

## Pricing Considerations

James Bunton, Douglas Durand, Pat Long, and Steve Lehmkuhle  
March 21, 2001

The following report on pricing represents the recommendations of the subcommittee for the setting of undergraduate fees. Although some of the recommendations will spillover and impact the setting of fees for graduate and professional level courses, the focus of the recommendations is on undergraduate fees. A separate study is needed to examine the factors that should influence the fee structures for graduate and professional programs. The subcommittee would like to acknowledge the substantive support provided by Larry Gates in the formulation of its report.

### Price Structures

The price structures in higher education contain several components:

- *Tuition.* This is the fee all students pay for instructional services.
- *Mandatory fee.* This is the fee all students pay for student support services, programs, and facilities.
- *Supplemental instructional fees.* This is the fee some students pay for enrollment in selected courses.
- *User fee.* This is the fee some students pay for usage of a facility or for consumption of educational supplies.
- *Tuition discount.* This is the reduction in the price charged some students for tuition and fees. This price reduction comes in the form of grants, scholarships, fellowships, and tuition remission and waivers.

### Pricing Philosophies

The institution's pricing philosophy reflects its attitude about access, affordability, and financial aid. Three philosophies currently prevail in higher education:

- *Low-tuition/low-aid.* Low-tuition pricing encourages access to educational programs, relies heavily on subsidization from state appropriations, and requires relatively small investment in financial aid.
- *Moderate tuition/moderate aid.* Moderate-tuition pricing is oriented toward a cost-sharing concept since there is a mutual benefit of the educational services. This philosophy adheres to the notion that students should pay a reasonable share, typical one-third, of the total cost of their education. The remaining costs are to be absorbed by subsidies from other revenues, including state appropriations and private sources.
- *High-tuition/high aid.* High-tuition/high aid concept of pricing allows tuition and fee levels to rise to meet market demand and escalating cost while using subsidized funds to funnel grants to needy and targeted students.

A moderate tuition philosophy seems consistent with the approach adopted by the University of Missouri.

## Pricing Models

The pricing model adopted by an institution must be consistent with its price structure and philosophy. Basic model include:

- *Plateau or scaled pricing.* This model requires a student to pay more for the first few course enrolled, and less for additional courses beyond what would be considered a full-time course load. Plateau or scaled pricing is suited for residential campuses where the vast majority of the students are attending full-time.
- *Unit or linear pricing.* This model requires a student to pay a specified rate for all courses enrolled. Unit or linear pricing is well suited for urban non-residential campuses where the vast majority of the students are attending part-time.
- *Term pricing.* This model requires a student to pay a flat tuition charge each term irrespective of the number of courses enrolled. Term pricing, particularly in public institutions, is well suited for first professional programs and programs requiring year-round attendance.

## External Market Factors

In setting prices other market factors must be taken into consideration:

- *Socioeconomic characteristics of students.* This factor affects both accessibility and affordability to the institution.
- *Local or regional competition from other institutions.* This factor affects the institution's ability to recruit and retain a selected market segment of students.
- *Enrollment composition.* The enrollment status of the majority of students (full-time vs. part-time) will impact how an institution prices its services to accommodate how most students access the institution.

## Internal Operational Factors

It is also important to acknowledge that internal factors that impact its ability to cover instructional costs will limit the flexibility of an institution in developing a pricing structure. The institution's cost structure, the availability of financial aid support for students, and the availability of revenue other than student fees will influence the setting of prices.

## Possible Changes in Current Pricing Strategies

The subcommittee considered several alternatives for pricing strategies assuming that the University of Missouri would continue to set educational fees using a moderate tuition philosophy.

1. Allow each campus to set its price (unit rate per hour) at a level appropriate to the student market it serves and in light of competitive conditions its faces.
2. Allow each campus to adopt the pricing model (i.e., plateau, linear, term) that is most appropriate to the student market it serves and consistent with the enrollment status and residential nature of its students.
3. Implement a pricing policy requiring all campuses to charge undergraduates students one-third the cost of education. Resulting prices would be different for each campus and dependent upon the various cost structures at each campus.
4. Establish a metropolitan fee rate for urban campuses so that nonresidents living in selected counties that border Missouri could attend the University at in-state rates.
5. Allow campuses to establish separate prices for lower division and upper division students thus permitting urban campuses to compete more effectively with community colleges.
6. Eliminate the current instructional fee and adopt a pricing policy for off-campus, Internet, and other forms of distance education consistent with market conditions and sufficient to cover the cost of delivery.

Based on discussions of the full committee, it would seem that there is some support for alternatives 2, 4, and 6. Alternatives 1, 3, and 5 are related and the discussion surrounding these three alternatives has been mixed.

### **System wide Policy Considerations**

The subcommittee also believed that whatever pricing strategies are adopted to ensure that the UM system and the individual campuses set reasonable and justifiable prices annually, the following overarching principles must be adhered to:

- Each campus must be financial accessible and affordable to those qualified to attend the University.
- Each campus must demonstrate a good faith effort to contain costs.
- Each campus must openly and effectively communicate its costs, prices, and subsidies to all potential students.
- Each campus must ensure that students do not pay an unreasonable proportional share of the cost of their education.
- Each campus must endeavor to keep annual increases in prices to a level consistent with Missouri family's ability to pay.