

Conducting a Tuition Sensitivity Analysis for 2026 and Beyond Ohio Bursars Association: Fall 2024 Conference

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Meet the Presenter



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- Leads higher education strategy, financial health, and people & culture consulting for Forvis Mazars US
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Agenda

1. Demand elasticity
2. Trends and tuition resets
3. Conducting the analysis
4. 2026 and beyond



What is Demand Elasticity?

Calculating Change in Demand

- Demand elasticity = % Change in Demand \div % Change in Price
- Calculated on historical data
- Higher absolute values indicate higher demand elasticity
 - An increase in price is likely to affect demand for the product or service
- E.g.,
 - **1% decrease in demand \div 10% increase in price = -0.1**
 - Indicates low elasticity
 - **20% decrease in demand \div 10% increase in price = -2**
 - Indicates high elasticity

Application

Goods and Services with the Highest Price Sensitivity

Low Elasticity	High Elasticity
Household staples (e.g., toilet paper, milk, bread)	Brand name groceries and dining out
Required services (e.g., accountants)	Jewelry
Airline tickets during holiday season	Airline tickets offseason

These patterns represent macro-level demand; demand will vary based on many factors at the lower levels

In Higher Education

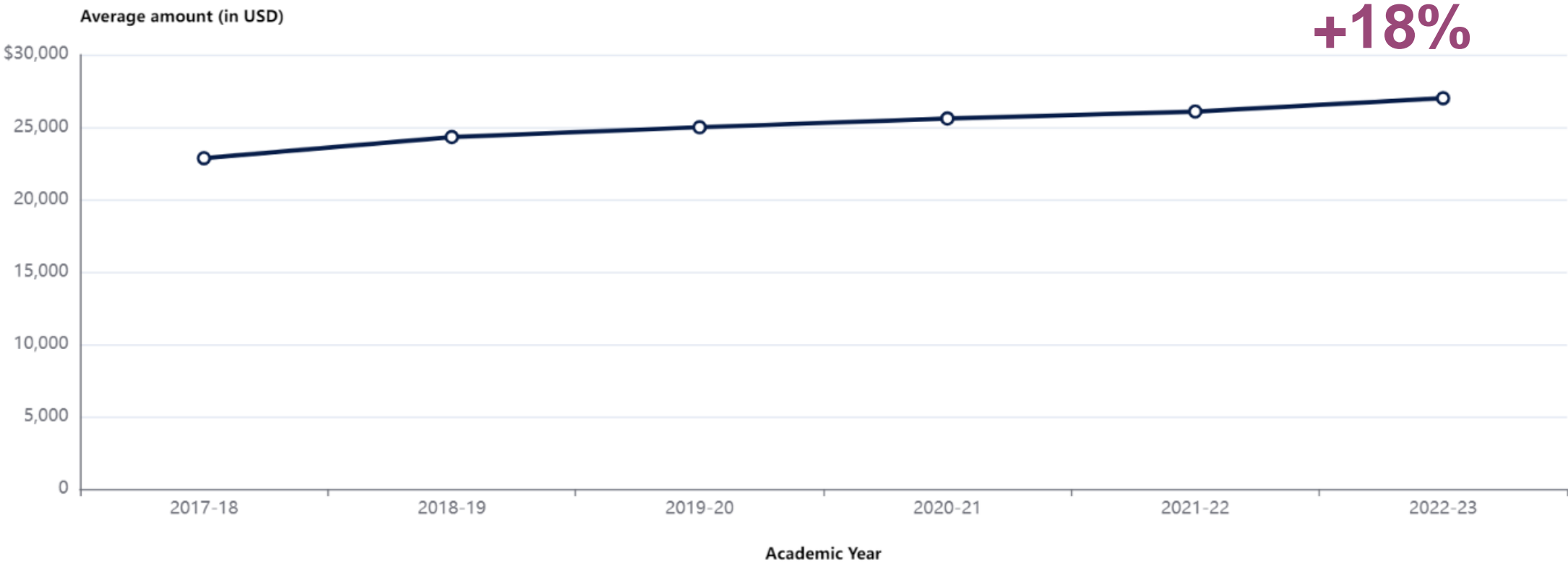
Essential Questions for the Industry

- Is higher education an essential good/service?
- Are there alternatives to traditional higher education institutions?
- Does higher education have a particularly strong reputation/brand presence?
- Do prospective students report being price sensitive customers?

Tuition and Revenue

Private Non-Profit Institutions

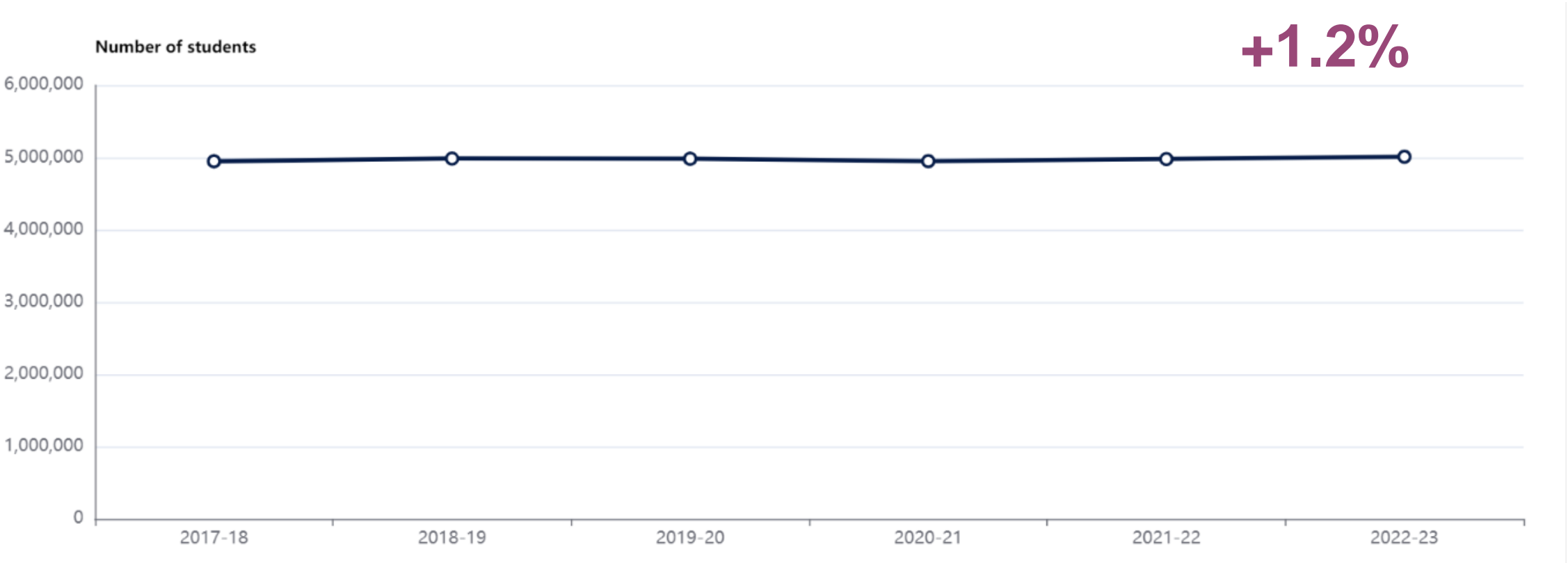
Average Tuition and Fees



Tuition and Revenue

Private Non-Profit Institutions

Enrollment (Whole Sector)



Elasticity

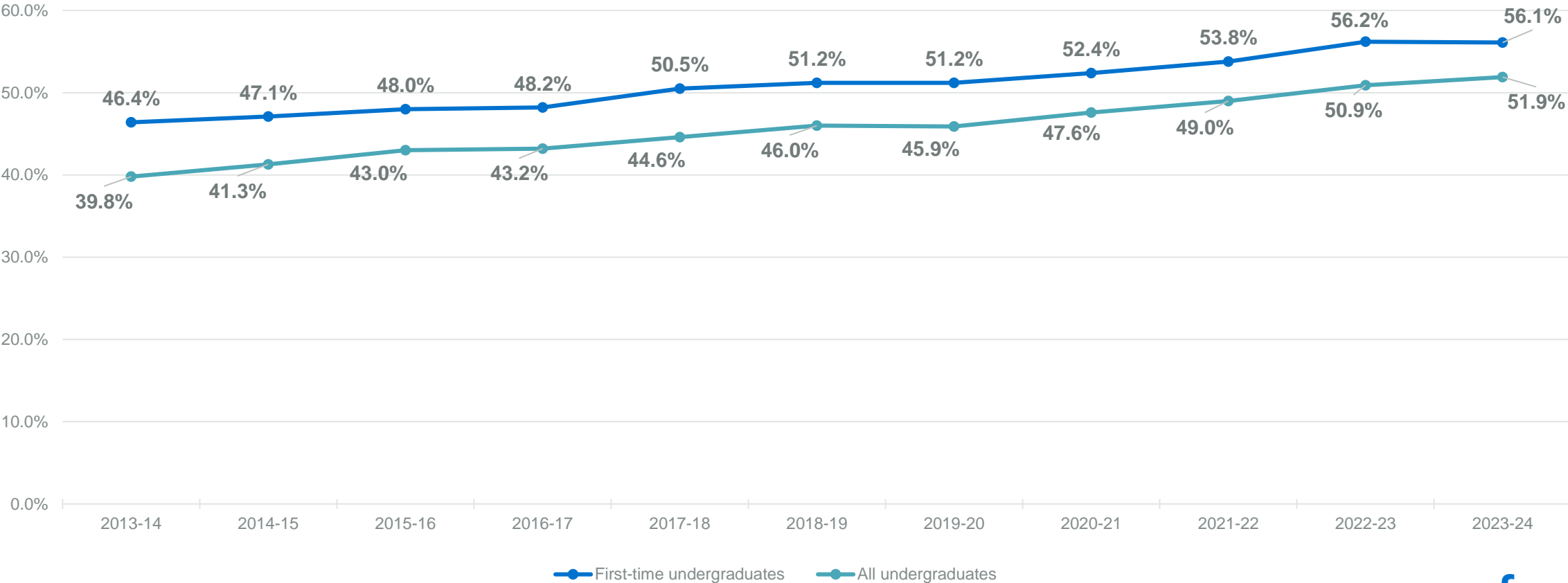
$\% \text{Change Demand} \div \% \text{Change Price}$

$$1.2\% \div 18\% = .06$$

Suggests *low* demand sensitivity

Tuition and Revenue Private Non-Profit Institutions

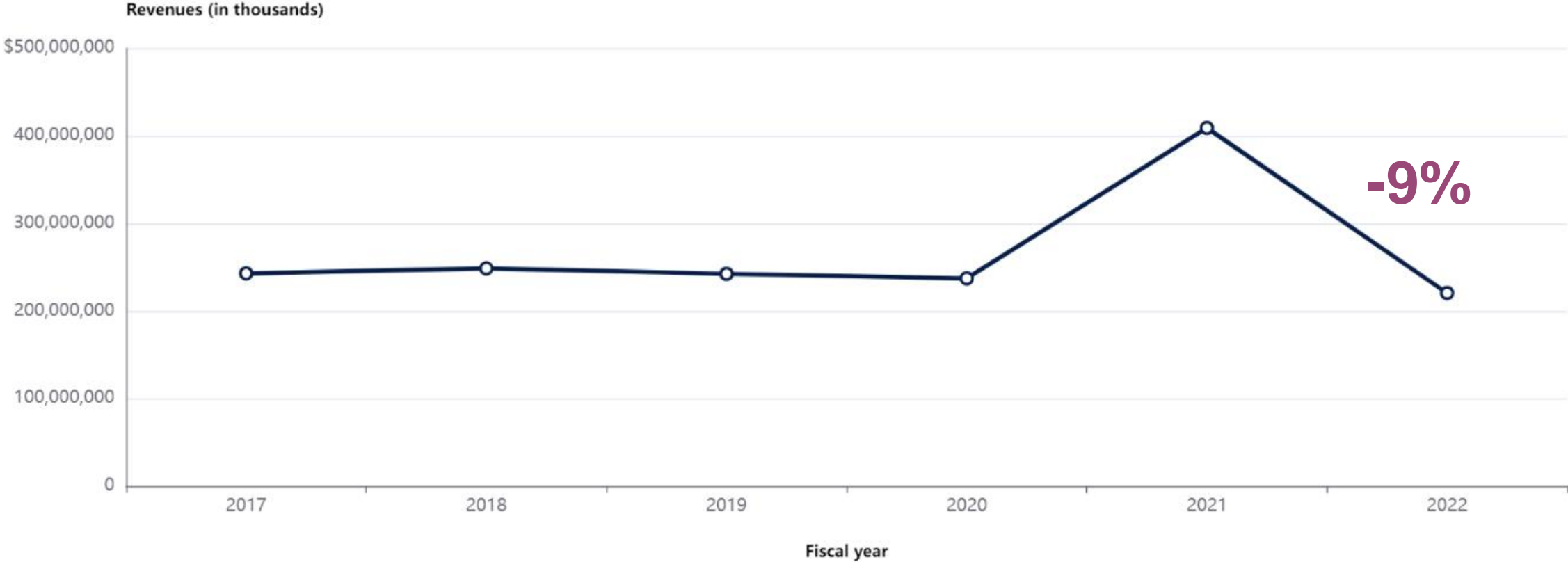
Discounting



Tuition and Revenue

Private Non-Profit Institutions

Revenues (Whole Sector)



Tuition Resets

Assuming High Demand Elasticity

- Private higher ed uses high price, high discount model
 - *This does not happen with toilet paper*
- **Tuition reset = public announcement of dramatic decrease in tuition and fees** (typically, to match actual net tuition revenue per student after discount)
 - Typically designed to increase applications, yield, enrollment, and retention
- Assumes that prospective students and families avoid applying because “sticker shock”
- 20+ private colleges announced tuition resets between 2018 and 2021 (a couple dozen before that)



Tuition Resets

Do They Work?

- Resets are a demand elasticity experiment, with measurable outcomes
- Results aren't clear
 - Not enough post-pandemic data
 - A lot of variability
- **Wide variability in effectiveness**
 - 50% of institutions see enrollment decrease in Year 1, 50% see enrollment increase in Year 1 (Lapovsky, 2019)
 - Results sometimes take 3+ years to materialize, but sometimes don't manifest at all (Lapovsky, 2019)
 - Some evidence of enrollment increase in Years 2-4, no returns after Year 5 (Ward & Corral, 2022)
 - Generally no effect on total net tuition revenue (Ward & Corral, 2022)

Before doing a price adjustment, calculate demand elasticity for *your* institution

Calculating Demand Elasticity Using Historical Data

$$\% \text{Change in Demand} \div \% \text{Change in Price}$$

Take the following steps:

1. Define and operationalize “price” (published fees, discount rate, or net tuition)
2. Define and operationalize “demand” (applications, deposits, enrollment, and/or retention)
3. Determine the timeline for the trend analysis (include pre-COVID years?)
4. Calculate demand elasticity for your institution, using your historical data
5. Calculate demand elasticity for peer institutions, understanding that public data will be 18 months behind
6. Benchmark yourself against peer institutions
 - If you don’t match, they probably are not your “price peer”

Higher Education

Does it Have High Elasticity?

- Posted price has gone up, enrollment has been steady-ish, implying low demand elasticity
- Discount rates have gone up, implying high demand elasticity
- Tuition resets sometimes generate more demand for the institution (sometimes not)
- Some institutions can charge more than others
- Why?

Variability in patterns suggests demand elasticity also depends on other factors

In Higher Education

Essential Questions for *Your Institution*

- Does your institution provide an essential good/service?
 - **Do students need you (and know they need you)?**
- Are there reasonable alternatives to your institution?
 - **Do students think you're unique?**
- Does your institution have a particularly strong reputation/brand presence?
 - **Do students want you?**
- Do your prospective students report being price sensitive customers?
 - **Do students believe you're too expensive?**

We must measure
subjective variables

Conducting Market Research

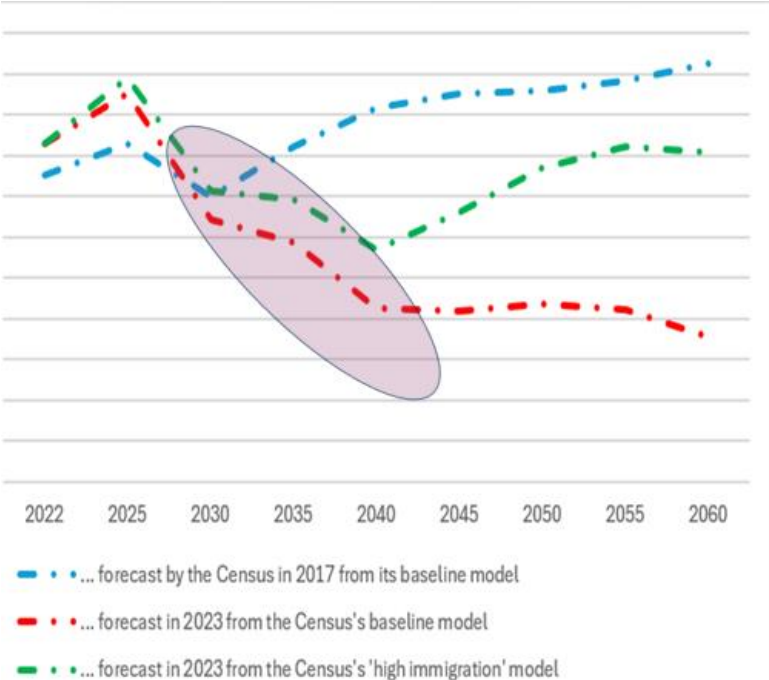
Subjective Variables Matter

Goal is to understand your demand elasticity now to *reduce* your demand elasticity in the future

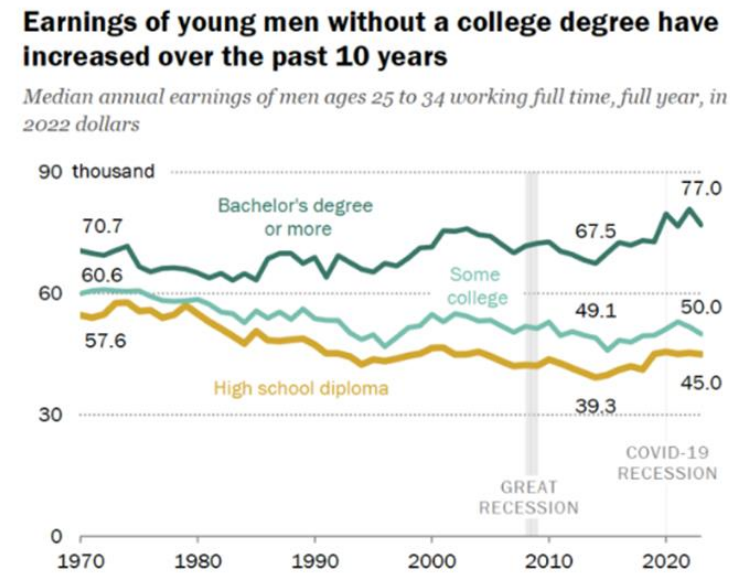
1. Purchase access to a panel of “buyers” or consider well-facilitated focus groups
2. Ask questions that will help you understand your prospective students and their families
3. Develop strategic initiatives to address deficiencies of perception
 - Marketing
 - New program offerings
 - Clear return on investment
4. Revisit objective calculation and revise price accordingly

X-Factors 2026 and Beyond

Headwinds



Value



Regulation



Contact

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