OxCHEPS Paper 41

PRICING

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Universities are about to encounter 'interesting times' as we try to price the undergraduate degree 'product' within the band £6000-9000, and potentially find out the hard way how our 'customers' will react. Some HEIs may simply go bankrupt in the process and just disappear (10-15 of the c150?); others as financially failing businesses (a further 20 or so?) will cull their costly academic staff and then totally 're-engineer the production line' (for example, two-year intensive courses, a year cheaply taught at an adjacent FE college, use of cyber/distance-delivery). Some of these will contract out their teaching to the likes of BPP (which will also offer to hack 25% off the, allegedly, inefficiently-managed admin budget). Many will be embarrassed as they find themselves discounting in the clearing (aka 'sales') season if they have initially set 'the sticker price' too high (and will then have to handle grumpy punters sat next to each other in lectures and seminars, like folk on aeroplanes, comparing who paid what and when - bad enough for one 10 hour long-haul flight if the bod in the next seat got away with half what you paid, but a festering sore in customer-care terms if these differential fee levels apply for 3 academic years of 'the student experience'!).

So, what do the textbooks on marketing and pricing tell us?

The territory is 'services marketing'. The service is the supply of teaching and examining as the chance to earn the first degree of X at uni Y; it is, in Law, very clearly a contract-to-educate, delivered as 'B2C' (Business, the uni, to the Consumer, the student). It is covered by the general common law on contract and by the specific statute law relating to consumer protection, notably s13 Sale of Goods & Services Act 1982 which requires that the service be provided 'with reasonable care and skill' – see Farrington & Palfreyman, *The Law of Higher Education* (2006, Oxford University Press; second edition due 2012 – and with a new section on 'the failing HEI'!). In Chapter 17 ('Pricing of Services') of Zeithaml et al, *Services Marketing* (2006) the pricing of services is 'more difficult' than that of goods and also 'most service organisations use a naïve and unsophisticated approach to pricing'. The complexity is that the customer is ill-informed and that price is a key signal of quality for the customer's perception of what is on offer ('price is at once an attraction variable and a repellent').

Thus, reputation or brand perception matters – Brand Oxbridge or Brand Russell – and for other HEIs it may be that a price linked to these top brands will helpfully signal quality ('customers may believe that price is the best indicator of quality'). But beware that 'pricing too high can set expectations that may be difficult to match in service delivery'…

The starting point is one of: cost-based pricing, or competition-based pricing (going-rate pricing), or demand-based pricing (what-the-market-will-bear pricing). And the last is, in turn, based on 'the perceived value of the service to customers': hence the business 'must fully understand what value means to customers' – which 'is not a simple task', involving as it does aspects 'highly personal and idiosyncratic'. In short: 'Perceived value is the customer's overall assessment of the utility of a service based on perceptions of what is received and what is given.' So, if , say, the once-named Coketown Poly sets its tuition fees at £9000 like Oxford, Cambridge, UCL and ICL, can the former really achieve the equivalent of charging for its well-engineered Ford Mondeo or Volkswagon Passat the price of a prestige-brand Audi A6 or a BMW 5? What if the Coketown offering is a sound but unexciting Skoda Octavia? What if, in truth, the offering is a [name a make/car with a reputation for poor quality-reliability, resale value, whatever]? The next steps are such as sticking with the head-line price as determined via one of the above processes (this would be prestige-pricing) or being realistically flexible (discounting by way of reducing the price or adding in goodies – in HE terms, a free laptop or gym-membership, or an en-suite bedroom for the price of a standard one). Mixing tuition fees and accommodation charges takes the HEI towards price-bundling and complementary-pricing.

These issues surrounding perception of value are informed by behavioural research: Chapters 5-9 of Monroe, *Pricing* (2003). This research indicates that 'brand name is the most influential extrinsic cue for assessing quality' – this could be generic, as in Swiss watches or Japanese electronic goods or US & UK HE; it could be specific, as in Swatch, Sony, Harvard & Oxford. This perception is essentially a process of categorization. There is also the fact that the potential purchasers (the fillers-in of the UCAS form in our world) may have in mind 'internal reference prices' as 'the notion of an expected market price' and may then find the actual advertised price for Coketown 'implausible' (even if often in practice the person actually adjusts the reference price upwards to some degree when encountering this new, albeit implausible, piece of price information that is viewed as an exaggerated price). So, the more Coketowns there are advertising £9000 the more the applicants' reference price moves towards this perhaps implausible figure! And, if that pricing strategy is combined with a flexible approach to the use of discounting, an individual Coketown may do better than might have been expected when pricing itself at Oxbridge and Russell levels: bad news for Willetts & Cable hoping that the average price of a degree will turn out to be around £7500.

The difficult bit is at what point to publicise such discounting – generally and openly during clearing, or furtively to one applicant at a time as they ring up or email in? Or even vaguely hint at discussions-to-be-had if a potential applicant makes personal contact at any point within the entire admissions round? The problem is that 'the frequent and predominant use and misuse of deep discounting by retailers may have several undesirable results.' – mainly that the market realises that hardly anyone ever pays the £9000 sticker price at Coketown and it adjusts the reference price downwards, and perhaps for all such Coketowns. And also the use of such 'fictitious' prices 'to enhance buyers' value perceptions and thereby deceive buyers' will 'inevitably' result in 'public policy regulating such deception'! It would seem unlikely, given the experience/expertise of HE managers and the limited time there has this year been in which to decide on fees for 2012/13, that any HEI has done anything like the kind of 'customer value analysis' and made adequate use of the 'research methods for pricing decisions' so as to achieve 'effective price management' (all titles of chapters in Monroe). For 2012/13's pricing of an undergraduate degree course at most HEIs one suspects that a mix of courageously optimistic guesswork and of much waving of fingers in the air is as sophisticated as it gets.

Finally, one of the few books that look specifically at the marketing of education (Kotler & Fox, *Strategic Marketing for Educational Institutions*, 1995) warns that managers of US HEIs (and of US private schools) 'often overlook the meaning of price to consumers'. They argue that the punters want to see 'the effective price' against 'the list price', the former being the latter after discounts and bursaries/waivers; and the punter will assess the latter against the anticipated benefits (career prospects, prestige/brand, the teaching & learning experience, degree program/course uniqueness). They also stress that actually calculating the true value of the degree in X from HEI Y may not be possible until many years after graduation. Given this complexity and uncertainty, Kotler & Fox conclude that the sale of education as a service becomes a classic example of

the price being used and seeming to indicate or signal quality – all as discussed above.
As also noted above, there are indeed challenging and interesting times ahead for HEIs: ones in which, if the VC & SMT get the pricing decision within the marketing mix of the marketing strategy wrong, the very future of the HEI will be imperilled (never before have those over-paid bods actually deserved their salaries in the context of the risks being taken with their own jobs - and those of everybody else at Coketown University…).