RNLNC

PRESENTATION HANDOUT

The Intersection of Price and Aid in Times of Inflation

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Pricing is the most powerful lever for improving contribution margin.

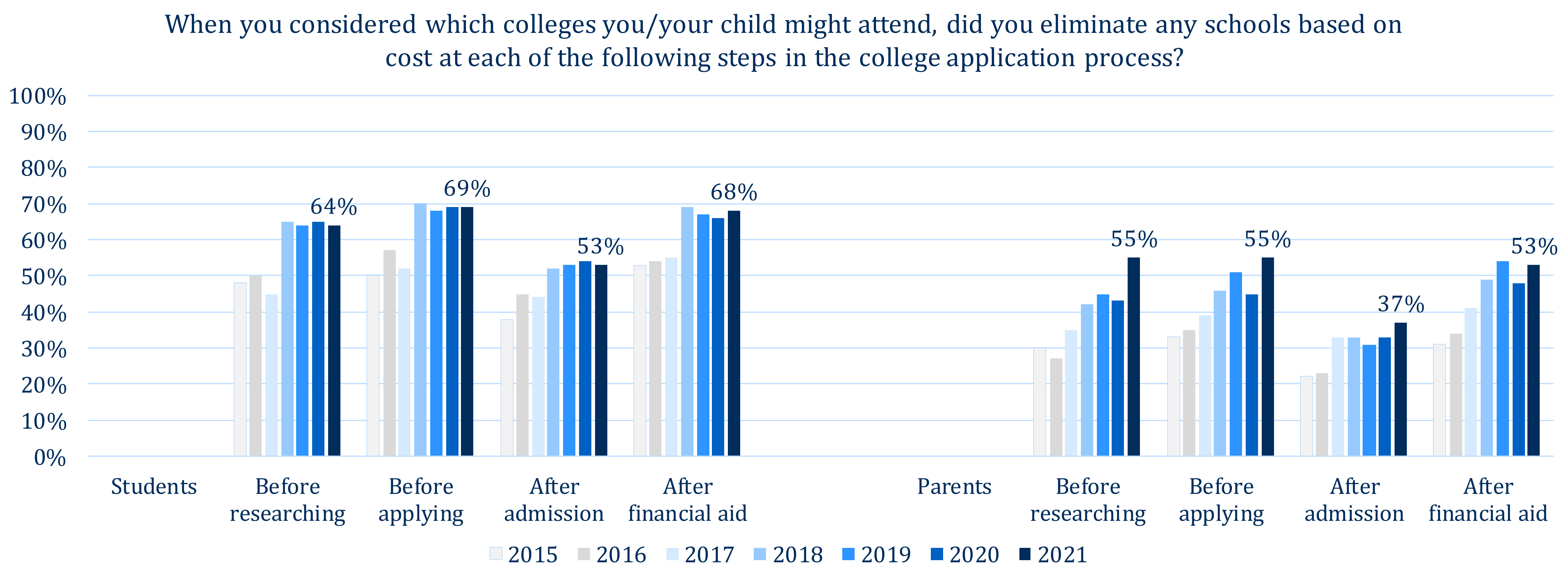
Two Primary Functions of a Price Strategy

To be successful, a price strategy needs to:

- **Create willingness to pay by communicating value (the communication function)**
  - **Value** as perceived benefits less perceived costs
  - Price as **signal of quality** in complex purchases
    - But price can also be a barrier to access
- **Harvest value (the finance function)**
  - Cover the costs of providing the offering (+ risk)
  - Increase margin, *not just revenue*

Families are becoming more price conscious…

Students consider cost even more than parents as screening criteria at each stage in the funnel.



How America Pays for College 2021, By Sallie Mae® and Ipsos

…leaving campuses asking many hard questions.

Popular questions raised in RNL price studies:

How has COVID-19 changed what our market is willing to pay?

We can't keep increasing discount rate.

What are the alternatives?

Is our price just too high for parents/students to consider?

Should we consider a tuition reset?

How will changing demographics impact the pricing game?

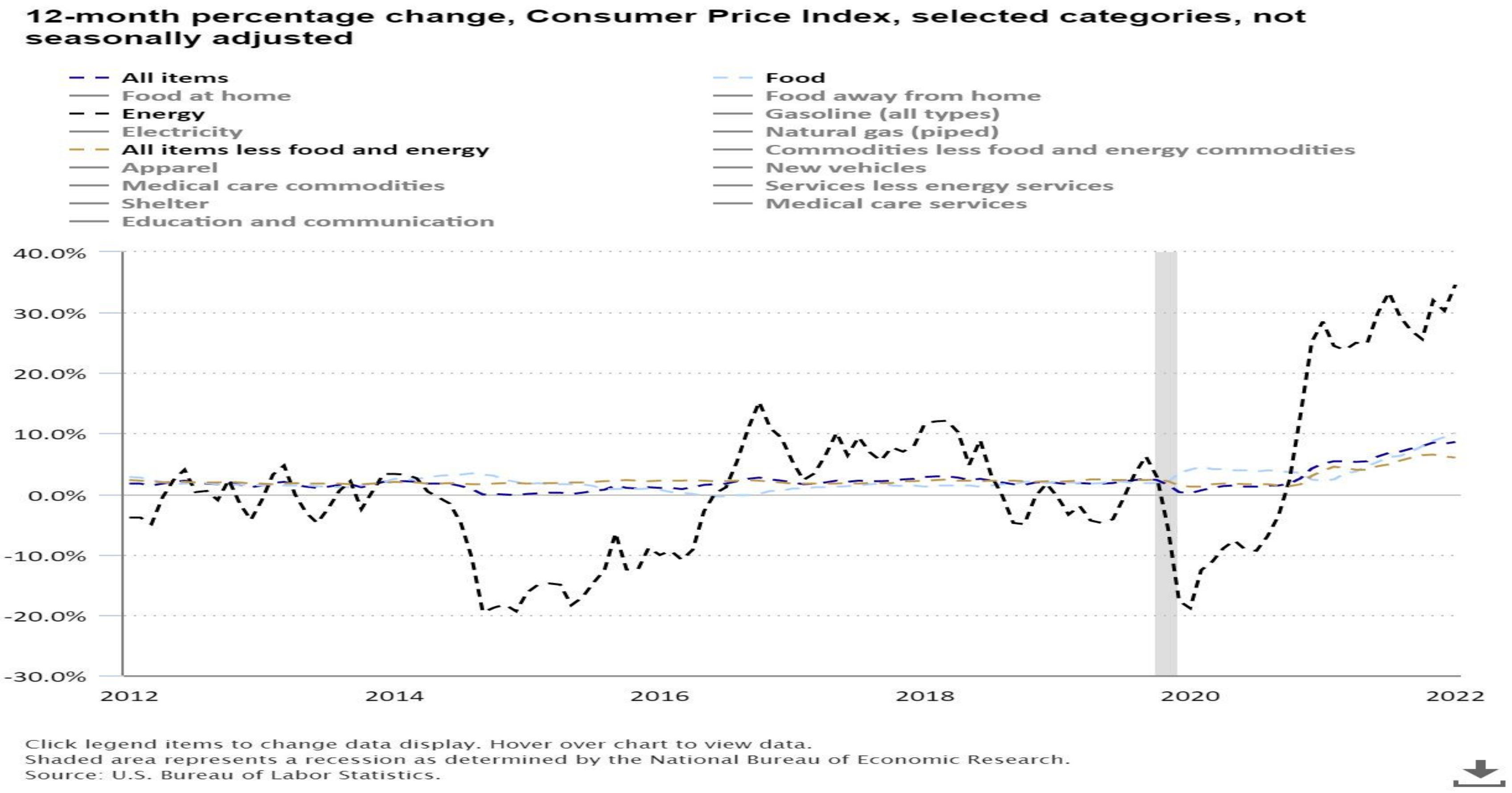
How do we compete with "free"?

How do we set price amidst an integration?

How do we price our graduate programs?

How do we respond to rising inflation?

What does higher inflation mean?



How does inflation impact institutional costs?

The costs to run a college can be expected to materially increase

- **By the end of 2021, HEPI was up to 2.7%**
- **Costs in FY2021 rose in all eight of the cost components tracked by HEPI; last year, costs rose in six and declined in two**. With two notable exceptions, costs in FY2021 did not rise appreciably compared with the previous fiscal year. For instance, faculty salaries—the most heavily weighted component in the index—increased just 1.0 percent in fiscal 2021 compared with2.7 percent in FY2020.
- **The two categories accounting for most of the increased rate of inflation were supplies and materials and utilities**. The latter showed a 15.0 percent year-over-year increase versus a sharp decline of 15.7 percent a year ago. Costs for supplies and materials showed a similar pattern, albeit at a lower level. These costs rose 3.5 percent in FY2021 against a 3.5 percent decline a year earlier.
- Projections for 2022 HEPI are currently near 4.2%.

In 2022-23 we must consider inflation while setting price

Is a large increase needed?

- Institutional costs will go up, so we need a large increase to support operations (especially staff and faculty salaries)
- Families are expecting large increases in other spheres, so they might not reject a larger increase in our price
- Our competitors are raising their rates more this year, after low increases during the pandemic. If we don't raise prices now, we will lose revenue market share (which compounds).

Or a smaller (if any) increase?

- Families are already feeling a loss of their purchase power in other spheres, so they might leave our sector or exit the education market if our increases are too high
- If we stabilize our price this year relative to our competitors, we can slowly reposition ourselves at a lower rate.
- We give much of the increase back in discounts anyway. Why risk the optics of a large price increase?

Think strategically about value and price throughout the *whole* funnel.

Price strategy must be aligned with mission, strategy, and current market conditions.

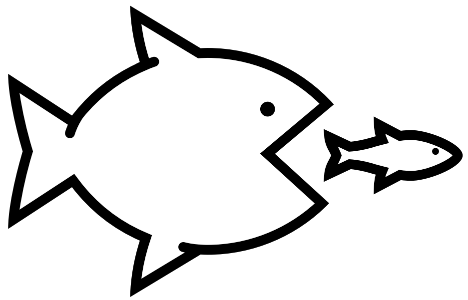
Know your competition.

Build a value proposition that generates willingness to pay.

Consider which strategies align with your opportunities/challenges.

Test the appropriate strategies to evaluate estimated impact on overall net revenue.

Know Your Competition



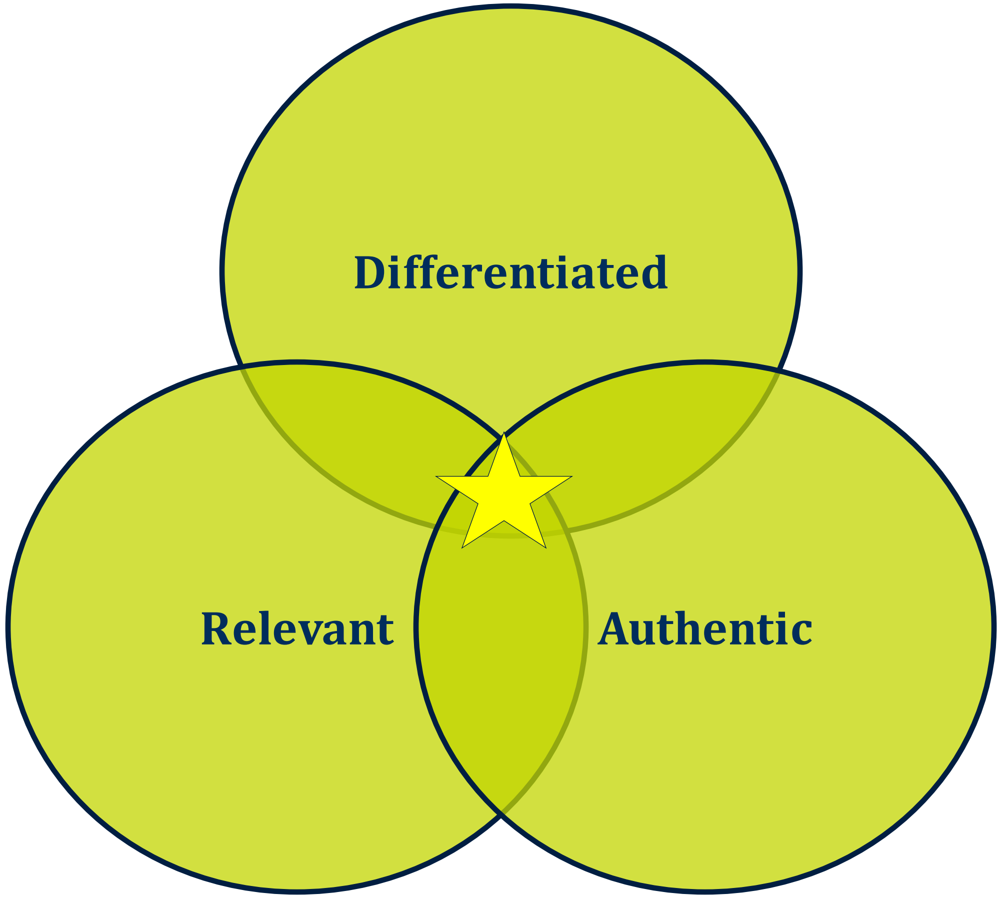
Price decisions are made relative to other acceptable alternatives, <u>not</u> on an absolute basis.

- Competitive analysis versus benchmarking
- Competitors are not peers
- You need to know:
  - Concentration of competition
  - Types of competition
  - By segment

Your value proposition should create a *willingness to pay.*

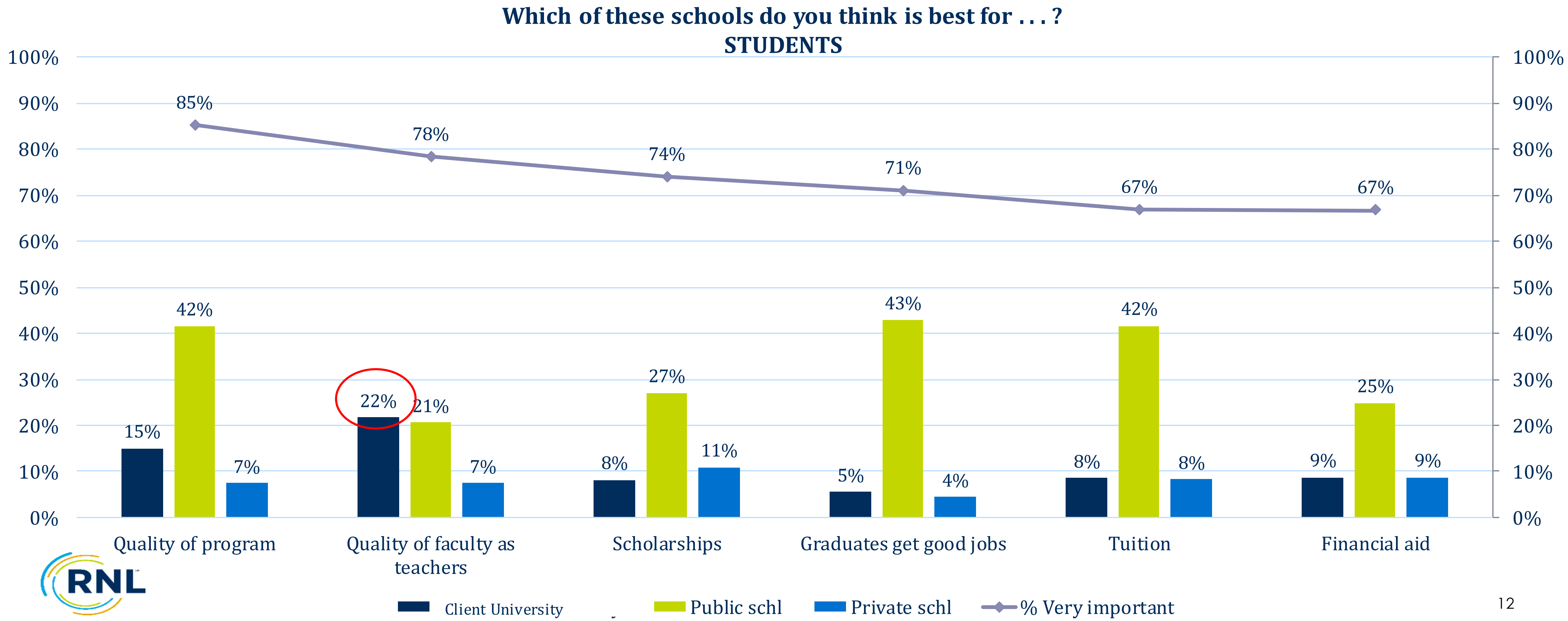
Low-price wins if no relevant difference in value can be perceived.

- **Differentiated**
  - Differentiation by degree
  - Differentiation by type
- **Relevant**
  - Are your messages even important to those you wish to enroll?
  - Relevance needs to be considered from the present looking to the future.
- **Authentic**
  - Are you seen as best in the eyes of the market you are serving?
- **Other notes:**
  - Hygiene factors do not increase willingness to pay, but they may eliminate you from consideration.
  - Focus on differentiation, relevance, and authenticity *for your existing (or new) target market*, not the total universe of higher education.



Understand how value is created (and what steps you can take to generate more).

An example value map:



Consider strategies aligned with opportunities/challenges.

Different 'tests' can be configured in a price survey, but we need to select only those which we would really want to execute if the data was favorable.

Certainty	Value	Flexibility
• Block tuition • Caps on annual increases • Flat price (no financial aid) • Graduation guarantees • LRAP • Prepayment plans • Tuition freeze	• 4-year guarantees • Accelerated degrees • Combined degrees • Bachelor + Masters • Differential financial aid • Differential pricing	• 12-month payment plans • Accept wider forms of payment (e.g., ACH, Credit cards) • Crowdfunding • Income share • “Unbundling” • Varied options for loans

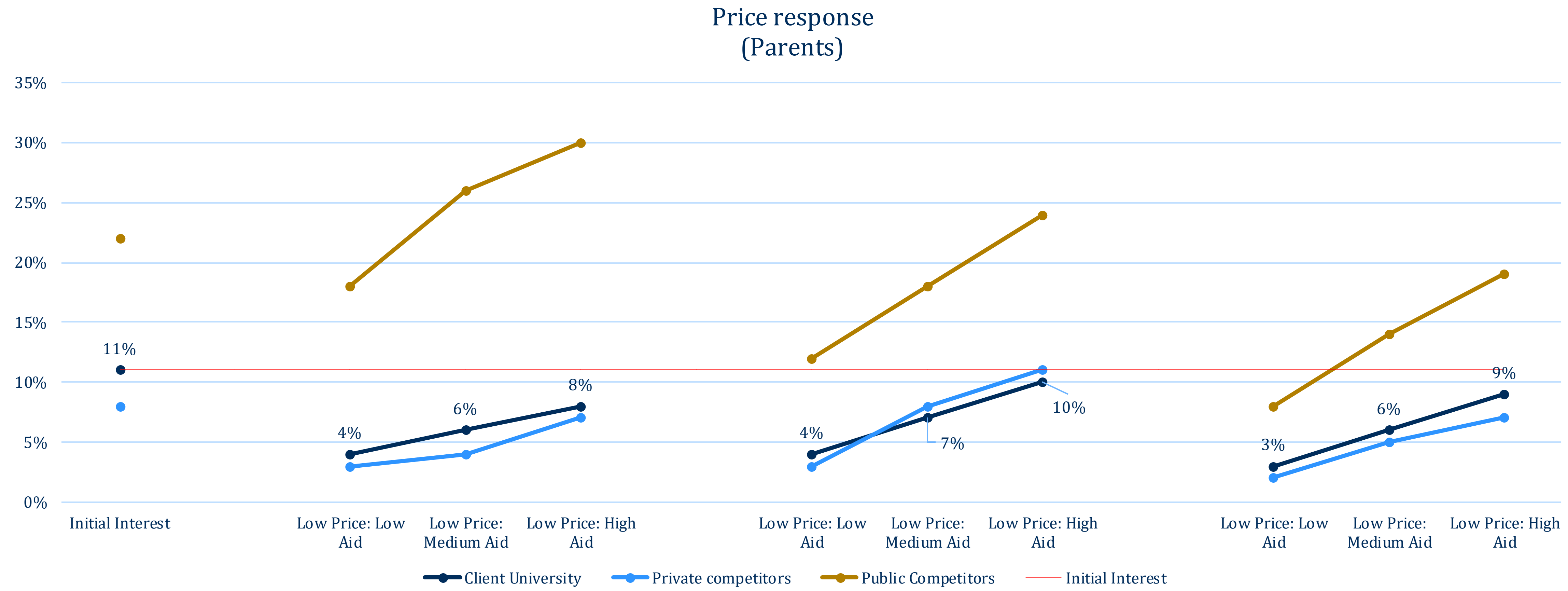
Repositioning

- Tuition reset
- Lower cost degree options (e.g., SNHU) with reduced support

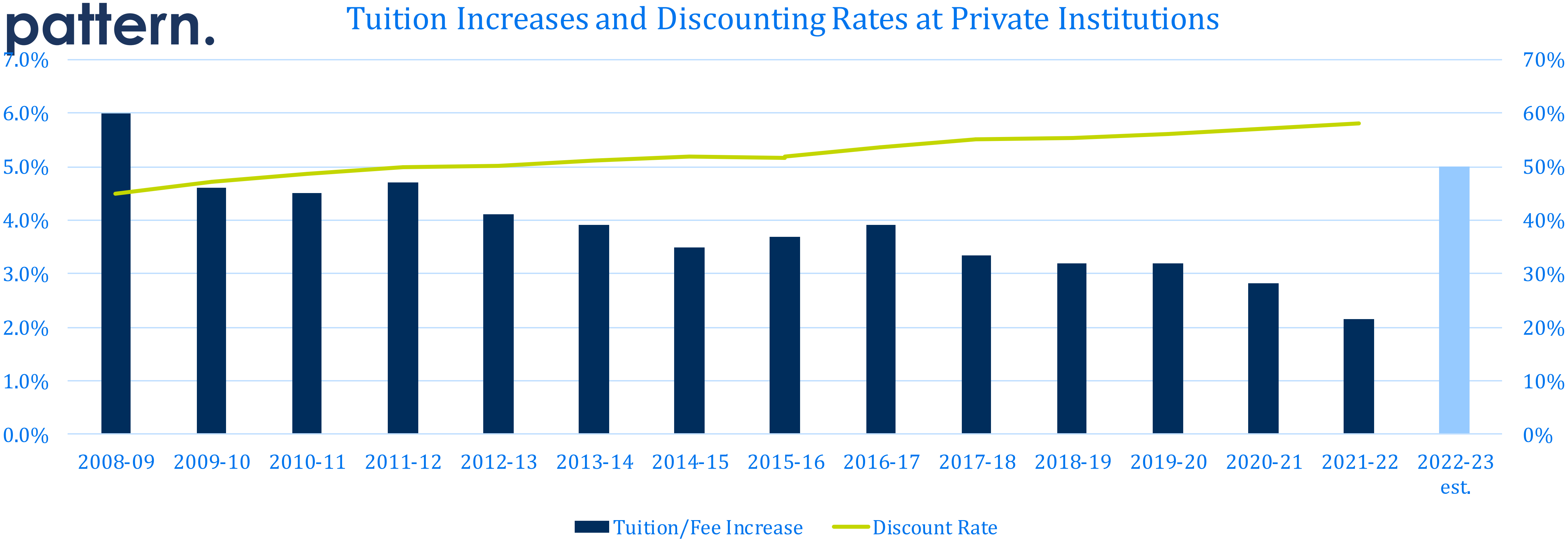
*See price strategy resource sheet for fuller discussion

Test response to changes in your price relative to competition.

Through conjoint analysis you can see the independent influence of brand, published price, and financial aid on willingness to enroll.

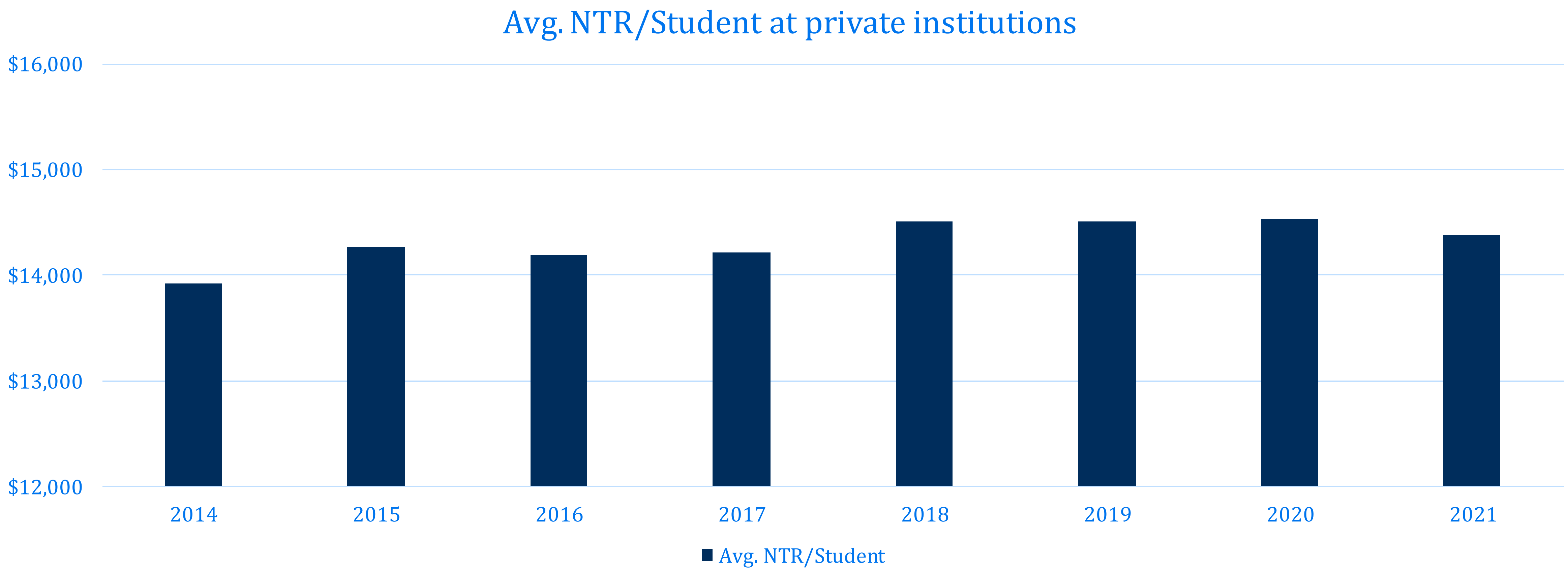


Annual tuition increases (at private institutions) have significantly diminished while discount rates have increased. Public institutions have followed a similar pattern.

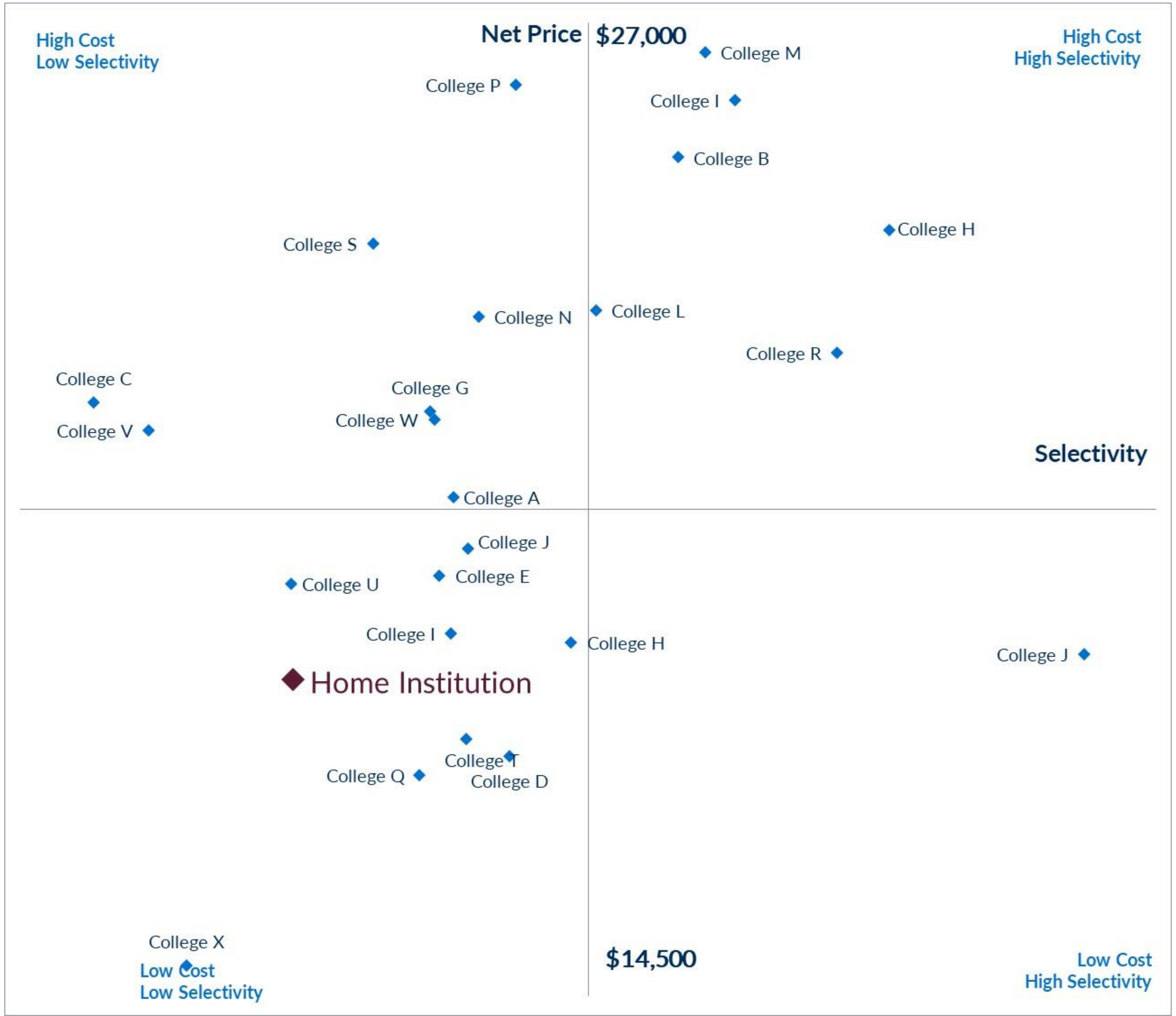


2022 Discounting Report

With rising discount rates and shrinking annual tuition increases, avg. NTR/student has struggled to increase



Where does your net price and profile sit relative to your competitors? This may provide insight into your aid strategy.



What's important in the students you wish to enroll?

Each characteristic comes with unique behavior.

Academic Performance

Economic Profile

Better Retention

Majors

Diversity

Geography

Mission

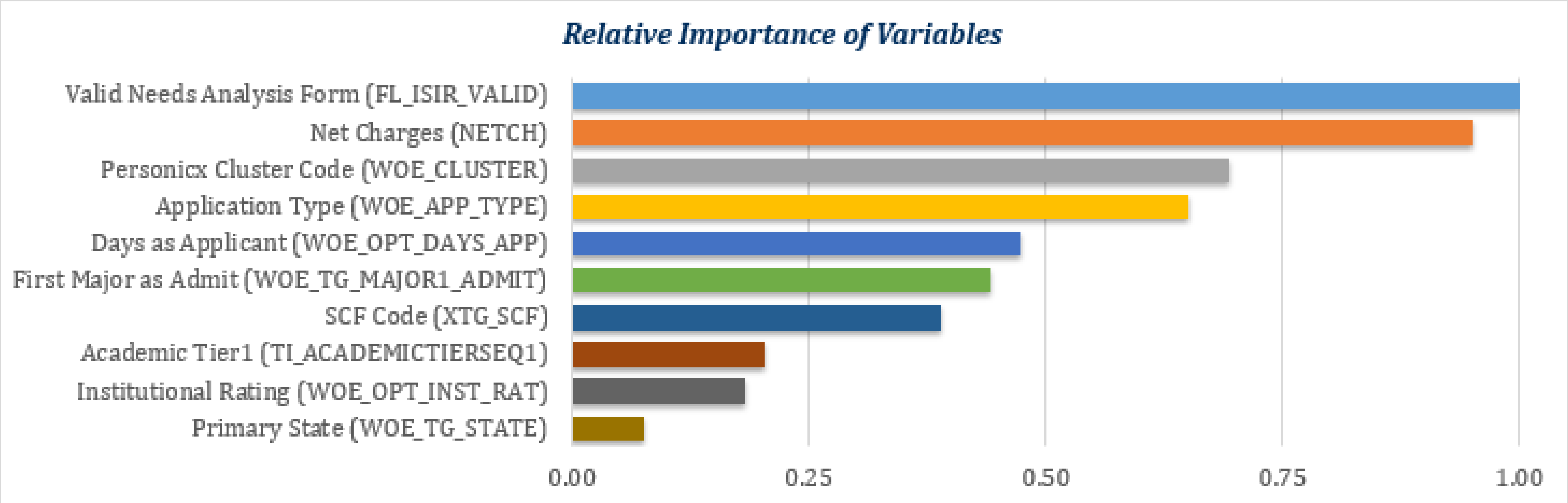
Other

What non-financial variables impact your students' decision to enroll…

…and how "important" is that variable?

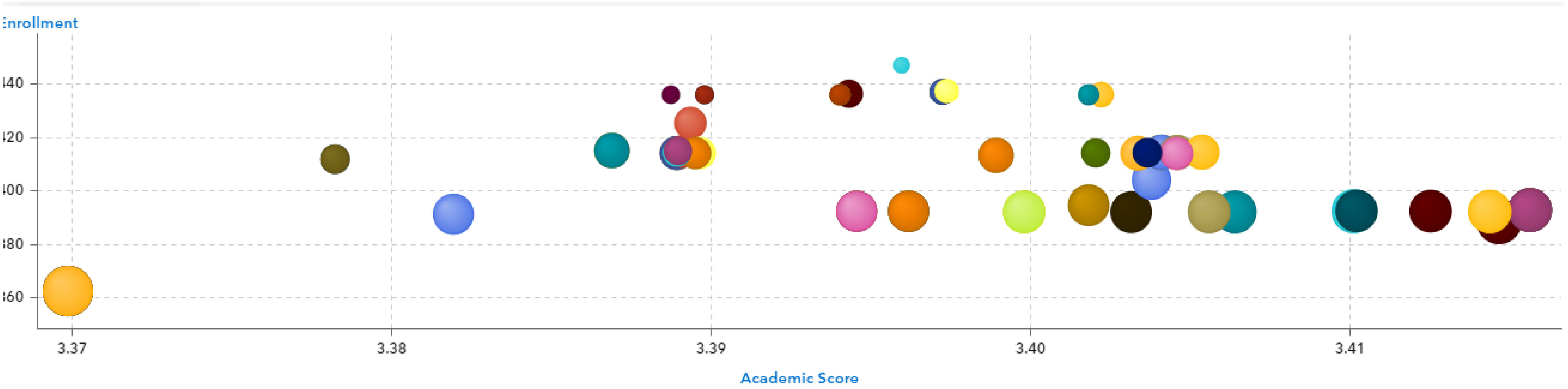
- Major
- Visit
- HSGPA
- Test Score
- Distance
- Campus Visit

How do these variables, or characteristics, work with each other?



Financial Aid Scenario Analysis

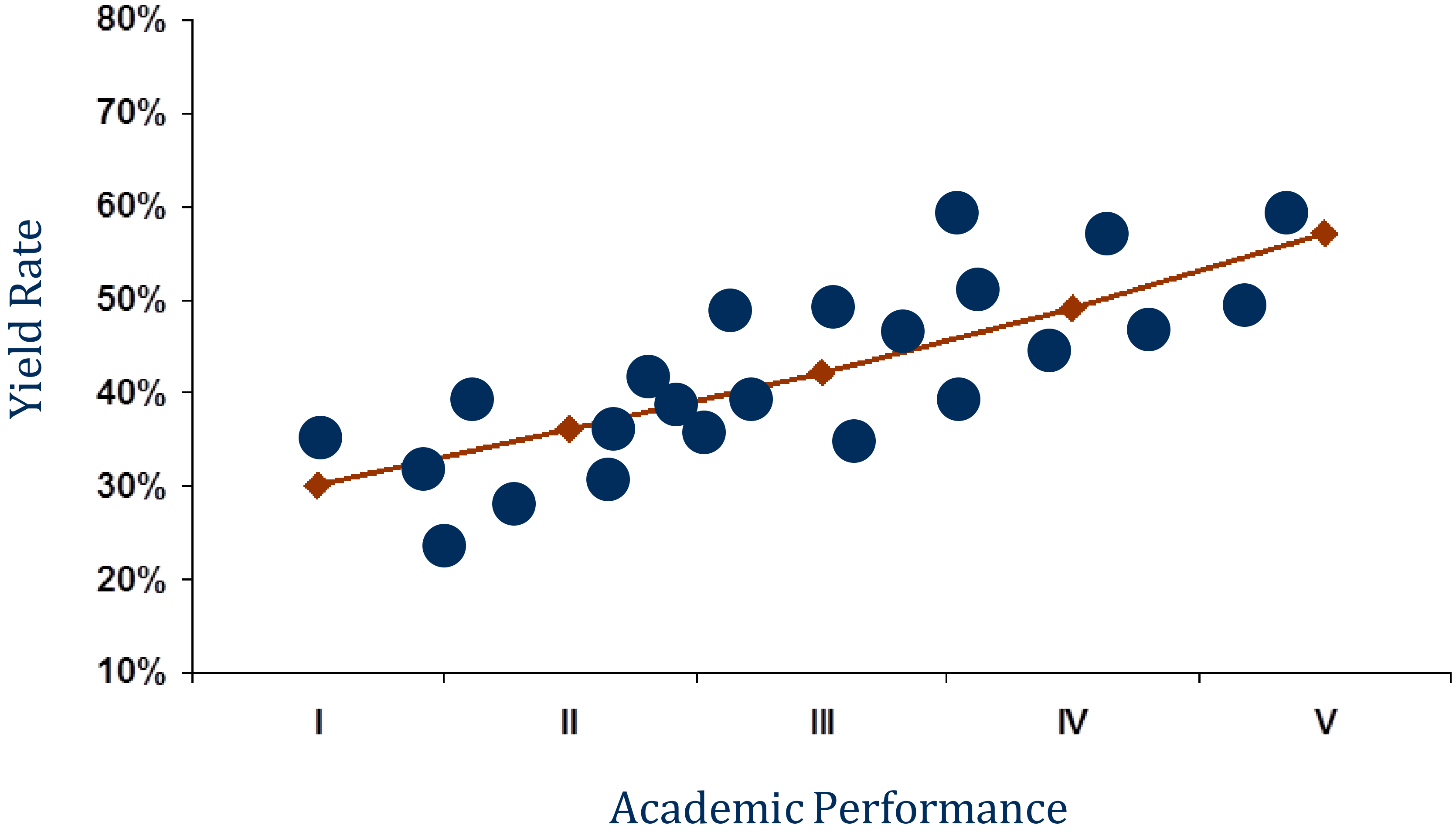
How may your admit pool respond to various price point and aid strategies



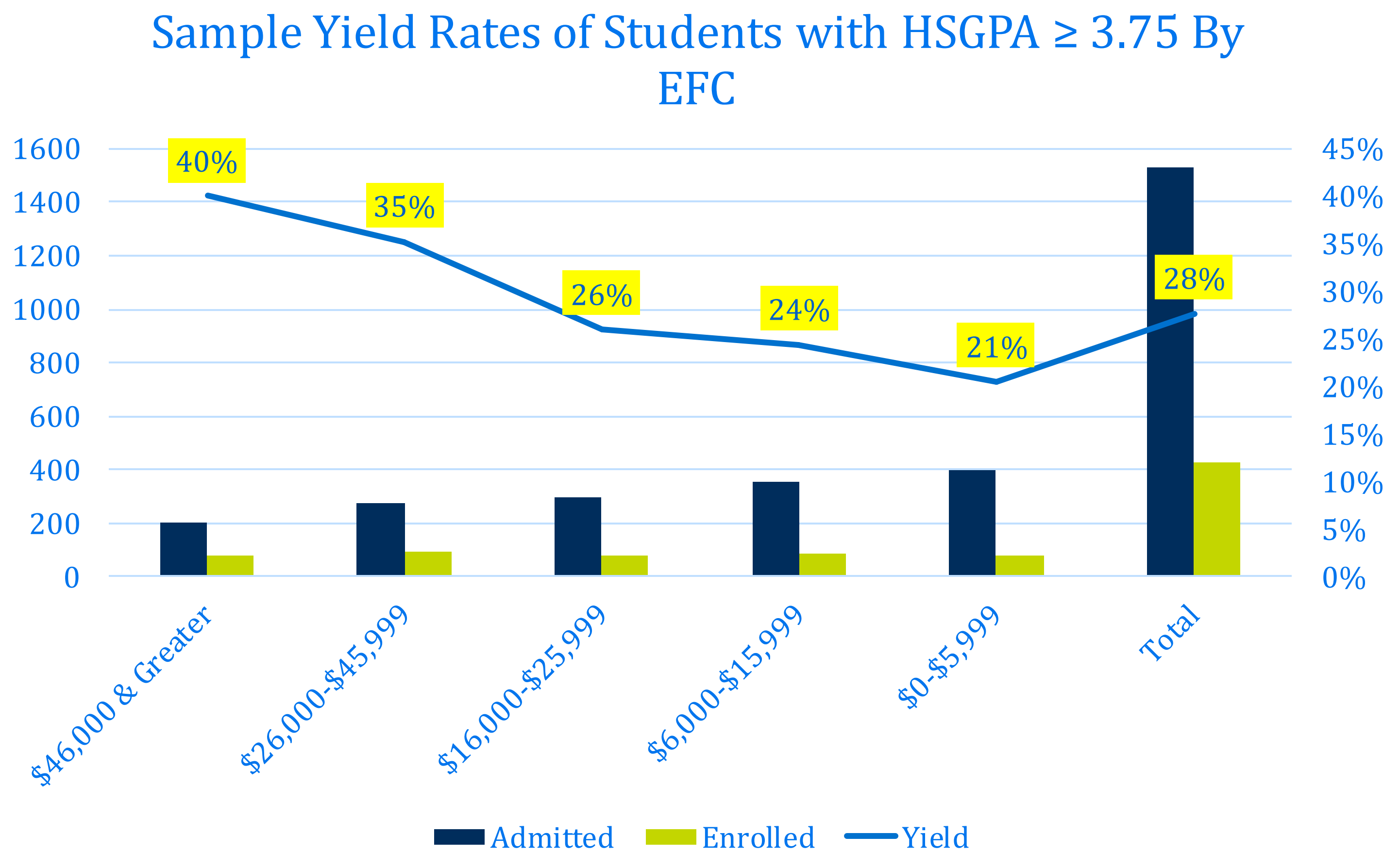
The path to pricing, aid and net revenue can take many forms

Enrollment	Total Revenue	Discount Rate	Expected Institutional Grant	Tuition & Fees Inflation
393	$10,027,679	53.2%	$6,772,004	4.0%
392	$10,027,635	51.6%	$6,445,775	2.0%
392	$10,023,910	52.4%	$6,601,597	3.0%
392	$10,015,322	53.9%	$6,922,881	5.0%
392	$9,983,602	52.7%	$6,637,281	3.0%
392	$9,983,602	52.7%	$6,637,281	3.0%
393	$9,982,818	54.2%	$6,965,011	5.0%
392	$9,973,019	52.0%	$6,490,492	2.0%
395	$9,964,810	53.3%	$6,765,112	3.0%
393	$9,962,139	52.1%	$6,511,497	2.0%
393	$9,922,764	53.9%	$6,860,985	4.0%
393	$9,922,764	53.9%	$6,860,985	4.0%
391	$9,844,651	52.8%	$6,572,228	2.0%
414	$9,698,164	59.2%	$7,870,270	3.0%
414	$9,569,817	60.8%	$8,173,201	4.0%
415	$9,558,446	61.7%	$8,384,642	5.0%
436	$9,410,665	64.4%	$8,935,434	2.0%
436	$9,384,452	65.3%	$9,143,118	3.0%

Test different combinations of students to gather intel on how students respond to offers of admission



A real world look at what YOU can do on your campus

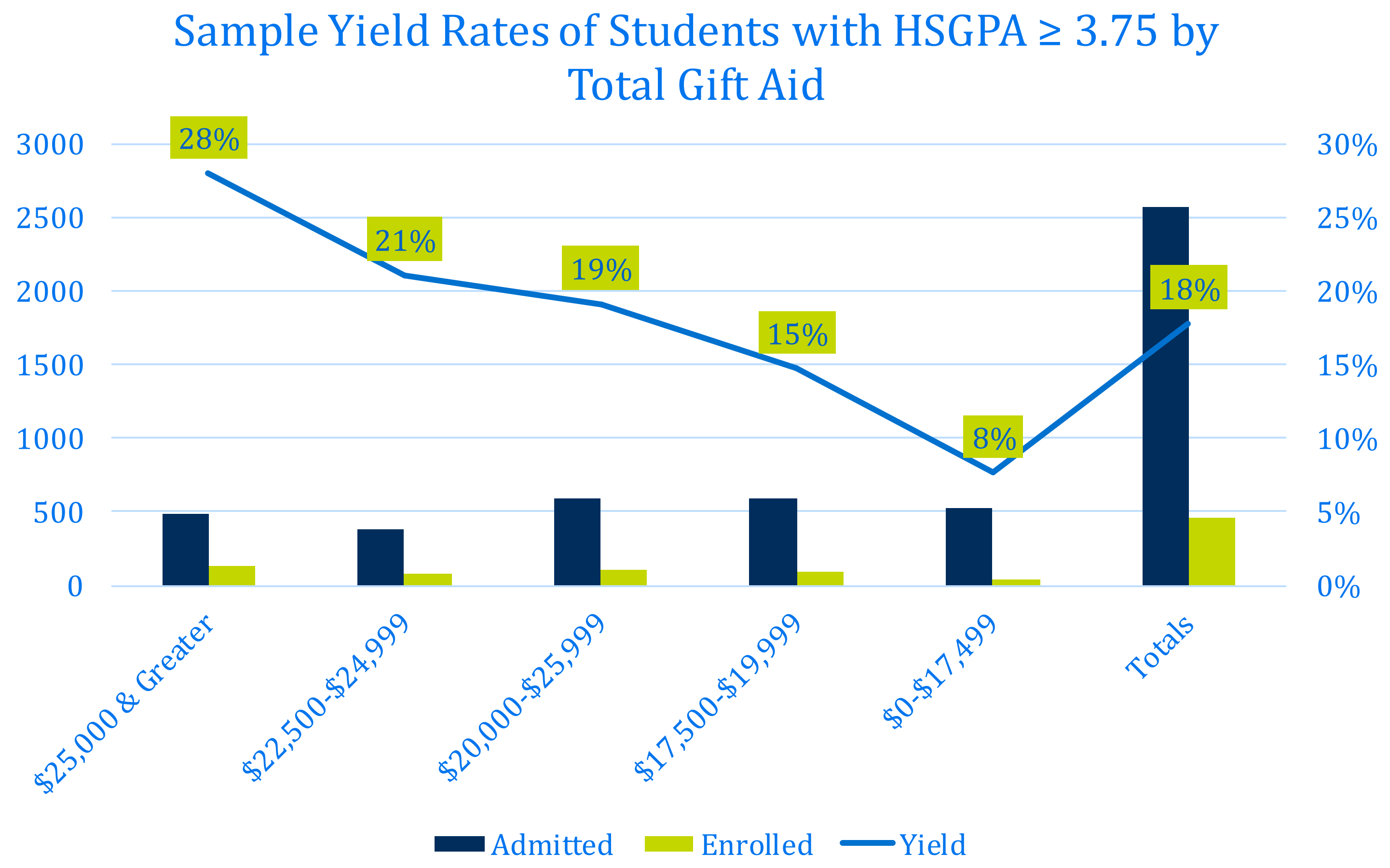


Yield rate of students with 3.75 & above yield by EFC?

A real world look at what YOU can do on your campus

Yield rates of students with 3.75 & above yield by institutional gift?

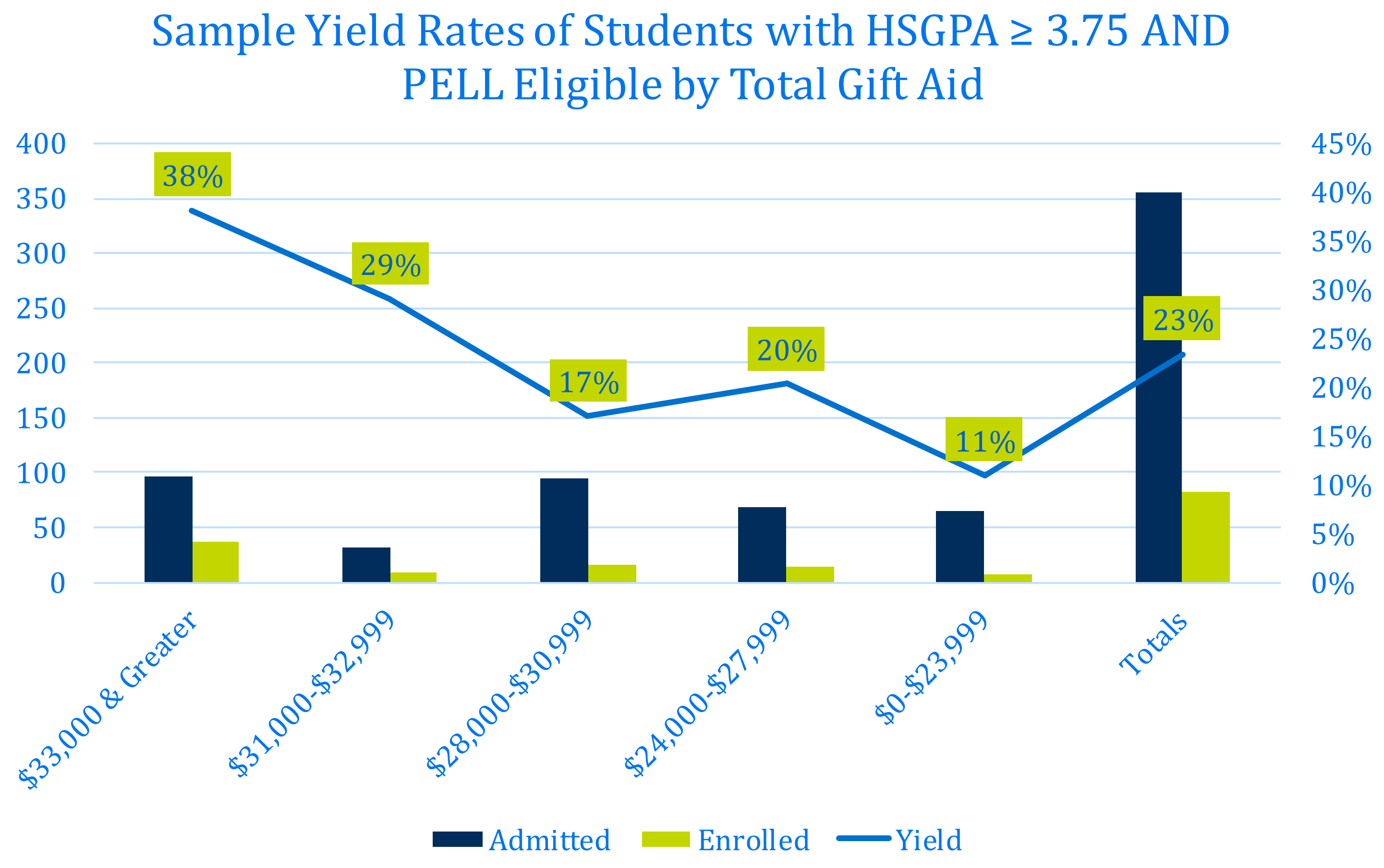
Introduce gift aid and yield rates



A real world look at what YOU can do on your campus

How do students with 3.75 & above that are PELL eligible yield (by **total** gift)?

Combine the two criteria to isolate student response



You just completed an exercise that will help you develop a framework of aid allocation based on YOUR student's response to YOUR aid offers

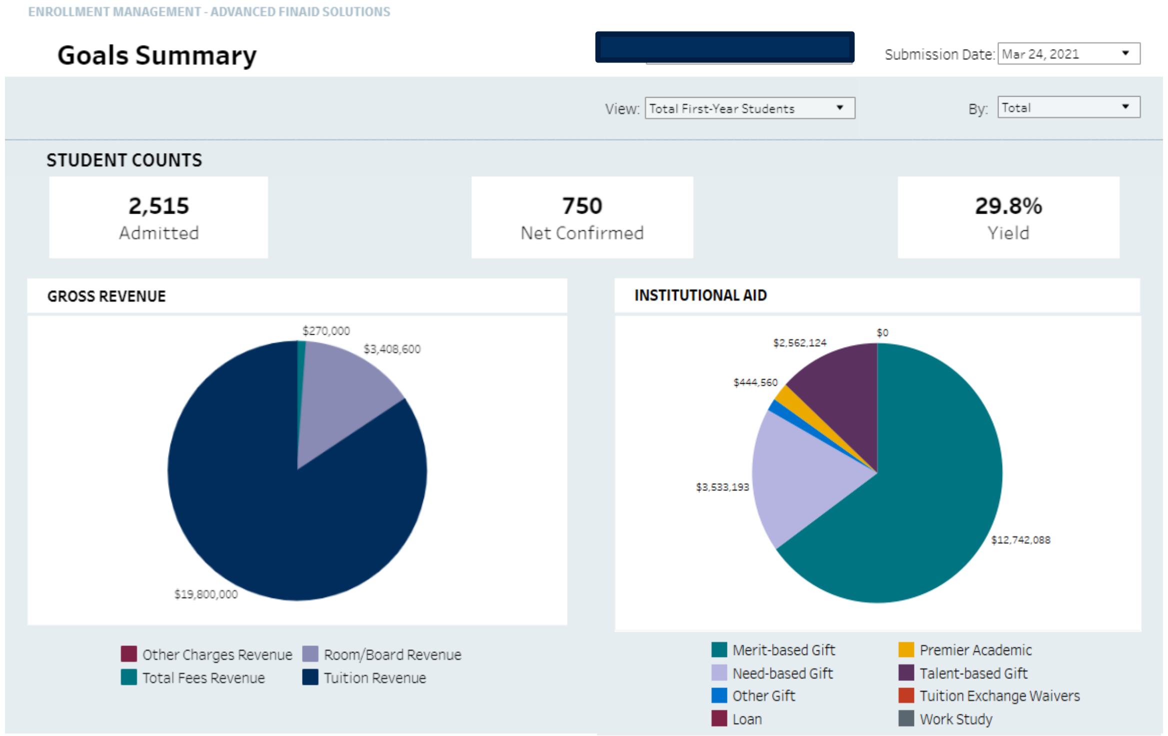
	Willingness To Pay				
	QG 1 (1248/3.9)	QG 2 (1108/3.8)	QG 3 (1075/3.5)	QG 4 (916/3.0)	QG 5 (821/2.5)
Ability To Pay					
EFC: 0	**Yield by % of need met with gift**				
EFC: $1-$5,499					
EFC: $5,500-$10,499					
EFC: $10,500-$15,499					
EFC: $15,500-$25,499					
EFC: $25,500 & Above	**Yield by total institutional gift**				
No Financial Need					

Measuring yield rates by % of need met w/ gift for need-based students is a good test of effectiveness.

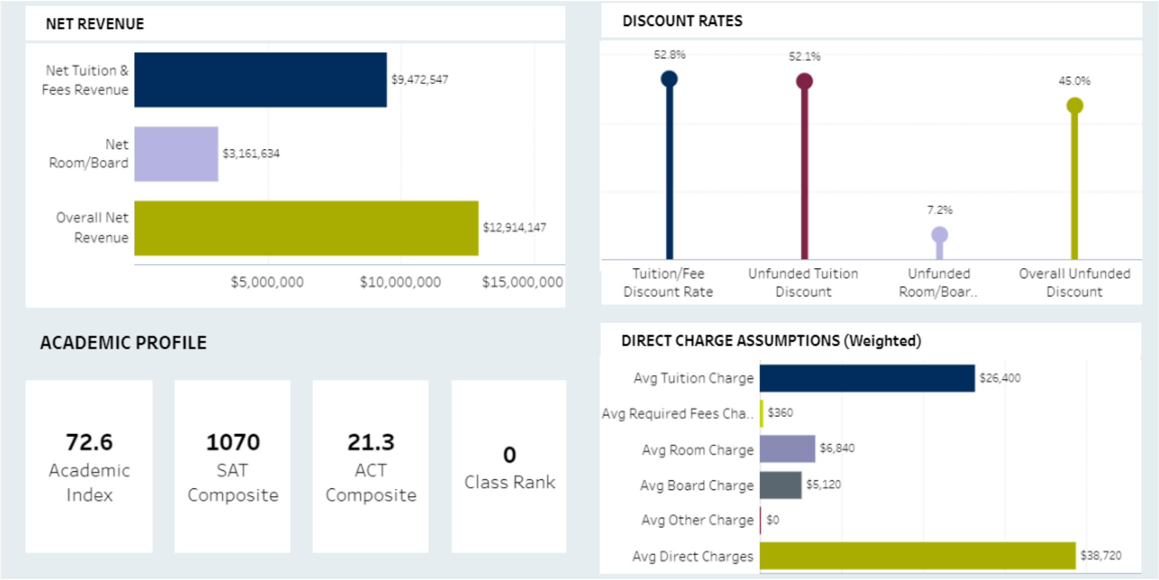
Effectiveness can be measured by analyzing yield by the total institutional gift offered for students without financial need.

Build an aid strategy based on what you've learned.

A comprehensive aid strategy may have "buckets" of dollars.



The dollars should "roll-up" to provide a picture of the aid strategy you wish to deploy and its results.



Factors in the decision to enroll

Four-year private institutions

Enrollment factors rated for four-year private institutions	Importance
Financial aid	**84%**
Cost	**80%**
Academic reputation	**77%**
Personalized attention prior to enrollment	**64%**
Campus appearance	**60%**
Size of institution	**60%**
Geographic setting	**58%**
Recommendations from family/friends	**48%**
Opportunity to play sports	**38%**

Percentages indicate the proportions of "important"/"very important" scores

N = 105,471 students from 223 institutions

Factors in the decision to enroll

Four-year public institutions

Enrollment factors rated for four-year public institutions	Importance
Cost	82%
Financial aid	82%
Academic reputation	75%
Geographic setting	64%
Campus appearance	60%
Personalized attention prior to enrollment	60%
Size of institution	57%
Recommendations from family/friends	50%
Opportunity to play sports	35%

Percentages indicate the proportions of "important"/"very important" scores

N = 60,834 students from 60 institutions

Rethink the way you communicate your financial aid offers using personalized video awarding.

- Opening/Congratulations on acceptance
- Financial aid offer details
  - Total package
  - Merit award
  - Other scholarships and grants
  - Loans
  - Net cost calculation
- Payment options
- Value proposition—based on student interests and campus differentiators
- Next steps—call-to-action buttons

Bringing it Home

Think strategically about value and price throughout the whole funnel.

- To identify your overall price position:
  - Know your competition.
  - Build a value proposition that generates willingness to pay.
  - Consider which strategies align with your mission, opportunities, and challenges.
  - Test the appropriate strategies to evaluate estimated impact on overall net revenue.
  - Perform sensitivity analysis on scenarios considering impact of inflation.
- When formulating aid
  - Know who you want to enroll.
  - What factors drive yield, financial, and non-financial.
  - How do students respond to our current offers and what is the desired state?
  - Build an aid strategy on what you've learned.
  - Test, if possible, your aid strategy with your determined price point against the admit pool
  - Deploy a personalized and value-centered financial aid award strategy.

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Thank you!
Please reach for further discussion…

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