceived value of competitors went up, when they would compare I’m getting this education at this discount someplace else, and yours isn’t quite the same. I don’t have a lot of data to support that other than the anecdotal responses from people who said they value me more and they want me more, and I think I’m getting a better deal where I get more aid.

The same two institutions also discussed concern over the ability to shape an incoming class when merit aid is reduced to compensate for a lower sticker price. A participant from Institution J noted:

The challenge when you do that [eliminate large scholarships] is then you’re reducing your capacity to shape your enrollment. What are you going to do to recruit athletes? What are you going to do to recruit valedictorians? What are you going to do to whatever, recruit people in a major where you don’t have as many people as you ought to have? The more you give away those chips upfront, by cutting tuition, the more you make a challenge for yourself in terms of what populations you want and what return those populations give you in the big marketplace.

However, at an institution where the tuition reset was described by campus leaders as successful, their observed response to reduced aid was very different. A participant from Institution C stated:

We’re very intentional about our financial aid awards, and showing the actual tuition, and then the scholarships. Some students will say that, “I’m getting a larger scholarship somewhere, but I see that the amount remaining to pay at Institution C is much less.

The difference in observed reactions of prospective students to lower tuition prices was, per the campus leaders interviewed, a function of the different markets that each institution was operating in.

**Understanding an Institution’s Market**

In addition to the price sensitivity studies conducted by most of the institutions interviewed in this study, market studies were also commonly used in research conducted prior to a tuition reset. Five of the small, private institutions discovered that they were
competing for students with large, public institutions in their region. Knowledge gained from the studies helped to inform institutions of whom they were competing with for prospective students, that target market’s knowledge of college pricing models, and in several cases influenced how they established their reset tuition price.

An interviewee from Institution K said, “We did not think of the flagship publics as our chief competitors.” However, research indicated that Institution K’s first and third most sizable admissions overlap was with large, public institutions: “So we were competing against a different group of schools for the kinds of students who were seeking admission here.” Similarly, Institution F was competing largely against a local state-related institution as well as a branch campus of a large land-grant university. This influenced their tuition reset price, by reducing their sticker price: “This put us in the sweet spot where we wanted to be. It’s a counter move really.” In addition to the other players in the market, the number of competitors was also influential in implementing a tuition reset by establishing a price point similar to public institutions while creating a price differentiator from other private institutions. A participant from Institution C described how they set their reset price:

We have density per capital only second to Boston and so there’s a lot of private colleges within a fixed volume of students. So we wanted a price gap there but also the second benefit and again this is more operationally and administratively focused, is to try to get ourselves priced closer to the state school where there’s the highest volume of students in the first place who might not have considered attending to a private school.

Competing with public institutions supported the decision to change to a low-price, low-aid pricing model more frequently found at state/public universities. A campus leader at
Institution D described the results of their market study in regard to establishing a reset tuition sticker price:

In the survey market that we went after in that price sensitivity study, there is almost no awareness [high price-high aid model], because we were surveying in our regional market, and there was almost no awareness. What we found, through the questions that we asked on the survey, was that these were largely people . . . who were strongly predisposed to go to public college and universities anyway. Since those public colleges and universities don’t have that model, it just wasn’t on their minds.

In addition to students more familiar with the pricing model of public institutions, some campus leaders in this study mentioned that first-generation students were also not familiar with the high cost-high aid pricing model. Another interviewee at Institution D provided the following explanation:

I think that this might be because of the theory that for first generations, they don’t understand the tuition offset that private colleges do, and they’re really looking for a sticker price that’s more in line with what they think they can afford to pay. This has brought it in line with the public institutions and I think that’s why we’re seeing that increase in first generation and then we’ve seen an increase in enrollment overall.

A campus leader at Institution B also mentioned that, for many first generation students, unless they have older siblings who have gone through the admissions process at a private institution, their families may not be familiar with the high-cost, high-aid pricing model. Thus a high tuition sticker price may alienate these students from applying. The majority of institutions in this study concluded that a lower tuition sticker price would position themselves to compete with public colleges and universities on price and attract a market segment that was more sensitive to sticker price.
Pricing

When discussing the pricing theory behind a tuition reset, campus leaders made several interesting comparisons to explain higher education pricing. Generally, these comparisons were to consumer goods, and it was interesting that retail pricing for everyday goods and services was used to explain tuition pricing decisions behind a considered purchase, such as college education and the perceived quality of an institution. These comparisons help frame or contextualize tuition pricing for some consumers, but for others, they leave an impression that advertised tuition price may just be a marketing gimmick.

Regarding quality, the president of one institution compared the cost-to-quality perception of higher education to how consumers view wine: the higher the price, the higher the quality. In regard to the common pricing structure of many private institutions, campus leaders essentially described price anchoring. The sticker price—“that original, likely highly inflated price serves a purpose—to ‘anchor’ in the consumer’s perception of the item’s value . . . a heavily discounted price seems like a deal, and the shopper is more likely to buy” (Tuttle, 2012, para. 2). One president compared the high-cost, high-aid model to retail shopping during a major sale. Consumers could think that receiving such a large discount is a bargain, and thus, how could one afford not to buy it? Yet, the decision is made without actually knowing where the price is set in the first place. Similarly, another president specifically mentioned a retailer that consistently has sales where consumers can buy two or three suits for the price of one. The consumer is not actually getting three suits for the price of one; they are receiving three suits for the price of three. There is just a marketing strategy behind the promotional pricing. In higher education,
this strategy applies when an institution with a $40,000 sticker price has a discount rate of 50% resulting in a $20,000 tuition bill to the student. The price is actually $20,000, not $40,000.

Two more of the shopping comparisons shared by campus leaders did not support the transparent pricing structure of a tuition reset. A vice president for enrollment management used an automobile comparison between an expensive German car bought with a discount to a top-end American car with a lower price. Their belief was that most consumers would want the deal on the expensive German car. Within the higher education market, this translates into getting a big scholarship up front at a higher priced school. J.C. Penney’s much-publicized 2012 initiative to eliminate discounts and coupons by selling products at lower, more simplified sticker prices was another example provided by a university president interviewed. This initiative was a failure for the retailer. The tuition reset—a similar pricing strategy—was not effective at increasing enrollment or NTR at the institution that provided the comparison.

A campus leader from Institution K acknowledged the potential skepticism that some, noting the media specifically, may have with colleges and universities reducing their tuition sticker prices. This concern was addressed during the planning stages leading up to their tuition reset with support from administration and their board:

What’s the worst that can be said about us… this must mean they’re in trouble. This must mean it’s a gimmick, and there’s bound to be some fine print in there. So we said this a risk we’re willing to take. . . . It’s simple, it’s straightforward, the emphasis in everything that we said and did to roll it out was accessibility and affordability, and it was simple enough. It didn’t take three paragraphs to explain it, and you didn’t have to read it three times to see if it applied to you. It was real simple, really straightforward.
For Institution K, the tuition reset was successful at growing enrollment and providing sustained NTR growth.

The specific comparisons made by campus leaders aligned with the results of the resets at their individual institutions. At campuses where the reset was viewed as successful, the retail comparisons questioned the high-price, high-discount model. For those institutions that did not see success with the tuition reset, the examples of consumer behavior favored the high-price, high-discount model. The divergent results observed by interviewees indicates the complexities of pricing in higher education and the importance of understanding an institution’s market.
CHAPTER 6 – ANALYSIS OF FINDINGS AND CONCLUSION

There is no silver bullet, so I don’t think there is one factor that changes enrollment trends for an institution or the total outcome... it’s usually several factors together.

(Participant at Institution F)

Following a tuition reset, the enrollment and financial results of the 12 institutions in this study varied. Despite the mixed results, key themes emerged in interviews with campus leaders regarding observed outcomes following their institution’s decision to implement a tuition reset. The themes centered on student demographics, student success metrics, how the tuition reset was packaged, and the institutions’ perceived “position of strength.” This study also revealed that institutional context plays a role in the success of a tuition reset.

By the Numbers

A quantitative analysis of 12 small, private, not-for-profit institutions that reset their tuition between 2011 and 2014 reflected mixed results of the tuition reset strategy. When enrollment data were combined with qualitative research, tuition resets were described by several interviewees as a top of the funnel strategy and applications increased during the year of the tuition reset at eight of the 12 institutions. However, only two of those eight institutions saw continued, year-over-year growth in applications 1 year after the tuition reset. Application growth in both the first and second year after the tuition reset was only observed at one institution. This single observation could indicate that the initial increase in application growth witnessed by two thirds of the institutions studied was not sustained over multiple years. However, when looking longitudinally at the annual increases and decreases over a 3-year period (the year of the tuition reset and
the following 2 years), the number of total applicants at the end of the third year was greater at eight of the 12 institutions than their application volume prior to the tuition reset. These results, however, were not significantly different to the comparator institutions. Nine of the 12 comparator institutions reported higher application numbers 2 years after the reset. The results of the reset institutions were not unique as overall applications increased at both the reset and comparator schools. Interviewees indicated that the overall increase in applications allowed some institutions to be more selective with admitted students. Campus leaders at four institutions specifically mentioned observing an increase in selectivity following their announcement of a tuition reset. Increased selectivity resulted from an increase in applications at those institutions and a positive influence in the academic quality of entering students.

Following the enrollment management funnel down to the number of students granted acceptance to the institutions, the results were similar to those reported for application volume. Eight of the 12 institutions studied had a year-over-year increase in the number of accepted students during the reset year. There was overlap between seven of the eight institutions for both increases in applications and accepted students. Accepted students actually increased more in the year after the tuition reset, as an average across all institutions, than during the reset year. Three years after the reset, the total number of accepted students decreased at only two institutions compared to the year before the tuition reset. Thus, 10 of the 12 institutions studied saw at least a minor increase in the number of accepted students 3 years after the tuition reset.

The final point on the enrollment management funnel examined in this study was the number of enrolled undergraduate students. Half of the institutions saw a year-over-
year increase in the number of enrolled students during the initial year of the tuition reset. Enrollment numbers increased between 2% and 87% at the six institutions that had enrollment growth. At one institution, enrollment was flat, and five institutions experienced a decrease in undergraduate enrollment in the year of the tuition reset between -2% and -42%. After 3 years, however, undergraduate enrollment was higher at eight of the 12 institutions and flat at one institution. When compared to the group of comparator institutions, these results are more positive. During the same 3-year time periods, only three of the 12 comparator institutions saw an increase in undergraduate enrollment. Generally, campus leaders were positive about the impact of the tuition reset on their enrollment management funnel. A participant from Institution K summarized this, stating, “I can’t believe we would be better off in terms of size, quality of applicant pool, selectivity or yield than we are.”

As a mechanism for revenue growth, the NTR results of the 12 institutions that reset their tuition were not consistent. Half of the institutions studied saw an annual increase in NTR during the year of the tuition reset, and one institution had no/flat revenue growth. Five institutions had lower NTR during the reset year. The NTR results of the group of reset institutions were worse than the set of comparator institutions. Eight of the 12 comparator schools increased their NTR during the year that tuition was reset at the other institutions.

The largest percentage decrease in year-over-year NTR was Institution B. Institution B sustained a -3% decrease in NTR in each of the 2 years leading up to their tuition reset. The year of the tuition reset, their NTR decreased by 29%. A campus leader from Institution B, while not at the university during the tuition reset, explained that
while the institution did experience an increase in undergraduate enrollment the year of the tuition reset, they had not adjusted their discount rate: “What happened there and what’s happened subsequently should be in an enrollment management textbook somewhere.” Students were receiving the same discount rate as previous classes despite a lower tuition sticker price. The result was a decrease in NTR per student FTE. Despite having an increase in enrollment, that increase was not sufficient to offset the per student FTE revenue loss, resulting in a total NTR decrease for the institution.

Three years after the tuition reset, less than half of the institutions ($n = 5$) reported NTR greater than the year prior to the tuition reset. Available data for longer term institutional financial results of at least 4 years indicate that only three of five institutions had higher NTR than before their tuition reset. The challenge of increasing NTR following a tuition reset was discussed by a campus leader at Institution C:

> When people talk to me about reset strategies one of the things I always remind them is the first year is actually the easiest. The hardest part of those successes and I see this with those that haven’t succeeded is management of that tuition, that revenue over time.

The challenge of managing tuition revenue over an extended period following a tuition reset highlights the results outlined in Chapter 4. Sustainability, as measured by NTR and NTR per student FTE, varied between the institutions in this study. At Institution E, an interviewee suggested a connection between the tuition reset and decreased revenue: “As we’ve looked at the overall university budget and the NTR, some of the declines might be attributed to the reset. The decline also is attributed to a drop in FTE enrollment.” Other campus leaders observed more positive NTR trends. Financial results and campus leader interviews suggest that the resulting low-cost, low-aid business model of an institution
after a tuition reset can be sustainable, but that is not guaranteed. Of the five reset
institutions that had reported 4 or more years of data (reset year plus 3), only three
experienced consistently positive annual NTR growth after their tuition reset: Institutions J, K, and L. Institution J, unhappy with the initial results of their tuition reset, reversed
their reset strategy and began increasing their tuition rate after the reset. Institutions K
and L had the lowest sticker price reduction of all of the schools included in this study at
10% and 8% respectively. Thus, published financial data indicate that the institutions able
to sustain continued multiyear NTR growth were the institutions that reduced their sticker
price by 10% or less.

**Observed Student Changes**

Institutions that reset tuition frequently tout the topics of increased affordability,
lower student loan debt, and access. The majority of interviewees in this study mentioned
all three of these themes when discussing tuition resets. A participant from Institution C stated:

> The primary benefit is to make sure that we’re attractive to our target audience
> which . . . is a high diverse profile both ethnic diversity as well as financial
diversity and we wanted to make sure we weren’t pricing ourselves out of market.

Tuition sticker price reductions ranged from 8% to 43%. However, even with reduced
sticker prices, for students from low-income families, the reset tuition prices still
represented a significant percentage of family income and remained unaffordable. There
was not clear evidence from interviews that any institution’s student profile changed
significantly following their tuition reset.

Many of the campus leaders interviewed spoke about attracting middle-
class/middle-income families with their tuition reset. At Institution J, an interviewee
stated, “We did want to attract more middle-class students, and we thought the strategy would appeal to middle class students who would be those who might be turned off by the high price.” Additionally, campus leaders spoke about using a lower tuition price to attract students who were looking primarily at public institutions. A campus leader at Institution D noted that the price established after their tuition reset “has brought it in line with the public institutions, and [they] think that’s why [they’re] seeing that increase in first generation.” Institution D reported double-digit increases in first-generation students in the years following their tuition reset:

First-generation college students have gone up dramatically . . . it went from about 7% first-generation to 20% first-generation, and if you bring in, account for our transfer students and our converts to nontraditional students, that number is more like 37-40% first-generation.

Institution F also reported a “slight uptick” in first-generation students.

Two institutions (C and E) observed an increase in the number of wealthier applicants. An interviewee from Institution C said, “We have more non-FAFSA filers than we’ve ever had in the history of the institution,” and also stated, “We have also seen an increase in overall family income. . . . So, we have seen a bit of a change in demographics, in regard to attracting additional wealthier families.” A campus leader from Institution B noted, “The students who made out the best were the students who are wealthy but of mid to lower academic quality because they weren’t going to get big scholarships anyway, but now they benefited from the lower sticker price.”

Observed changes in student metrics shared by campus leaders remained either consistent with the student body and student success metrics prior to the tuition reset or improved. None of the institutions interviewed reported declines in the quality of their
student body. A campus leader from Institution K noted improved student quality, saying, “The credentials of the entering class continue to be stronger.” A campus leader from Institution D reported that academic quality “has gone up,” and they had been able to be more selective with applicants resulting in an increase in the weighted GPAs of entering students. A participant from Institution F observed similar increases in academic quality.

Institution E reported no change in the freshman profile in regard to academic quality measured by ACT scores and high school GPA. There was also no significant change in retention rate at the institution, remaining in the upper 80s. The retention rate at Institution D also remained flat “at roughly the same percentage” for first- and second-year students. Institution C saw an increase in retention and graduation rates: “Four-year, 5-year, and 6-year graduation rates continue to show strong growth.”

There were no consistent themes in regard to changes in the student population across all of the interviewees in this study. None of the campus leaders mentioned decreases in selectivity, academic profile, retention rates, or graduation rates, but increases in some of these metrics were not consistently observed across all institutions. Thus, based on these measures, it is not possible to conclude that the profile of students at the institutions changed substantially after resetting tuition.

A Combined Approach

One universal theme that emerged from campus leaders who spoke positively about the results of a tuition reset at their institution was that the tuition reset was not implemented in isolation. For the majority of institutions, their decision to reset tuition was part of a larger plan. These initiatives included institution-wide strategic plans, enrollment management plans, launching new academic programs, curricular changes,
financial guarantees, and program reviews. At Institution C, a campus leader said, “Our first priority of the strategic plan was to grow enrollment. So the tuition reset was one of the first tactics of that. But there were many other tactics to grow enrollment.”

Three institutions launched new academic programs in the same year as their tuition reset. Three institutions included the tuition reset as a part of new strategic plans, and three institutions executed strategic enrollment plans that included the tuition reset. One institution offered a 4-year graduation guarantee. Another institution added a loan buy-back plan and became coeducational.

With multiple initiatives launched at the same time as the tuition reset, it is difficult to attribute any change in enrollment or NTR to the reset alone. Campus leaders were very candid about the challenge of just crediting the tuition reset. A participant from Institution D provided the following insight:

So, when people ask me sometimes, “Well, did the reset work?” my answer is always, “We’ve had good results,” but just aggregating how much of that is the result of the reset and how much of that is the result of the programmatic changes is pretty difficult.

A participant from Institution F attributed the tuition reset, part of the institution’s value equation, as the second most important initiative in growing their enrollment: “I think that probably the factor that had the biggest impact is programs and I do think that being on the value equation also differentiates us, but I’d say number one programs, number two, value equation.”

For Institution C, the tuition reset served as the first element of a multiyear strategic plan to grow enrollment. In the first year, “there was the primary focus on the tuition reset.” Each of the five quantitative values examined in this study increased during
the reset year at Institution C. The tuition reset was also a key piece of Institution K’s plan to strategically increase enrollment. This institution also experienced positive enrollment and financial results following the reset.

Three of the institutions worked with national higher education consulting firms on their tuition reset as part of a more comprehensive enrollment management and/or marketing plan. The two firms mentioned were involved in the planning and implementation phases of the reset. The consulting companies assisted with strategy, price sensitivity studies, financial aid planning, communications, and messaging. During the year of the reset, each of the three institutions that used consultants increased their year-over-year NTR and NTR per FTE.

Two institutions only reset their tuition and did not include the reset with any other initiatives. The campus leaders interviewed at both of these institutions (B and J) acknowledged they did not believe the reset was successful at their universities. At Institution J, a participant noted:

> It was largely stand alone. We weren’t announcing some new program or to go after a new audience. We just thought that we were responding to economic crisis and experience . . . and that it would increase price appeal of the University.

Institution B experienced a 1-year lift in enrollment but a significant decrease in NTR. Describing the previous administration’s decision to reset tuition, a campus leader from Institution B indicated two primary reasons for not sustaining enrollment growth beyond the reset year:

> They were struggling against a declining demographic, but they weren’t really doing what they needed to do to expand their market and increase market share. Their response was the tuition reset . . . [enrollment] was only a spike that I really believe they got because of, A, more press impressions and B, they did so much work trying to recruit that one class they kind of lost out on the next one.
For the two institutions in this study that only reset tuition and did not include the reset with any other major initiatives, the resulting enrollment and tuition revenue did not meet the expectations of the campus leaders interviewed from those respective institutions. The findings of this study, as they relate to including a tuition reset as part of a more comprehensive or strategic plan, support what an interviewee from Institution D shared. When discussing advice provided to other institutions that have approached him about tuition resets, his response was:

“If the only reason you’re doing it is because you’re desperate or even needful of additional dollars, I think you’re less likely to succeed. If you’re doing it as part of an overall plan, an overall strategic plan, I think you’re more likely to succeed.”

A Position of Strength

The phrase “position of strength” was heard repeatedly in interviews with campus leaders and seen in published literature about tuition resets. A campus leader from Institution K provided a specific definition of the term at his institution:

“I would say I would define it in several ways. I think it is size of endowment and endowment per student. I think it is in that tuition revenue, I think it is in admission rate and yield. I think it is in the credentials presented by each entering class, and I think it is in giving and alumni participation of giving. Any of those areas that a reporter or researcher or an inquiring parent might have wanted to look into to verify our rhetoric that we were in a position of strength, which we found evidence that well, you know this place is strong.

Other campus leaders were less specific about defining the term, but agreed that it was important for an institution to have proven student outcomes, most notably job placements and/or graduate school opportunities and rigorous academic quality.

Interviewees spoke about the need for the tuition reset to be messaged in a way and supported by facts—that this was not an act of desperation on the part of the institution.

Controlling the message on why the institution reset tuition was important. It needed to
be framed positively for the members of the campus community, prospective students and their families, and the media.

At Institution B, NTR declined in the reset year and the subsequent 2 years. An interviewed campus leader spoke to operational problems at the institution and several years of declining enrollment preceding the tuition reset: “The problem with the tuition reset is that their decision to do it I think they focused on an issue, the declining enrollment, and saw that as a fix without really looking holistically and seeing their operational issues.” The “issues” suggest that the institution did not approach the reset from a position of strength and that the results of the reset did not have a positive, sustained impact on their enrollment or net financial revenue.

**Conclusion**

Outcomes data gathered from the 12 institutions examined in this study and interviews with campus leaders at many of those institutions did not provide clear evidence that there were any results—positive or negative—experienced consistently by all institutions that reset tuition. However, when looking at the average results of the group of 12 institutions, the data do provide some general trends. Average results of the 12 reset institutions indicate that applications, accepted students, enrolled students, and NTR increased during the year of the tuition reset reversing trends of declining or negative growth experienced the year prior to the reset. These outcomes were stronger than the average results of the comparator group of institutions that did not reset tuition. Enrollment growth peaked at an average of 13% during the year of the tuition reset, and while there was sustained, positive annual growth in enrollment after the tuition reset, 2 years later, the average annual year-over-year growth slowed to 3%. Average NTR
growth during the reset year and the following 2 years also experienced an average annual increase—albeit, in the low single digits—for the group of reset institutions and outperformed the average results of the comparator group. Tables 2 and 3 provide a summary of how enrollment and financial results for each of the 12 institutions included in this study compared to the results of their comparator schools the year of the tuition reset and 2 years post-reset.

Two institutions, C and L, experienced greater increases in all five measured metrics as compared to their comparator institutions in the year of the reset. In addition to Institutions C and L, 2 years after their respective tuition resets, Institution F also outperformed their comparator school in all five measured metrics. Senior leadership at two of these institutions shared a number of similar observations. Each school discussed positive, regional media coverage by various news outlets promoting the tuition reset in their respective primary recruiting markets. The messaging by Institutions C and F emphasized the value of their institution’s educational outcomes combined with the reduced sticker price. Increased applications allowed both institutions to be more selective with their admitted students while still growing overall enrollment.

Relative to the comparator group of institutions, the average year-over-year enrollment growth at reset institutions peaked during the year of the tuition reset. The positive variance in enrollment witnessed by the reset institutions during the initial reset year was one of the most significant differences of measured variables between the two groups of institutions included in this study. The average increase in enrollment experienced by the group of reset institutions was coupled with an average decrease in net tuition revenue per FTE during the reset year.
Table 2

*Growth in Measured Enrollment and Financial Results: Did the Reset Institution Outperform Their Comparator Institution the Year of Their Tuition Reset?*

<table>
<thead>
<tr>
<th>Institution</th>
<th>Applications</th>
<th>Admits</th>
<th>Enrolled</th>
<th>NTR</th>
<th>NTR per FTE</th>
<th>% Outperform</th>
</tr>
</thead>
<tbody>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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</tr>
</tbody>
</table>

Table 3

*Growth in Measured Enrollment and Financial Results: Did the Reset Institution Outperform Their Comparator Institution 2 Years After Their Tuition Reset?*

<table>
<thead>
<tr>
<th>Institution</th>
<th>Applications</th>
<th>Admits</th>
<th>Enrolled</th>
<th>NTR</th>
<th>NTR per FTE</th>
<th>% Outperform</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>
Following the reset, there was a positive trend in average year-over-year NTR and NTR per FTE growth experienced by the group of reset institutions. However, for institutions with 3 years of publicly available financial data following their tuition reset, both NTR and NTR per FTE were greater than before the reset at only two institutions: K and L. These two institutions had the lowest reduction in tuition sticker price of the 12 participating institutions during their tuition reset.

Implications

The experiences and outcomes of tuition resets shared by senior campus leaders interviewed in this study provide a reflective opinion of what worked and did not work for their respective institutions. For institutions contemplating a tuition reset, these observations provide an insiders’ view of factors to consider for institutions considering a tuition reset. Combined with multiple years of enrollment and financial data, this study provides a tentative understanding of the common elements of the institutions that implemented successful tuition resets.

Interviewees suggested that an institution should approach a tuition reset from a position on strength. Campus leaders advised that a tuition reset alone would not address or fix underlying operational issues, financial challenges, and declining student success metrics. A participant from Institution K stated, “[The tuition reset] did not work for us as a way of dealing with unfilled beds and sizable staffs and admission issues. This was a strategy to grow and to grow at the same time strengthening the institution.”

Developing a comprehensive and multiyear communications plan was an important takeaway shared by several campus leaders. Institutions witnessed different degrees of media coverage when announcing their tuition resets; however, several
interviewees remarked on the importance of continuing to remind their target market of the lower reset tuition beyond just the initial announcement and first year of the reset. A participant from Institution E reflected on continued media coverage:

I think in sort of looking at it in the rearview mirror type of approach there’s general consensus that there could have been some other, probably a more thorough communication plan could have been implemented. . . . Maybe we didn’t maximize that beyond the initial announcement. That there should have been maybe some more media refreshers at key points leading into the fall semester and then sort of a reminder plan for another year beyond that. If we were to do it again, I think we would develop both of those a little more strongly.

A marketing and communication plan should be developed to last beyond one recruitment cycle. Several institutions worked with third parties to develop comprehensive marketing and communication plans around their tuition reset. Institution C is an example of an institution that worked with a third party. A campus leader interviewed from Institution C suggested that colleges contemplating a tuition reset should “work with external partners that really know their business, particularly in the branding side, in the marketing.” The campus leader continued: “I cannot undersell that component. You only get to say this message once.”

Understanding an institution’s market assisted with developing and creating the marketing message. Most of the colleges and universities interviewed in this study spent significant time studying their individual market’s students and competitors prior to deciding on a tuition reset. A participant from Institution F stated, “What we studied extensively was what’s our marketplace today and how can we really effectively address that marketplace.” Understanding an institution’s market influenced the tuition reset price and associated marketing plan. A campus leader from Institution J emphasized the importance of the audience and market: “I really think it really does depend on who’s
your audience, and . . . that different institutions have a different marketing strategy for different markets.”

Individual markets continue to change, and several institutions that reset their tuition continue to do market studies and price sensitivity studies. A campus leader at Institution C suggested, “Every year you have to change to the demographics, the unique circumstances of the market to stay relevant.” He captured the principal lessons learned by institutions that reset tuition stating:

More often than not those that have been successful and continue to show success in some shape or form, they recognize that this is an enrollment management strategy that has a net revenue focus on it and you have to manage both those things within your own market conditions.

At those institutions that did see successful outcomes, the tuition reset was a part of larger initiatives. The initiatives were varied and included the launch of new programs, a new marketing campaign, new facilities, and in one instance, changing to a coeducational institution. The tuition reset played a pivotal role in the strategic plan or initiative(s) that yielded success but was not done in isolation. Thus, due to the tuition reset being a piece of a multifaceted plan at many institutions, ultimately, in this study, there were no outcomes—quantitative or qualitative—that could be completely attributed to a tuition reset alone. However, this study does illustrate some common themes observed by the 12 institutions studied and illustrates that it is possible for institutions to sustain and grow NTR for multiple years after a tuition reset.
APPENDICES

Appendix A

A Review of the Literature

Tuition resets are a relatively new phenomenon in higher education. A tuition reset is a change, generally a reduction, in an institution’s published tuition price. The research on tuition resets and their impact is incomplete. This study served to add to the limited collection of literature and research surrounding the topic. The purpose was to understand the impact of a tuition reset on enrollment and NTR at private institutions in the United States. For institutions contemplating a tuition reset, it is important to understand the effect that a tuition reset has on enrollment, the impact on NTR, and if the resulting business model is sustainable moving forward.

The impetus behind the decision of many institutions to implement a tuition price reset relates to a number of important forces in the current higher education market. The literature relevant to the topic includes a review of tuition increases, the business model prevalent at many small, private institutions, and multiple facets of price and tuition pricing. This includes pricing theory, trends in higher education pricing, signaling theory related to price, sticker price, tuition discounting, and tuition disruption.

Rising Costs, Rising Tuition

Tuition at most colleges and universities has continued to increase at rates greater than inflation (College Board, 2016). The U.S. Department of Labor, Bureau of Labor Statistics (2016) reported that, between “January 2006 and July 2016, the Consumer Price Index for college tuition and fees increased 63 percent, compared with an increase of 21 percent for all items” (para. 1). The impetus behind tuition increases is multifaceted and
the literature suggests a number of different causes. There is clear consensus, however, that the need to cover the ever-growing costs of higher education is a primary driver of tuition increases.

Referred to as the Bennett hypothesis, Former Secretary of Education, William Bennett, suggested tuition increases could be explained by the availability of federal loans fueling demand for education (Fethke, 2005). Yet, a 2011 U.S. Government Accountability Office report stated that their analyses, following federal loan limit increases in 2007-08, “do not necessarily indicate a linkage between increases in the loan limits and changes in tuition or borrowing” (p. 3). Archibald and Feldman (2016) found Bennett’s hypothesis was not conclusive: “The supposed link between federal aid policy and rising list price tuition is not obvious at all” (p. 17). Their research indicated that the Bennett hypothesis is most notably seen in the for-profit sector of higher education.

Tuition increases are not necessarily driven by increases in federal funding. Fethke (2005) stated, “Another partial explanation for the increases in tuition is the claim that increasing costs and low productivity growth in the provision of education services combined to drive tuition upward” (p. 602). Frequently, tuition is set to cover an institution’s expenses.

The escalating costs of higher education have been extensively studied. There are multiple theories that attempt to explain the rising costs in higher education. Bowen’s (1980) revenue theory of cost explained colleges and universities have a limitless appetite for resources and will raise all the money they can and spend everything they have. So as revenue increases, so too do costs. Bowen (1980) summarized his theory:
On the whole, unit cost is determined neither by rigid technological requirements of delivering educational services nor by some abstract standard of need. It is determined rather by the revenue available for education that can be raised per student unit. Technology and need affect unit costs only as they influence those who control revenues and enrollments. (p. 18)

Another driver of cost increases is that traditional higher education is a labor-intensive enterprise “directed by faculty and staff who constantly seek to enhance the quality, scope and coverage of their activities” (Breneman, 1993, p. 2). Breneman (1993) explained college and university costs are driven by internal pressures to expand and improve quality, often exceeding available resources.

Getz and Siegfried (1991) detailed six explanations for cost inflation in higher education. Included is Baumol (1967) and Baumol and Bowen’s (1966) cost disease explanations stemming from a lack of available productivity gains due to the required labor inputs and labor costs associated with higher education. Additional cost drivers include cost increases from a change in the services and programs demanded by students; cost increases of higher education inputs such as (a) materials, maintenance, and staffing passed along to consumers; (b) cost increases from faculty and administrators’ objective to continually increase quality; (c) cost increases from poor decision making and management in higher education; and (d) cost increases from increased government regulations creating new expectations and deliverables for higher education (Getz & Siegfried, 1991).

To cover costs, an institution relies on revenue. For private colleges and universities, the primary source of revenue is tuition. Thus, to cover increasing costs revenue must be increased and that requires raising tuition. A 2008 report by the Delta Cost Project found that in 2005 tuition revenue provided between 54 and 71% of total
funding for private institutions and that “tuition increases are the primary source of new revenue” (Wellman et al., 2008, p. 19). However, tuition increases may not be a viable source of increased revenue in the future.

**A Broken Business Model**

Outside of elite institutions, the majority of private, nonprofit colleges and universities are operating with a broken or failing business model that is not sustainable. These institutions are overly reliant on tuition revenue to fund operations, yet recent publications indicate that at many institutions NTR is flat or declining. Nonprofits rely on revenue from two sources—sales revenue and donations—to fund their operations (Hansmann, 1981). Winston (1999) described sales in postsecondary education: “In higher education, of course, sales proceeds in the form of net tuition receipts and the commercial revenues that combine with charitable donations” (p. 16).

Gift revenues are forecast to remain stagnant with “little to no growth in the near-term due to continued volatility in the stock market, which is the best indicator of private philanthropy” (Moody’s Investors Service, 2013, p. 10). Thus, tuition revenue will continue to be the primary funding source for many private institutions. With the continued opposing growth of tuition vs. median family income, it is unlikely that tuition increases will be sustainable (Breneman, 2010).

Breneman (2010) described higher education’s business model as lacking organizational flexibility and adaptability. He suggested that the business model is broken:

From the perspective of meeting the public purposes of access, opportunity, affordability, completion, and international competitiveness, however, one can
make a strong case that our methods of financing and organizing higher education are not well aligned with our national needs. (Breneman, 2010, p. 8)

Affordability is at the core of the argument with rising tuition seen as the prime culprit.

Raising tuition can impact enrollment. According to Policano and Fethke (2012), “As universities look to increase tuition as a way to solve revenue shortfalls, an assumption is too often made the tuition can be raised without adversely affecting enrollment” (p. 52). Policano and Fethke (2012) described the link between tuition and demand for higher education by introducing the concept of tuition elasticity, or the percentage decrease in enrollment caused by a percentage increase in tuition. They explained the demand curve for tuition relative to enrollment has a negative slope indicating that higher tuition suggests lower enrollment.

Furthermore, for small, private institutions, tuition increases have been coupled with increasing discount rates. Discount rates have been rising faster than their published tuition prices (Hanover Research, 2013). The results of this high-cost, high-aid model are that “private institutions are bringing in less NTR and experiencing diminishing returns on tuition discounts” (Hanover Research, 2013, p. 4), with enrollment stagnate or declining at private colleges and universities. The increasing discount rate of private institutions illustrates their dependency on sticker price reductions to appear affordable to potential students.

Townsley (2002) painted a bleak future for small, private institutions: “Evidence of decline has been readily apparent for some time” (p. 213), noting that “through most of the 1990s, 30 percent of colleges with fewer than 2,000 students reported deficits” (p. 199). Townsley also referenced Jencks and Riesman’s 1969 book, The Academic
Revolution, throughout his text. Notably, the “Jencks and Riesman paradox: survival demands higher prices, but higher prices and a faded image translate into diminished interest of potential students (and their parents)” (Townsley, 2002, p. 203). Diminished interest results in the flat or declining enrollment identified in the Hanover Research (2013) report, and in a tuition-driven environment, decreased enrollment results in lower NTR. With almost one third of small colleges reporting deficits (Townsley, 2002), the current model of financing private institutions is not sustainable.

Confidence in the Model Wanes

Those college and university leaders closest to their institution’s finances acknowledge the challenges of higher education’s business model in the current operating environment. A 2013 survey of chief financial officers by Inside Higher Ed found only 27% expressed strong confidence in the viability of their institution’s financial model over the next 5 years. Over 10 years, the number decreases to just 13% (Lederman, 2013). The survey of 457 chief business and financial officers found that, in terms of the long-term financial sustainability among different higher education sectors, only 17% expressed confidence that non-elite private colleges had a sustainable model (Lederman, 2013).

Confidence in the private, higher education business model continues to fall. The Inside Higher Ed and Gallup 2015 Survey of College and University Business Officers found that “one in five college and university chief business officers are worried their institutions are at risk of shutting down in the foreseeable future” (Woodhouse, 2015, para. 1). Responses from CFOs at private, nonprofit institutions were twice as high as those from public universities were.
Price and Student Demand

With tuition providing the majority of revenue at most non-elite, private institutions (Wellman et al., 2008), an institution’s resources are limited by their students’ willingness and ability to pay tuition. Willingness to pay is influenced by many “factors, including family income, dynamics, social demographics, and perceived value in the return of education (benefit) to both individuals and society” (Policano & Fethke, 2012, p. 28). A willingness-to-pay schedule is reflective of an inverse demand curve with higher tuition implying lower enrollment (Policano & Fethke, 2012). A 2007 report by the U.S. Government Accountability Office contains similar findings: “When enrollment and tuition trends are jointly considered, overall, the majority of students today attend institutions that have the lowest average tuition” (p. 3).

The economic law of demand, at its most basic, describes the inverse relationship between quantity of goods and services demanded and price. In higher education, as with most services, there is a downward sloping demand curve. So, as price increases, the quantity demanded decreases (Baum, 2001). Leslie and Brinkman (1987) applied the theory of demand to higher education, suggesting that enrollment rates are negatively associated with prices charged, positively related to financial aid as this decreases the net price, and associated positively with tuition prices charged by competitors.

There is clear evidence of a relationship between price and demand in the market for postsecondary education. Multiple studies have established that an inverse relationship exists between tuition price and student demand. Many of these build on the work done by Leslie and Brinkman (1987) who found every $100 increase in price resulted in a decrease in demand of about three quarters of a percent. A decade later,
Heller (1997) published a review of “approximately twenty quantitative student demand studies” examining “their new findings in comparison to those of Leslie and Brinkman” (p. 625). The first key observation of Heller’s (1997) review relating to tuition sensitivity confirmed the work of Leslie and Brinkman in that “increases in tuition lead to declines in enrollment” (p. 650). Baum (2001) supported these findings, stating, “There is considerable evidence that for many students, price is a significant factor in the decision to enroll in college and in the choice of a college or university” (p. 16).

The impact of tuition price is not just related to where a student attends postsecondary education but also if they attend a college or university at all. Hahn and Price (2008) found 63% of college-qualified students who did not enroll noted that price was a factor in their decision not to enroll.

**Increasing Price, Increasing Discount Rate**

For many, the cost of a private higher education seems out of reach. A report by College Board (2016) found that “average published tuition and fees at private nonprofit 4-year institutions rose by $1,150 (3.6%), from $32,330 in 2015-16 to $33,480 in 2016-17. Average total charges are $45,370” (p. 3), including tuition, fees, and room and board. The *Trends in College Pricing* report also provided data on how much the cost of education has increased over the past 20 years. Adjusting for inflation, the average tuition and fees paid at a private, nonprofit, 4-year institution in 2016-2017 was 2.3 times as high as it was in 1986-1987 (College Board, 2016).

However, while tuition sticker prices have continued to increase at many institutions, so does the discount rate. In 2012, 86.9% of first-time, full-time freshman received institutional aid at private colleges and universities with an average award of
53.1% of the institution’s sticker price (Kiley, 2013). NACUBO’s 2015 *Tuition Discounting Study* also identified the trend of increasing discounts at the nation’s private colleges and universities (Seltzer, 2016). The 2015 study included data from 401 private, nonprofit institutions. The study found that “about 88 percent of first-time, full-time freshmen and 77.6 percent of all undergraduates were awarded aid, which averaged roughly half the cost of tuition and fees for both cohorts” (Seltzer, 2016, para. 3).

Tuition discounting, as defined by Baum et al.’s (2010) *College Board* report, is a combination of institutional grant aid, athletic awards, and tuition waivers. Institutional grant aid is comprised of restricted funds designated for grant aid; “however, much of the aid is unfunded and is derived from the general revenues of the college, which are composed primarily of student tuition and fees, unrestricted endowment income or gifts” (Baum et al., 2010, p. 2). When the tuition discount is applied to the sticker price, the result is the net tuition. At many private institutions, this is about half of their published tuition rate.

The result of sticker price increases does not necessarily result in a corresponding increase in net revenue. According to Wellman et al. (2008), “Though sticker prices have risen in all sectors, these increases do not translate to comparable increases in net revenue from tuition, because many students receive tuition discounts” (p. 21). Wellman et al. (2008) found in their *Delta Cost Project* report that at private institutions between 1998 and 2005, the NTR per student increased about $1,500 to $2,500, about half the increase in sticker price over the period. Therefore, while sticker prices continue to increase, the average discount rate is increasing at a greater amount. The result is an escalating sticker price at many private institutions that is not reflective of the net tuition actually paid by
the students. At private, not-for-profit, 4-year institutions, the average tuition increased by 66% from 2000-2001 to 2008-2009. Yet, net tuition increased 56% in the same period. The smaller increase in net tuition compared to sticker price is due to the growth in discount rate (Baum et al., 2010).

**Sticker Prices**

The sticker price of a college or university has implications on applications and enrollment. Despite rising discount rates at private colleges and universities, many consumers are not aware of the high-price, high-discount strategy employed by these institutions. According to Lapovsky (2015), “A survey by Sallie Mae reported that 63% of students eliminate colleges solely on the basis of price and 56% of families eliminate a school without any research beyond its price” (p. 4). Lapovsky (2015) also cited:

> Another study, by Longmire and Company, reports that 32% of students and parents say they did not consider a private college on the basis of its published sticker price alone, and 60% say that they are unaware that most private colleges discount their sticker price so that freshmen pay less than the published tuition. (p. 4)

A combination of high sticker prices and families’ lack of knowledge regarding tuition discounting are negatively affecting applications and enrollment at many small, private institutions.

Recent enrollment data for private institutions have illustrated this decline. As cited by Seltzer (2016) in an *Inside Higher Ed* article on tuition resets, NACUBO’s 2015 *Tuition Discounting Study* found that “37.5 percent of institutions reported enrollments declined in both their freshman classes and across their entire undergraduate bodies from 2014 to 2015” (Seltzer, 2016, para. 8). Students and their families have gravitated to
price, and “the bottom line is that most families feel, and have felt for some time, the squeeze of the rising price of college” (McGee, 2015, p. 43).

Yet, there is a segment of the market that appears immune to the impact of high tuition prices: high-priced, elite institutions and the families that can afford to send their children to them. Referred to as the Chivas Regal effect, price is sometimes interpreted as a signal of quality and prestige in higher education (Baum, 2001). Price signaling is when the cost of a good or service reflects that product’s perceived quality. Higher tuition sticker prices are a part of many colleges’ marketing strategies with some schools finding that raising tuition attracts more applicants (Wang, 2008). Most findings, however, are clear “changes in the price of higher education lead to fewer students enrolling, a link that has been clearly established as causal” (Institute for Research on Higher Education [IRHE], 2016, p. 20).

**Tuition Disruption**

Tuition resets are part of larger experimentation in higher education pricing. Tuition disruption includes a number of different pricing experiments with college and university tuition. In addition to tuition resets, these experiments include freezing tuition, rolling back tuition, tuition price guarantees, and even loan reimbursements after graduation (Berman, 2013). Results are mixed and, “historically, enrollments don’t wind up increasing much” (Berman, 2013, para. 6).

Lapovsky (2015) was not able to draw a definitive conclusion that tuition resets are a proven success: “At most, enrollment and net total tuition revenue increased. In many cases, though, these colleges made other changes at or around the time of the reset, making it difficult to attribute these results to the reset alone” (p. 5). In a study of eight
private institutions that reset their tuition, seven of the eight colleges saw freshman enrollment increase between 1% and 50% over the previous year after reducing their published tuition price. Of those seven institutions, three saw an increase in NTR per student (Lapovsky, 2015).

The various methods of tuition disruption are still relatively novel in higher education. Berman (2013) wrote, “What is true is that tuition resets are still in the experimental phase” (para. 43). Lapovsky’s (2015) work provided solid data, but from only eight institutions. With limited results, the author noted, “The sample of schools studied is too small to draw sweeping conclusions about the efficacy of a price reduction” (Lapovsky, 2015, p. 23). Faced with an increasingly competitive marketplace it is likely that tuition disruption will continue as schools use price to differentiate themselves in a crowded space.

**Conclusions From the Literature**

Multiple studies have established a counter relationship between tuition price and student demand (Heller, 1997), yet postsecondary tuition prices continue to rise at rates higher than inflation (College Board, 2016). At the same time, many private institutions are increasing their discount rates at higher percentages than tuition. The result is a reduction in NTR per student (Wellman et al., 2008). With revenue as the number one source of operating funds for private institutions, the reduction in net revenue highlights a flaw in the business model of private higher education.

Higher sticker prices are influencing enrollment at private institutions, with enrollment either flat or declining (Hanover Research, 2013; Seltzer, 2016). Students and their families, many unaware of the practice of tuition discounting associated with the
high-cost, high-aid strategy employed by private institutions, are choosing not to apply to
certain colleges and universities based on their published tuition sticker prices (Baum,
2001; Lapovsky, 2015). In a tuition-driven business model, enrollment is critical to
generating revenue.

Recent literature has illustrated that for non-elite institutions, the “price equals
quality” perception of higher education is changing. It is clear that, for many, a high
sticker price is reason not to apply to an institution (IRHE, 2016); thus, affordability
plays a critical role in a student’s decision to apply. A tuition reset resulting in a
decreased sticker price would, as the literature suggests, increase demand for enrollment
at that institution. McKeown-Moak and Mullin (2014) indicate that

price and value will continue to be important aspects of the student perspective of
higher education as some suggest the paradigm shift has begun from “what is the
most expensive is best” to “the institution providing the greatest value is the best
option” (p. 293)

With price signaling playing a diminished role in a student’s opinion of non-elite
institutions, there is an opportunity for colleges and universities to employ tuition price
resets. What is not yet clear, based on current literature, is if substantially reducing the
sticker price of tuition results in a sustained increase in enrollment and/or NTR and, thus,
a sustainable business model.
Appendix B
Research Methodology

This study examined a subset of 12 institutions that have reset their tuition between 2011 and 2014. Research indicated that 13 postsecondary institutions reset tuition between 2011 and 2014 in the United States. One institution was excluded as it was a for-profit institution, and this study only examined not-for-profit colleges and universities that reset tuition. The remaining 12 schools are all private, not-for-profit, non-elite colleges and universities with total undergraduate enrollment below 5,000. The tuition reset must have occurred no later than 2014 to provide at least two cycles of enrollment and revenue data following the reduction in sticker price. The institutions purposefully were not identified by name in the study.

The quantitative analysis in the study relied on publically available, published data. The National Center for Education Statistics’ Integrated Postsecondary Education Data System (n.d.) provided enrollment data for total applicants, total admitted students, and total enrolled students. These three data points of the enrollment management funnel are collected over a period of time that includes data for 2 years before the reset, the year of the reset, and for each subsequent year after the reset.

The impact of a tuition reset on NTR, and, thus, the sustainability of an institution, requires observing the before and after effects of the tuition reset on NTR. The source of financial data is IPEDS (n.d.).

With only 12 targeted institutions in the study, the $n$ was too limited to successfully use statistics to analyze enrollment and financial data. Thus, a descriptive analysis of the results was used instead of a statistical analysis. Enrollment and financial
data were documented and quantified, and the analysis looked at patterns in the data, direction, substance, and magnitude of change. A control group of 12 institutions similar to the 12 in the study (private, not-for-profit, non-elite, and enrollment below 5,000) was developed. Institutions included in the control group had not implemented any form of tuition disruption, including tuition resets over the past decade. The control group was used as a benchmark to measure quantitative results experienced by those institutions that implemented a tuition reset.

An analytical, quantitative review of an institution’s enrollment and financial data provides documented results with numeric evidence of the impact of a tuition reset on enrollment and revenue. However, a qualitative approach is required to understand observed impressions of other tangible benefits resulting from a tuition reset. These benefits are documented through interviews with key institutional leaders representing various campus stakeholders. Campus leaders interviewed in the study included presidents, provosts, CFOs, vice presidents of enrollment management, and a COO. Conversations with campus leaders were valuable, as these individuals had relevant knowledge across their institutions and provided a broader perspective on other tangible benefits of the tuition reset.

A semi-structured interview protocol was used. This allowed the interviewer to organize and guide the interview while allowing for tailored follow-up questions across interviews, creating a customized conversation with each interviewee (Ravitch & Carl, 2016). Using results reported by two institutions included in the pilot study led to the development of several questions targeting specific areas of potential impact following a
tuition reset. The questions were included in a standardized interview form used with each institution. The interview form is included in Appendix D.

The methodology used in the study allowed interviewees to share their stories and provided results not necessarily contained in published reports or data sets. Similar stories or results were grouped into outcome categories. Using the variables, or outcomes, from the interviews, the study linked the quantitative and qualitative results of the study—including data from the control group—and triangulated between the financial and enrollment data and the outcomes documented from the interviews. The outcomes categories were analyzed to determine if there were overlaps in key variables between institutions that might indicate potential trends in the observed results.

There are several limitations to this study. While the study contained enrollment and financial results of all private, not-for-profit institutions that reset tuition between 2011 and 2014, there were only 12 institutions to examine. The limited number of institutions restricted the ability to infer, with statistical significance that observed results witnessed by the institutions included in the study could be expected at other institutions that decide to reset tuition. Another limitation to the study was that it was not possible to interview individuals from all 12 institutions included in the study. Three institutions did not respond to several requests to be included in the study. Two institutions, after conversations with campus leaders about the study and interview questions, elected not to participate. Thus, for those institutions where campus leaders were not interviewed, the information available for analysis in this study was limited to quantitative data.

Interviews with campus leaders likely contained some level of bias on both the part of the interviewer and interviewee. According to Ravitch and Carl (2016):
Interviews are far from neutral, no matter what the topic. This means that there are layers of bias, assumption, and politics (macro and micro) and other kinds of influences on the interview and even the interview relationship and interaction itself. (p. 150)

The results of the tuition reset at each institution may have influenced the responses of campus leaders on the subject of tuition resets.
Appendix C

Research Subject Consent Form

Title of the Research Study: Outcomes of Tuition Resets at Private, Not-for-Profit Institutions
Researcher: Andrew Armitage

You are being asked to take part in a research study. Your participation is voluntary which means you can choose whether or not to participate. If you decide to participate or not to participate there will be no loss of benefits to which you are otherwise entitled. Please ask the researcher to explain anything you do not understand, including any language contained in this form. Keep this form, in it you will find contact information and answers to questions about the study.

What is the purpose of the study?
This study will focus on the quantitative and qualitative outcomes of a tuition reset. In addition to financial and enrollment data from before and after an institution implements a tuition reset, the survey seeks to understand observed impressions witnessed by campus leaders. The motivation for this survey is to understand the outcomes of a tuition reset through a mixed-method approach of published data and observed impressions.

Why was I asked to participate in the study?
This study will examine a subset of private, not-for-profit, non-elite colleges and universities with total enrollment below 10,000 that have reset their tuition over the past decade. You are being asked to join this study because you are a campus leader at one of the 10 institutions selected for the study.

How long will I be in the study?
The time commitment for you in this study is for approximately one hour today and no more than one hour of follow-up time in the future if needed.

Where will the study take place?
You will be asked to meet the primary researcher at either your college/university or participate in an interview over the phone. You will select the time and location for the meeting or phone call.

What will I be asked to do?
You will be asked a series of questions about the tuition reset at your college/university. The interviews will be recorded and transcribed for later analysis. You may request a copy of the transcript by contacting Andrew Armitage.
What are the risks?
The risks of your participant in this study are minimal but may include a breach of confidentiality shall names and contact information be unintentionally compromised in some way. Name and contact information will be collected in case follow-up questions are needed to clarify and/or validate your answers to the questions.

How will I benefit from the study?
There is no benefit to you. However, your participation could help us understand the outcomes of a tuition reset. In the future, this may help other people to better understand the impact of a tuition reset on a college/university.

What other choices do I have?
Your alternative to being in the study is to not be in the study.

When is the study over? Can I leave the study before it ends?
You have the right to drop out of the research study at any time during your participation. There is no penalty or loss of benefits to which you are otherwise entitled if you decide to do so. If at any time during the interview you wish to not continue just inform the researcher. Contact information is on page 1 of this form.

How will confidentiality be maintained and my privacy be protected?
We will do our best to make sure that the personal information obtained during the course of this research study will be kept private. However, we cannot guarantee total privacy. Your personal information may be given out if required by law. If information from this study is published or presented at scientific meetings, your name and other personal information will not be used.

Will I be paid for being in this study?
There is no compensation for participating in this study.

Who can I call with questions, complaints or if I’m concerned about my rights as a research subject?
If you have questions, concerns or complaints regarding your participation in this research study or if you have any questions about your rights as a research subject, you should speak with the Principal Investigator listed on page one of this form. If a member of the research team cannot be reached or you want to talk to someone other than those working on the study, you may contact the Office of Regulatory Affairs with any question, concerns or complaints at the University of Pennsylvania by calling (215) 898-2614.
Appendix D

Interview Protocol

Name of Interviewee:
1. Why did your institution decide to reset tuition?
2. How did you determine when you would launch the reset?
   a. What factors were of critical importance?
3. How did you arrive at the reset tuition price?
   a. What factors were most significant in determining the reset tuition price?
4. For what programs was your reset tuition intended?
   a. Undergraduate programs
   b. Graduate programs
   c. Professional programs
5. Was the reset tuition price for only new students or also incumbent students?
6. Were there any other significant initiatives launched at the same time tuition was reset at your institution?
7. What was the response to the tuition reset?
   a. From incumbent students and their parents?
   b. From faculty and staff?
   c. From prospective students and their parents?
8. Following the tuition reset, did your institution experience any change in the academic quality of accepted students as measured by SAT, ACT and GPA scores?
9. Following the tuition reset, did the average family income of enrolled students change?
10. Following the tuition reset, was there any change to first year retention?
11. Did the tuition reset attract students into programs that were not included in the reset price?
12. Did the institution gain any publicity or media attention from announcing the tuition reset?
13. Did the tuition reset have an impact on the institution’s brand or profile?
14. Were there any other positive or negative changes to the institution that you would attribute to the tuition reset?
15. If you were to reset tuition today, is there anything you might do differently?
Affordable Schools. (2017, April 17). These 30 colleges are reversing the rise in tuition. Retrieved from http://affordableschools.net/30-colleges-reversing-rise-tuition/


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