Marketing of Higher Education: Price and Quality

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While price and quality are frequently seen to be correlated in the product realm, it is not always clear how these elements relate to each other in the higher education realm. This paper reviews pertinent research in the area. The literature is clear that price and quality are frequently thought to be correlated in higher education. Marketers of higher education need to continually reinforce the quality of their offering if they continue to raise prices of the offering.

INTRODUCTION

As states cut budgets for higher education, tuition and fees at state supported colleges and universities have continued to increase (Belkin & Porter, 2013). Students increasingly find it necessary to take out loans to pay for higher education, and student debt continues to rise, now topping $1 trillion (Belkin & Porter, 2013.) In addition, default rates on student loans continue to rise, with one in ten students defaulting within two years of starting payment (Belkin & Porter, 2013). It is clear many students are investing a significant amount of money and actually going into debt in an attempt to obtain a high quality education. Given the current high price of a college degree, which requires such a large investment, and the high variance among colleges in terms of tuition and fees, a key question for potential students is whether higher priced higher education is higher quality education. A related question to those marketing higher education is whether raising prices will be seen as a sign of higher quality, and increase revenues, or whether higher prices will instead discourage enough students from attending a particular college or university that overall revenues are decreased.

LITERATURE

Marketing of higher education has become increasingly important as more colleges and universities compete for students. Many colleges and universities are rethinking their strategies, as the specific strategies used in the marketing of higher education are critical for success (Enache, 2011). In addition, proper implementation of such strategies is also crucial to success (Naidoo & Wu, 2011).

One key factor affecting potential success of any marketing effort is the development of the proper marketing mix for the target segment of potential customers (Cao & Grucda, 2005). If the marketing strategy is to be successful, consumers must have a high level of satisfaction with the marketing mix variables (Boulding, Staelin, Ehret & Johnston, 2005). Key components of the mix for colleges and universities are price and product. Customer value may be a critical issue for universities. Part of the customer value proposition is the price each customer is willing to pay for his or her education (Lewis, 2005). Customers need to determine if the price of a degree at a particular college of university is appropriate, given the quality of education one would receive.

A higher quality education may be well worth a higher price, if such an education leads to outcomes desired by the student. On the other hand, a lower quality education may be over priced, even at a low price level, if it does not lead to desired outcomes because it is deemed to be of little value by the marketplace. As prices of higher education continue to rise, the question of whether higher price is indeed an indicator of higher quality becomes more critical for students as they attempt to determine which college or university to attend.

While the listed price of a college education is typically readily obtainable, Brooks (2005) noted the difficulty of actually measuring quality in higher education. She noted that reputational studies, faculty research productivity ratings, program characteristics studies, program effectiveness studies, student satisfaction studies, and student outcomes studies have all been used to measure quality. Any or all of these methods can be seen as a measure of quality in higher education. However, different measures may lead to different perceptions of quality. This may cause some difficulty in determining if quality and price are indeed positively correlated.

Tang, et al (2004) found that colleges and universities with the highest reputation ranking and SAT scores had the highest tuition. By these two measures of quality, price was seen to be clearly reflective of quality. Reputation ranking is a perception of quality. It would stand to reason that colleges and universities which were perceived as being higher in quality could charge a higher level of tuition. A high quality reputation would also tend to entice students with higher SAT scores to apply to the school.

Basch (1997) noted a strong trend of increasing prices in private colleges, along with increased student aid. This appears to be a strategy of maintaining a high quality reputation for a college, while trying to keep the actual amount paid down somewhat. The private colleges could attempt to keep prices down, but that strategy might negatively impact quality perceptions of the offering. Instead, raising prices and student aid at the same time could help the colleges maintain a reputation for high quality, while keeping the actual cost of attendance down. Hearn and Longanecker (1985) found that increases in tuition, when accompanied by increases in financial aid to needy students, may serve to enhance equity. Therefore, a strategy of higher prices to increase quality perceptions, along with targeted aid, may increase both quality perceptions and mix of students at a college or university,

Jantzen (2001) looked at the impact of increasing prices on demand for graduate business programs. He found that, in general, higher prices decreased demand. However, this impact was mitigated by quality. AACSB accreditation was found to be a potent factor for increasing enrollment at graduate business programs. This accreditation may be used as a proxy for quality by graduate business students. Many businesses require that a school be AACSB accredited before reimbursing employees for tuition at graduate business schools. AACSB accreditation is also seen as a sign of quality by many employers of business students. Therefore, this study shows that a higher price for a graduate business education may not be a deterrent to students, if the students perceive the higher price is related to a higher level of quality.

Carter and Curry (2011) looked at tuition elasticity by using student choice behavior. They found that quality of the academic division had a significant effect on tuition elasticities. Those academic divisions with the highest quality had the lowest elasticity. This study provides evidence of a potential link between price and quality, as higher quality academic divisions were less impacted by tuition increases. It is clear that students were willing to pay a higher price for a perceived higher quality educational experience.

Summaedi, Batki, and Metasari (2011) found that quality, in terms of perceived service quality, was related to student satisfaction with the university experience. Similarly, Al-Alak and Alnaser (2012) found that quality dimensions of higher education were related to student satisfaction with the university experience. They noted the importance of faculty providing trustworthy and reliable services to students, and faculty providing information that is credible and trustworthy. Again, the quality of the experience was critical to student satisfaction with the experience. Mai (2005) found that "overall impression of the school" and "overall impression of the quality of education" were the significant predictors of "overall satisfaction of education." Quality delivered by instructors was necessary for a perception of quality, and for student satisfaction, as was quality in terms of IT facilities. Obviously, quality instruction would tend to raise the price of an education, as would quality of IT facilities.

Leslie and Brinkman (1987) performed a review of multiple studies. They found that college attendance was more dependent on social class and parent's education than the price of attendance. In these studies, price was not seen as a key determinant of choice. Other factors, such as perceived quality, must have been part of the choice criteria.

Heller (1997) found that, over many studies, price increases decreased the overall probability of enrollment, but also noted that price sensitivity could vary over types of colleges and types of students. Again, this study demonstrates that price, by itself, is not the sole critical variable for choice of college or university, and that price sensitivity varied dependent on types of colleges and students. This again supports the notion that price is only one variable, and can frequently be viewed in terms of the expectations of quality of the college or university.

IMPLICATION

Pricing of higher education is a very important consideration for colleges and universities. While lower prices may encourage lower income students to apply to a university, such prices may also serve as a cue that the educational experience is of lower quality, and discourage some potential students seeking a high quality education. Studies consistently show the importance of high quality in education to students' choices of a higher education institution to attend. A high price, when combined with high quality infrastructure and high quality faculty, may lead to high quality perceptions on the part of both students and rating agencies. This may, in fact, result in a more inelastic demand for the college or universities coursework, leading to increased revenue when prices are increased. A higher price, higher quality strategy may be optimal in targeting a certain segment of potential students.

On the other hand, attempts to raise price without a corresponding increase in perceived quality on the part of potential students may result in an elastic demand situation, where the price increase will lead to a dramatic decrease in demand, thus resulting in significant decrease in revenue.

SUMMARY

Students constantly evaluate the quality of the education they are receiving. As in any consumer purchase decision, they use a multitude of factors to evaluate that quality. Typically, a higher price is seen as a measure of quality, but only when accompanied by other indicators of quality. Therefore, an institution of higher education intent on gaining a higher quality reputation must not only raise prices, but also must first raise the quality of instructors, infrastructure, and other obvious indicators of quality.

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