JCPSG

Joint Costing and Pricing Steering Group

# Developing a pricing strategy in higher education institutions

*July 2002*


Higher Education Funding Council for England

Scottish higher education funding council

Higher Education Funding Council for Wales
Cyngor Cyllido Addysg Uwch Cymru

SCOP

Universities UK

Universities England and Northern Ireland

Universities Scotland

Higher Education Wales Cymru Addysg Uwch

# Developing a pricing strategy in higher education institutions

John Clements, University of Oxford
Lisa Blackshaw, JCPSG
Professor Glynis Breakwell, University of Bath

*July 2002*

# Foreword

Universities and colleges are rapidly increasing the diversity and range of their activities as they respond to financial pressures and seek to meet the needs of a wider group of students and other clients. As they do this, higher education institutions (HEIs) are becoming less reliant on public funds as they receive more income from a wider range of sources. This more diverse economy means that institutions now have much more discretion over pricing in many more areas than previously. As a result, they need a proper pricing framework if they are to develop these wider markets fully. This evolution implies technical and cultural change. Both will require careful management.

This guide has been designed to assist institutions in the higher education sector to think strategically about the development of pricing strategies and policies. It provides both reference material and help with implementation, and builds on the JCPSG's publication 'Pricing Toolkit for the Higher Education Sector' (2000). We hope that these publications will be of use to all groups of staff, both academic and administrative, who are involved in setting pricing policy or negotiating prices.

**Professor David R Westbury**

**Chair, Joint Costing and Pricing Steering Group**

For further copies of this guide, please contact:

Veronica Vaughan, JCPSG Project Administrator
HEFCE
Northavon House
Coldharbour Lane
Bristol BS16 1QD

telephone 0117 931 7130
e-mail v.vaughan@hefce.ac.uk

or visit the JCPSG web-site, www.jcpsg.ac.uk, 'Publications and Newsletters' page.

# Contents

# Introduction

From its inception in 1997, and following the publication of 'Management Information for Decision Making: Costing Guidelines for Higher Education Institutions', the JCPSG concentrated on promoting better awareness and use of costing methodologies. It was conscious of the fact that many HEIs remained unable to calculate the full economic cost of their activities, either to support decision making or to derive realistic prices to recover those costs. The work on costing culminated in the publication of TRAC, the 'Transparent Approach to Costing', in 2000. The principal driver for the development of the TRAC methodology was the requirement to report costs under the Transparency Review. However, the actual methods of costing were additionally designed to provide each university and college with a basic but robust set of costing techniques to support their internal management. All institutions have implemented the TRAC methods and so now have a basic set of costing tools in place.

In 2000, the JCPSG moved its focus to developing and promoting good practice in pricing for the higher education sector. This led to the publication of the 'Pricing Toolkit for the Higher Education Sector' in autumn 2000, a series of seminars to support the introduction of the toolkit, and a major conference on pricing in autumn 2001. It is clear from discussions with colleagues across the sector, and from the feedback received from those attending the seminars and conference, that much remains to be done to help HEIs to move from the traditional cost-based culture to consider more market-based strategies. Institutions will need to develop pricing policies and strategies, and to employ different pricing techniques requiring a reappraisal of their mission and strategic objectives. However, adoption of proper pricing and marketing techniques (the two are inextricably linked) should free colleagues to think imaginatively within a strategic framework and to maximise the revenue-earning potential of their field of work to the benefit of their institution.

Following discussions with many colleagues across the sector, the authors have brought together a consolidated set of guidance material, based on current and planned activity within institutions. This publication aims to build on the good work already taking place in many parts of the sector, and to provide practical, pragmatic guidance to HEIs at all stages of developing and implementing pricing strategies and procedures. Each section is intended to provide in-depth coverage of issues raised in the pricing toolkit, and contains relevant examples of good practice drawn from institutions that have generously agreed to make their material and experiences available to colleagues. It also contains cross-references to material easily available elsewhere.

Part A describes the strategic issues that need to be addressed; Part B covers the operational and technical issues that will emerge as strategies develop and are implemented.

For purposes of illustration, a fictional HEI – the University of Albany – has been used in the text to demonstrate principles. Other illustrations have been taken from real institutions with their consent, either anonymised or acknowledged in the text.

Where publications are included as references, they have been chosen as being well regarded by reviewers, and affordable. Inclusion does not imply any recommendation by the JCPSG.

# Part A  Strategic issues

## A1  Pricing, Marketing and Strategic Planning

All institutions produce strategic plans that express the goals of the organisation. It is not the purpose of this publication to consider the development of strategic plans; there is significant experience within the higher education sector, and detailed guidance is published by the Higher Education Funding Council for England (HEFCE). The Pricing Toolkit publication explained, in broad terms (in Module 2), the relationship of a marketing and pricing strategy to the overall corporate goals of the HEI. The following notes expand that theme.

A comprehensive strategic plan represents a cascade of separate, but integrated, statements about different aspects of an organisation's business – a pyramidical structure flowing down from the corporate goals at the apex, to the detailed operational plans and budgets of operating units at the lowest level. Pricing and marketing strategies represent subordinate layers of the structure, interposed between the goals and the operations. In the past, pricing and marketing may have been mentioned at various points within the hierarchy of plans supporting the HEI's mission and goals. For example, within the financial strategy, one of the detailed goals might have been to increase income from taught postgraduate courses, exploitation of intellectual property (IP), or conference facilities. Such operational objectives have usually arisen from the common problem of a declining centrally funded unit of resource. However, in today's financial climate it has become clear to many that planned maximisation of income from non-traditional sources is an essential contribution to institutional survival. Therefore, marketing and pricing should assume strategic importance by becoming delineated strategies, and not merely appendages to other elements of the strategic plan as has traditionally been the case.

Thus the guidance from the HEFCE on developing financial strategies (HEFCE 2002/34 'Financial strategy in higher education institutions') divides the goals of HEIs among three generic areas: teaching and learning (including widening participation), research, and 'enterprise activity'. What exactly is represented by the last of these will vary among institutions according to their background, mission and resources. Clearly, the enterprise strategy of a teaching-oriented institution will vary considerably from that of a research-intensive institution. Yet there will almost certainly be many common elements and overlaps, even if the emphases differ. Marketing and pricing strategies can be seen as supporting or enabling strategies that link outputs (the teaching, research and enterprise strategies) with the corporate objectives and, along with financial and other types of plans, contribute to the success of those outputs.

The manner in which marketing and pricing become embedded in plans also depends to an extent on the internal structure for developing plans within the HEI. In highly devolved institutions, where planning may be a bottom-up process, individual operating units might develop local strategies for pricing and marketing, the accumulation of which provide the inputs for the corporate plan. However, best practice – and most likely to succeed – is to consider pricing and marketing at corporate level, then to discuss with operational units how each might contribute to the success of the whole, within the strategy's over-arching framework and consistent with individual units' differentiated contributions. Use of a planning template to ensure that such questions are addressed in a consistent form across the institution is a useful mechanism. Such an approach also avoids the possibility of several parts of the institution competing with each other, duplicating effort in market research, and giving mixed messages to the outside world.

## Case study: Corporate goals

The University of Albany, whose activities include all those normally found in the sector, has the following corporate goals:

- teaching and learning – to build a mixed portfolio of academic programmes across all levels of study and delivered in a range of modes, attracting an international range of students
- research – to enhance its current range of sponsored research by attracting more commercially sponsored contracts
- enterprise – to generate additional income by exploiting its intellectual property assets more actively, and exploring ways in which the physical estate might generate income.

The high-level strategic goals in the above example would then need to be broken down into operational objectives for each segment. These could then be discussed at the relevant level within the institution's management structure to create realistic targets and support operational plans. Marketing and pricing strategies would have to be developed to support all of these aims, including:

- *teaching and learning* – investigating additional opportunities to recruit students from non-traditional sources (e.g. partnerships with local further education (FE) colleges; postgraduate students in the UK and abroad), which might be extended to cover distance and e-learning. Once the market analysis has been undertaken, price setting can be actioned
- *research* – determining the most appropriate research areas and sponsors to target; determining what levels of indirect cost recovery and surplus might be achievable in the chosen markets
- *enterprise* – researching the potential for IP exploitation through different routes; commissioning technology audits; examining the institution's physical assets and facilities and determining how marketable they might be (e.g. sports centre, accommodation, conferencing).

Through the iterative process that characterises strategic planning in HEIs, these marketing and pricing strategies would then feed into, and in turn be influenced by, the resource strategies for finance, estates and human resources. Decisions would need to be taken, for example as to:

- *how market research is to be carried out* – internally (with possible need to recruit specialist staff), external consultants, or desk-top research; the appropriate and affordable level of resources for the option chosen
- *who decides on final options* – the planning committee perhaps in terms of macro-level issues (such as the balance between teaching and research, undergraduate and postgraduate work within the institution as a whole), or delegated to schools/faculties/departments in terms of what is achievable within each local unit. The planning process should incorporate feedback loops to ensure that the accumulation of local plans is consistent with the overall institutional strategy
- *planning the impact of options chosen* – consideration of physical, financial and human resources, systems, legal and financial structures (e.g. trading companies, tax implications);

whether expertise is available in-house, or will have to be bought in; whether to implement as a phased programme or a ‘big-bang’.

Decisions like these can be taken in principle for planning purposes; detailed practical application falls into the category of business planning, described in section A3. The strategic plan should also include contingency plans describing what action would be taken by the HEI if any of its initiatives failed. The management of risk, especially commercial risk, is an area of increasing criticality and is covered in section A4.

It is also at a strategic level that decisions about relative contributions have to be resolved. Many HEIs contain a broad range of disciplines and services, with varying ability to respond to the commercial imperatives of today’s financial environment. Departments concentrating on, for example, high-volume teaching of non-traditional UK entrants, or on research funded by charitable bodies, may not be able to influence and control prices charged for these activities, as against other activities in different markets. The increased awareness of the costs of different activities and different units that has come about as a result of the Transparency Review should enable institutions to have a much clearer view of which areas are financially viable, and which are not. There may be many reasons why departments that do not appear financially strong should be maintained, in which case there should be an explicit decision to subsidise their activities from other sources.

## Case study: The influence of strategic objectives

The University of Albany undertakes work for organisations such as the British Council and UNICEF in areas like Bosnia and Pakistan. The work is certainly not highly profitable. However, the university believes that it is part of its mission to help the development of education in these countries. The university has assessed its cost using the TRAC methodology and has decided to continue its activities while the subsidy remains at an agreed level. A project team reviews and monitors the costs and subsidies on a termly basis.

The recruitment of students from these areas may provide an additional benefit from the subsidised activities. The university needs to take an internal decision as to the allocation of such income between the relevant teaching programmes and the original subsidised activity.

### References and sources of information


- HEFCE ‘Strategic Planning in Higher Education’ HEFCE 00/24, 2000
- Paul Joyce ‘Strategic Management for the Public Services’ Open University Press ISBN 0 335 20047 8, 1999
- Robert Smith ‘Strategic Management and Corporate Planning in the Public Sector’ Financial Times/Prentice Hall ISBN 0 582 23892 7, 1994

# A2 Implementing a Pricing Strategy

## A2.1 Summary

To implement a pricing strategy, institutions will need to:

- develop a strategy and documentation
- develop a timetable for implementation
- determine the resources required
- develop the operating plans to support the strategy
- obtain approval from the governing body and other appropriate committees
- disseminate the strategy through e.g. documentation and training programmes
- change the culture.

Each of these is considered in turn below.

## A2.2 Developing a strategy and its documentation

The pricing strategy should set objectives for each of the main market areas identified in the strategic plan (e.g. research, teaching, consultancy). These objectives will then be translated into each planning unit's operational plans in a consistent and integrated approach. To support the process, documentation relevant to the pricing strategy should be clear and consistent across the whole institution. It should use templates where appropriate, to ease collation of individual plans and consideration by working groups and committees.

Pricing touches every part of the institution. Groups and individuals with particular roles in developing the strategy or in making pricing decisions are shown below. It will also be important to communicate with other stakeholders, including staff, students and external bodies with an interest in the institution.

The roles of particular groups and individuals:

- Governors are ultimately responsible for the viability of the institution and therefore have a duty to ensure that the pricing strategy is robust, effective and properly aligned with academic strategies and objectives.
- The head of the institution has to manage the organisation so as to deliver the agreed objectives and plans. This should include visible commitment to the objectives of the pricing strategy, without which operational management may perceive that the institution is not serious in taking the strategy forward.
- Members of the senior management team have a collective responsibility for integrating the various elements of the strategy into the corporate strategy, and an individual and collective responsibility for delivering objectives. Again, evidence of commitment to the objectives set out in the pricing strategy will support managers at an operational level in delivering those objectives.
- The director of finance will normally have a key role in developing the pricing strategy and providing technical input and advice on financial issues.
- Heads of academic and service units will normally lead the process of developing the pricing strategy within their unit.
- Academic and service-unit staff will need to be fully aware of the implications of any pricing decisions they may be required to take.

Responsibilities for developing and operating pricing and marketing strategies should be defined and formally approved. A central planning unit may well be responsible for co-ordinating and reviewing faculty and service plans, and would be well placed to guide operational units in drawing up and implementing their strategies.

## Case study: Developing a strategy

The University of Albany has developed its pricing strategy by:

- setting up a high-level working group, chaired by a pro-vice-chancellor, to develop the links with the university's strategic plan
- obtaining the approval of the governing body for the strategic principles
- establishing a network of faculty and service-sector groups to advise the working group on the operational implications of the strategy in each area of activity, and to develop local plans
- communicating the developing strategy through articles in the university's regular staff newsletter, and by workshops cascaded down the organisational structure in parallel with the development of local plans
- seeking formal approval by departmental and faculty committees, and by the governing body, of the integrated outcome of the local discussions.

### A2.3 **Developing a timetable for implementation**

The pricing strategy should include a clear timetable for delivery. This should:

- be realistic – allow time for development of processes and documentation, and set achievable targets
- be pragmatic – consider self-contained pilot projects before rolling out across the institution
- include interim progress review points
- include a post-implementation review
- build in reporting cycles.

The expectation would be that after its initial implementation, the pricing and marketing strategy would be folded into the normal annual planning cycle.

## Case study: Developing a timetable

The University of Albany has set the following timetable for developing its pricing strategy:

- developing the strategic vision – months 1 to 3
- obtaining governing body approval for strategic principles – month 3
- first pilots (two academic faculties and the sports centre) – months 4 to 6
- review of pilots – month 7
- first stage roll-out (50% of academic faculties, catering and student accommodation) – months 8 to 10
- second review – month 11
- second stage roll-out to remainder of university – months 12 to 14
- review and integration of local plans into university-wide strategy – months 15 to 16
- approval of detailed scheme (including local plans and targets) by governing body – month 17
- commencement of action in accordance with approved strategy – month 18

### A2.4 **Determining the resources required**

The strategy should take account of the resources likely to be available for carrying out the proposed policies and proposals it contains:

- set-up costs, such as staff training, systems, market surveys and staff
- making best use of existing resources
- being realistic about prospects for additional investment, within the context of the institution's budgetary position.

## Case study: Resources

In developing its pricing strategy, the University of Albany has assessed the following costs as being necessary for success:

- half-time secondment of a member of the planning department, and a finance specialist, to support the process and advise departments
- negotiation of a training package for all relevant staff with an external provider
- development of an integrated management information system to pull together data from different operational systems and to provide performance indicators
- providing a central budget to support departments with market research and specialist assistance, where properly framed business plans supported such need
- where considered justified, allowing departments to 'borrow' against future earnings in order to invest in improved services/products.

### A2.5 **Developing the operating plans**

As described in section A1, it is sensible for the pricing strategy to be cascaded down to operational units as part of the annual planning cycle. Suggestions for supporting units in developing their operating plans include:

- devising standard templates centrally
- establishing a single point for technical advice
- visits by the support team to departments to review progress
- tasking an individual within each unit with the project
- dissemination of lessons from any pilot projects or experience elsewhere
- making available adequate staff training
- showing institutional commitment, for example through ‘road shows’ led by senior management
- giving units explicit incentives for success through the resource allocation system.

### A2.6 **Obtaining approval**

Each institution will have developed its own processes to produce strategic plans and annual updates. The process of producing a pricing strategy would normally be the same as that of producing the institutional plan, since the pricing strategy will form part of the overall strategic plan. It would therefore be expected that the approval process should also be identical.

Approval of the pricing strategy should be clear and should demonstrate commitment to its objectives by the governing body and senior management. Individual operational plans should be approved at the appropriate level within the institution to ensure that staff are involved in the formulation of such plans, and are committed to follow them through to implementation.

### A2.7 **Dissemination**

For the pricing strategy to be successful, staff involved in the dissemination process clearly need to understand the following:

- new methodology
- current pricing structure
- cost methodology
- interaction between the new pricing and costing methodologies
- institution’s markets and customers
- availability of training within the institution (see section B6.1, Training).

Disseminating the strategy throughout the institution will require a number of information-sharing/training sessions with:

- heads of schools
- directors of teaching and research
- heads of central departments

- other staff as necessary.

Dissemination may take place through:

- items in the staff newsletter
- individual communication cascaded down through the management structure
- tailored workshops for different areas of activity
- consultation on proposals, channelled through the appropriate committee structure.

## A2.8 **Changing the culture**

There may well be a need to change assumptions that have built up over many years. The pricing strategy may need to address the following:

- reluctance to accept change
- lack of expertise/skills
- lack of information (internal and external)
- number of staff groups involved in making pricing decisions
- reluctance to say no to potential or existing business which may not fit new strategy
- bureaucratic red tape inhibiting market responsiveness.

Change requires management. At present, the higher education sector is passing through a time of rapid and continued change, and all institutions need the skills to cope. This issue extends beyond the scope of the current publication, but some generic considerations for managing change are as follows:

- review of staff competencies, and any necessary staff development requirements
- clarity and simplicity in presenting change, emphasising the benefits
- top-down commitment and willingness to provide visible leadership; active project champions
- using the opportunity to review processes and seek simplification.

### References and sources of information

Many publications on strategic and business planning have useful information covering this section.


- www.jcpsg.ac.uk/download/costing/JCPSGHalton.ppt – slides used by Dr David Halton in his presentation ‘Developing a Pricing Strategy’ at the JCPSG Pricing Conference, November 2001
- Eddie Obeng ‘All Change!’ Financial Times/Prentice Hall ISBN 0 273 62221 8, 1994
- Bernard Burnes ‘Change Management’ Prentice Hall ISBN 0 273 64166 2, 2000

## A3 **Business Planning**

Business planning is the detailed evaluation of a project, be it a new programme, a new department, a spin-out company or a new building. The requirement for a business plan should be an integral part of the pricing and marketing strategy, and should be contained within any set of procedural guidelines for the evaluation of new projects. A standard format should be developed for business plans so that relevant information can be drawn together and expressed concisely and coherently. The clarity and extent of the information should be sufficient for an informed decision to be made as to whether the project should proceed. The business plan is also an essential document in providing an audit trail to show that decisions have been taken based on proper information.

A model business plan should:

- demonstrate linkage to the strategic aims of the HEI and the unit proposing the initiative
- provide evidence that all relevant parts of the organisation have been consulted
- provide a clear project definition
- provide a valuation of costs and benefits
- identify and assess risks
- be informed by specialist advice where appropriate (e.g. estates, marketing, legal, VAT, insurance, systems)
- provide a detailed financial analysis, including option appraisals where necessary, and state full costing and pricing targets
- provide a non-financial analysis of wider costs and benefits, and indicate quality assurance mechanisms
- describe the project management structure and expertise available
- propose a project workplan.

A business plan would normally be structured with an executive summary at the front, followed by the detailed analyses listed above, with tables such as the financial projections in appendices.

### Case study: Business plans

Within the procedures developed at the University of Albany to take forward its pricing strategy, departments bringing forward proposals to the group set up to review new business initiatives are required to produce a fully worked-through business plan. Such a plan should be based on the principles listed above.

A new post of project accountant has been established within the finance office to provide support in formulating these plans; a project guide has also been published for departments. Downloadable templates are available from the finance office's website. The project guide contains checklists of processes, including consultation and approval procedures. The project accountant works closely with departmental staff and faculty finance staff before signing off proposals.

The project accountant also maintains a database of projects in preparation. It is periodically reviewed by the finance committee to ensure that proposals are in line with planned priorities. This avoids the situation where proposals are turned down only after resources have been expended on their preparation.

**References and sources of information**

- www.bplans.com – offers a comprehensive array of advice, templates and examples
- www.royalbank.com/sme/bigidea/index.html – offers advice on developing business plans
- www.bath.ac.uk/Research/sulis-innovation/BusinessPlanning.htm – a simple business plan writing guide
- 'Business Planning – a Quick Guide' www.dti.gov.uk/mbp/bpgt/m9ba00001/m9ba000011.html – for chief executives and management teams in small and medium-sized companies
- Patrick Forsyth 'Business Planning' Capstone Publishing ISBN B000066OBG, 2002 (downloadable from Amazon.co.uk)

## A4 **Risk Management and Risk Analysis**

The first step in looking at risk management is to understand what risk means. A frequently used definition of risk is:

> 'the threat or possibility that an action or event will adversely or beneficially affect an organisation's ability to achieve its objectives.' ('Risk Management: A Guide to Good Practice for Higher Education Institutions', HEFCE, May 2001)

Risk management is a monitoring and evaluation activity intended to provide assurance that strategic objectives are more likely to be achieved and sound business opportunities less likely to be missed. Effective risk management is an essential element in the framework of good corporate governance in HEIs, and is also a necessary aspect of institutional management. If substantial business risks remain unrecognised, contingency plans cannot be put in place; nor can the risks be mitigated by, for example, adopting a portfolio approach of strategies with differing expectations of risk.

The importance of risk management is further underlined by the requirements of the HEFCE that institutions comply with the 'Combined Code' of corporate governance. This requires an auditable statement that risk assessment is embedded in the organisation's management and governance procedures. The HEFCE document 'Risk Management: A Guide to Good Practice for Higher Education Institutions' provides useful advice and case studies on how to identify, measure and improve institutional risk management.

Risk management has to be addressed at corporate level to comply with governance requirements. However, the principles need to be cascaded down through the institutional structure to the level at which pricing and marketing decisions are made on individual projects.

Each proposal brought forward within the pricing strategy should indicate which potential risks have been identified and evaluated. The impact and likelihood of potential risks should be measured, and the plan for the project should state how risks are to be dealt with and monitored, and what contingencies will be activated if the risk materialises. Thus risks need to be:

- identified
- measured
- planned for
- monitored and reported.

Identification of risk is key to good business planning. If risks are not considered and planned for, one or more may materialise and damage the project in some way. Each proposal will generate its own individual risks, but generic risks (such as reputational risk, change in the sector funding environment, or government policy priorities) that impact on the organisation as a whole must also be considered. These generic risks need to be identified within the institutional framework for risk management, which should make it clear to those proposing new initiatives that such risks must be treated seriously. A clearly worked out institutional framework should enable managers to concentrate on those risks that they can influence. Without that, too much effort may be put into contingency activities as a response to possible events clearly outside the ability of managers to influence. While some risks may be too great for a project to be undertaken, others will be worth taking in the light of potential quantitative and qualitative returns.

## Case study: Risk analysis

The University of Albany plans to increase its provision of taught postgraduate courses in vocational areas, and to charge higher fees to UK students as well as those from overseas. Risks that might be identified before detailed planning can proceed are:

- have markets been researched adequately by discipline and location? Will the students be recruited?
- can departments provide a higher standard of student support to justify the higher fees (e.g. staff-student ratio, library and IT facilities, social facilities)?
- can the university cope with more international students, with diverse demands for English language tuition, family accommodation, social and ethnic support?

The measurement of risk is commonly carried out by an impact/likelihood matrix such as that illustrated in the HEFCE guide. This technique enables judgement to be made in prioritising risks, so that those with high likelihood and high impact are tackled before those with low likelihood and impact.

From the case-study example above, two risks would seem to have high impact – recruitment and reputation, which in itself may lead to a longer-term recruitment risk. These are risks that can be influenced by management action. The university can judge the probability of being able to cope with the demand for higher standard of facilities. It can then create the matrix that enables it to consider any remedial action, taking into account any other identified risks for the project. Such action might involve some additional investment in facilities for students, for example language courses, nursery places, contacts with local minority ethnic groups, and learning resources.

Finally, the risks identified must be monitored and the effectiveness of the measures taken reviewed in the light of the output from the risk analysis process. Monitoring procedures should be formalised such that the person(s) responsible for risk management within the institution can verify that appropriate steps have been taken to mitigate the risks.

An institution might also consider undertaking a risk analysis of any shared arrangements (e.g. partnerships) where probabilities are assigned to various risks and then allocated to the partners. The allocation of risk should be reflected in any agreement or contract between the parties, to prevent any dispute. The risks can sometimes be quantified in monetary terms.

A risk prompt list can be found below. This list is not exhaustive; institutions should consider their own risk response and most appropriate control processes and early warning mechanisms.

## Risk prompt list for pricing activities

### Pricing may not be sufficiently competitive

*Mitigating actions:* reduce costs; redesign product/service

*Early warning mechanisms:* reduction in income; reduction in number of customers

### Prices may be set too high or too low

*Mitigating actions:* understand the market; identify competitors; assess market position; establish break-even position; calculate direct and indirect costs of service/product; redesign product or service offering extra features which will justify a high price

*Early warning mechanisms:* reduction in income; reduction in number of customers

### Costs may not be recovered to the expected level

*Mitigating actions:* gather accurate/reliable cost information; reduce costs

*Early warning mechanisms:* complaints about a lack of /poor costing information

### VAT may not be charged where appropriate

*Mitigating actions:* review procedures, policies and procedures manual, staff training, availability of expertise

*Early warning mechanisms:* Inland Revenue findings

### Service offered to customers may not be to a high enough standard

*Mitigating actions:* review facilities, staff training

*Early warning mechanisms:* customer complaints; reduced requests for consultancy, contract research

### Inability to bid successfully for competitive funding

*Mitigating actions:* use specialist staff to advise on bidding process; peer/committee review of applications

*Early warning mechanisms:* post-bid exercise; feedback from funders of successful/lost bids (see section B7, Monitoring and Review)

### Loss of major contracts (e.g. NHS)

*Mitigating actions:* monitor performance regularly; liaise with funders regularly; ensure that staff are clear about contract deliverables

*Early warning mechanisms:* performance indicators; feedback from funders

### Poor negotiation of contracts

*Mitigating actions:* increase expertise; staff training; dedicated adviser

*Early warning mechanisms:* loss of contracts; poor pricing decisions

### Intellectual property disclosed/compromised before protected

*Mitigating actions:* policies for copyright and patents; confidentiality agreements for all staff

*Early warning mechanisms:* central monitoring of research activity in progress

### Negligent advice given by institution's staff during consulting assignments

*Mitigating actions:* proper review procedures prior to advice being issued; training in risk management for staff involved in consulting; insurance cover

*Early warning mechanisms:* complaints from clients; monitoring of consultancy income

### Breach of commercial contracts

*Mitigating actions:* review by legal advisers prior to signing; regular monitoring of progress

*Early warning mechanisms:* review of contract performance indicators

### Potential for litigation

*Mitigating actions:* regular review of policies and procedures; careful drafting of contracts to avoid liability; review by legal advisers of all contracts prior to signing

*Early warning mechanisms:* feedback from staff

### Failure to realise full commercial value of strengths or maximise all potential sources of income

*Mitigating actions:* ensure that staff fully understand IP rights; dedicated commercial department/adviser; regular review of activities by governing body

*Early warning mechanisms:* regular review of commercial income; information on the value each customer will attribute to purchasing service/product

### Income due may not be invoiced correctly and on time

*Mitigating actions:* review invoicing procedures; policies and procedures manual

*Early warning mechanisms:* increase in bad debts

### Invoice amounts may not be successfully collected

*Mitigating actions:* review debt collection procedures; policies and procedures manual

*Early warning mechanisms:* regular review of reports on outstanding debt

### Current pricing practices may be in contravention of the institution's financial regulations

*Mitigating actions:* review procedures; policies and procedures manual; staff training

*Early warning mechanisms:* regular review of pricing practices

### Sources of income may not be maximised

*Mitigating actions:* improve marketing; develop plans and monitor progress; use specialist commercial advisers; promote services; develop pricing strategy.

*Early warning mechanisms:* feedback from regular progress reports

### Failure to break even on conference/catering provision and student accommodation

*Mitigating actions:* marketing of services; regular review of occupancy statistics; regular review of charges against local rented accommodation; consideration of uses in vacation period

*Early warning mechanisms:* central management accounts review; reports by manager of residences/conference activity

### Failure to attract sufficiently high-quality student intakes (see section B4, Non-financial Pricing)

*Mitigating actions:* revise course portfolio; improve marketing; market research; monitor student application numbers and quality

*Early warning mechanisms:* falling number of applications of right quality

### References and sources of information


- HEFCE 'Risk Management: A Guide to Good Practice for Higher Education Institutions' HEFCE 01/28, 2001
- HEFCE 'Risk Management: A Briefing for Governors and Senior Managers' HEFCE 01/24, 2001
- The Combined Code: A Practical Guide, KPMG
- HEFCE 'Appraising Investment Decisions' HEFCE 99/21, 1999
- www.hefce.ac.uk/goodprac/risk/promptlist.doc – risk prompt list for higher education institutions
- Jacqueline Jeynes 'Risk Management: 10 Principles' Butterworth-Heinemann ISBN 0 75065 036 2, 2001
- Andrew Holmes 'Risk Management' Capstone Publishing ISBN B000065U80, 2002 (downloadable from Amazon.co.uk)

## A5 **Market Analysis**

Market analysis is undertaken to identify customers' needs, wants and attitudes. It is concerned with gathering information on, for example, demand, competition, market environment, the resources needed to deliver products to the market, and political, legal and other constraints. Marketing analysis is undertaken to identify marketing opportunities and to monitor, from time to time, market changes.

An institution might ask questions such as the following:

- Where does demand for our services/products come from? (Who are we going to serve and what are our markets? What scope is there for growth or diversification?)
- Who are our competitors? (What do they offer? What do they charge? What are their strengths and weaknesses? What are their retention rates, employability, quality assessment and cost per student?)
- What is the market environment? (What are the social, political and economic conditions that have an impact on customer choice?)
- Do we have the necessary resources? What are the investment implications? (Premises, equipment, staff, money)
- Are there any political or legal constraints?

### Case study: Marketing strategy

The University of Albany has developed a marketing strategy to complement its corporate strategy. As part of this marketing strategy, a series of rolling reviews of the university's market position in different sectors has begun. Thus, all operational activities will be reviewed on a five-year cycle to ensure that the individual local strategies are still close to the market.

At the same time, the university thought it was necessary to improve control of the interface with customers, in order to develop and maintain long-term relationships. As a result, new documentation standards have been designed and made compulsory, campus signage improved and unified, staff at the central switchboard retrained as virtual 'receptionists', and a software package installed to manage enquiries and responses.

Successful pricing also depends on understanding and recognising the value that customers place on an institution's courses and products, and then pricing the organisation's offerings appropriately. Pricing a course or product higher than its perceived value may have a negative effect and may reduce demand. On the other hand, a price that is perceived as being too low may appear indicative of inferior quality and may also have an adverse effect.

The relationship of price to demand is commonly called 'price elasticity'. Elasticity of demand measures the responsiveness of demand for a service/product to a change in its price. If demand falls as price increases, then the elasticity of demand is negative; if demand increases as price increases, then the elasticity of demand is positive. Analysis of market trends and perceptions can be used to model the impact of changes in prices on demand for a product. Further price analysis can be undertaken if changes to the product are envisaged.

Understanding the market helps institutions to provide the range and structure of programmes or products that meet customers' expectations. It also helps in the price-setting process.

Price is often a critical element in the positioning of a service. Changing the pricing mechanism as a promotional device may alter customers' perceptions of the service. As indicated above, a service's price often determines how people perceive its quality. However, a reduction in income or lower student recruitment may be due to factors other than the price of services offered. Poor facilities, poor reputation and poor marketing may all contribute to this reduction and may need to be improved or taken into account when setting the price.

Market analysis necessitates identifying and collecting market information, hence it requires the development of formal systems for gathering data from both inside and outside the institution. Information systems are discussed further in section B6, Supporting the Strategy. Further information about market analysis can be found in the JCPSG Pricing Toolkit.

## Case study: Use of market analysis

The University of Albany now has a full-time director of marketing and recruitment who has worked with departments to produce coherent pricing strategies for student-related activities. This has included competitor and marketplace analysis, which has greatly assisted in raising awareness of the need for careful pricing decisions, rather than the historic inflationary approach. The approvals procedure for tuition fees now requires evidence that the pricing decision has been appropriately researched.

A review of overseas fees in 1999 identified that the university was not charging as much as other comparable institutions. Market research was undertaken, and the university's pricing structure was compared with that of similar institutions. As a result of this review, the overseas fee levels have been increased over a period of time without an adverse effect on recruitment, resulting in an increase in income to the university.

The university has formed a new Management School. One key determinant in the business plan is the pricing to be charged to postgraduate and overseas students. The price is determined by applying a costing methodology, which is then reviewed in the light of prevailing market conditions and the need to be seen as a high-quality provider. To this end, a competitive market price has been determined with a quite deliberate marketing strategy of phasing it in over a period of three to four years.

### A5.1 **Cross-subsidisation**

Market factors sometimes permit pricing at a higher level than full cost. Taking the HEI's overall portfolio of activities into consideration, some activities may need to be profitable in order to generate funds to support those priced at below full cost. When market factors suggest a price significantly below full cost, other strategic reasons need to be identified and agreed if the activity is to be justified. It is important that cross-subsidies are recognised and transparent, and that they are agreed as a necessary part of the strategic plan. Where subsidies are implicit rather than explicit, tensions can be created between different parts of the organisation.

Two examples of situations that might justify a price below cost are: a research project that is expected to help to attract full-cost fee-paying research students; and an activity that is expected to make a loss in its first year (perhaps because of the need for initial set-up costs), but offers good prospects for profits in subsequent years. There may be other such examples, but they should always be considered in relation to the size of the cost shortfall and whether the institution can bear the subsidy.

### References and sources of information


- Joint Costing and Pricing Steering Group 'Pricing Toolkit for the Higher Education Sector' JCPSG, October 2000
- Paul Gibbs and Michael Knapp 'Marketing Higher and Further Education' Kogan Page ISBN 0 749 43294 2, 2001
- Tim Mazzarol and Geoffrey Norman Soutar 'The Global Market for Higher Education' Edward Elgar Publishing Ltd ISBN 1 840 64329 3, 2001

# Part B Operational and technical issues

## B1 Pricing Products and Services

### B1.1 Pricing policies

The definition of a pricing policy varies from ‘the framework of rules and constraints within which pricing decisions are taken’, to ‘the outcome of largely internalised objectives of a financial or other corporate nature or statements of pricing principles’. The Pricing Toolkit discusses various pricing policies that can be adopted, such as ‘skimming’ and ‘penetration pricing’. Such terminology sounds complex and technical, but the basic principles are common sense.

An example of a pricing policy which an HEI might adopt is one that aims to set prices that cover actual costs and make a surplus on any activity, the level of surplus reflecting what the market can bear. It is recognised that an institution may not be in control of prices for certain services, since most HEIs operate in a variety of markets with often very different constraints in pricing. In this situation, if the funding provided does not meet the full, actual costs, then decisions need to be made which, in effect:

- accept that the activity will be cross-subsidised
- reduce the costs of the service
- change the nature of the service delivered
- discontinue the service, or
- discourage a bid for a new service.

### B1.2 Type of activity

Commercial and other income-generating activities may require different strategies. Knowledge-based activities such as consultancy and exploitation of intellectual property require different treatment to externally funded research or other activities such as conferences, residences or public use of institutional facilities.

(i) Overseas student fees

The overseas market is driven by active recruiting and reputation. Pricing is competitive, but may also reflect quality as perceived by customers. This is an area where careful market research is essential, but rewarding if a good reputation can be established. As teaching is a core activity, new HEI entrants into the market need to ensure that their strategies are well researched, properly resourced and deliverable. Cost calculations for the proposal need to take proper account of items such as infrastructure costs, for example, which may be higher for foreign students.

(ii) Non-publicly funded courses

HEIs have considerable freedom to mount such courses. Again, there needs to be thorough research to ensure that the offering is not duplicated elsewhere, or to make sure that some special value-added feature can be offered. The same considerations apply as for overseas students, as UK students paying higher fees expect a high-quality experience.

(iii) Franchised programmes

By their nature, franchised programmes are negotiated between the parties involved. Guidance is available from the HEFCE website www.hefce.ac.uk/goodprac/consortia which contains case studies of good practice from the sector. Related documents are HEFCE 98/58 'The Nature of HE and FE Sub-contractual Partnerships' (1998), and HEFCE 00/54 'Indirectly Funded Partnerships: Codes of Practice for Franchise and Consortia Arrangements' (2000).

### (iv) Research and consultancy

Much externally funded research is priced below the full economic cost of the work. Actual cost recovery varies significantly among sponsor types (Research Council, charity, European Union (EU), UK government department, industry). Transparency review data can illustrate the extent of cross-subsidisation, and may be used to manage exposure to undue losses.

Research is a core function for many HEIs, and is undertaken for clear academic reasons. Institutions with significant research income need to understand and manage the costs of different types of research in relation to the income and academic benefits. The research strategy should:

- review the overall financial performance of research, and the potential for improvements in income and cost recovery
- benchmark the institution's performance in the recovery of research costs against its peers (for example, using Higher Education Statistics Agency data)
- consider the mix of sponsor types in the portfolio, the level of cost recovery which can be achieved, and the requirement for the institution to contribute to indirect costs; a view needs to be taken about what level of investment is justified in relation to the academic value of the research
- ensure that academic managers are aware of the true costs and cost recovery for different types of project.

Since consultancy or technical services often carry little in the way of indirect benefits, the case for prices that do not cover the full cost of the activity is weak.

### (v) Professional courses

Courses subject to validation by professional bodies may have a high cost where the body specifies class sizes, staff-student ratios and the level of facilities to be made available to students (e.g. textbooks and PCs). As with franchises, provision may be negotiated, and the institution needs to be aware of the risk of early termination, whether for poor performance or breach of contract.

### (vi) Major teaching contracts (e.g. nursing and other professions allied to medicine (PAM))

In the past, prices related to nursing and PAM contracts have been set on a market/negotiated basis by individual institutions and their consortia/confederation. These are soon to be replaced with nationally set prices which will not be negotiable. Institutions will have to manage their costs within the prices set.

### (vii) Short courses

Short (i.e. non-qualification) courses have been organised in the past at many HEIs as part of their continuing education role. Although this role continues, many other types of courses have now been developed as part of the access agenda. Funding may be available from a variety of sources for such courses. However, institutions need to be careful that full costs are calculated, so that subsidies are recognised and academic decisions taken in full knowledge of the financial implications.

### (viii) Workplace nurseries

Prices should be based on cost-plus or market price. Some institutions, however, have differential prices, charging a market price for the children of members of staff and a subsidised price for the children of students. Many institutions see their workplace nursery as an important facility in widening participation and in recruiting and retaining staff, so those setting the price for childcare should bear this in mind. Childcare in workplace nurseries can offer tax advantages for staff; tax experts are able to advise on this.

### (ix) Residences, catering, conferences, bars and shops

Prices should be based on cost-plus or market price. While it is perhaps natural to think that student facilities should be as cheap as possible for their users, this cannot be at the expense of funding allocated for teaching and research. Institutions therefore have to be careful to ensure that their core activities are not subsidising useful but peripheral activities.

## Case study: Conference office

The University of Albany's conference office was traditionally measured solely by the amount of turnover achieved. The lack of information regarding indirect costs meant that it was not possible to determine the contribution made by each of the conference office's activities. A detailed analysis of costs, both direct and indirect, has now been undertaken for each category of conference office business. This has enabled the contribution achieved by each activity to be calculated, and in addition has allowed the margins achieved by each activity to be determined.

The results are very revealing. It was found that the activities accounting for most of the conference office's business were actually achieving relatively small margins. As a result of the analysis, the conference office has now been given a yearly target based on contribution as well as one based on turnover. Activities with high margins are now being more actively sought, and there is greater willingness to increase prices for activities which were previously achieving small margins.

### (x) Printing and publishing

A few large HEIs run full-scale publishing operations. More typically, departments may engage in small-scale publishing in their specialist fields. Such activities should be subject to a full business planning discipline, to ensure that the market is assessed, true costs calculated without subsidies from core funding, and a realistic price charged. Publications may be part of other activities, such as conferences and the publishing of their proceedings, in which case the cost of the publication needs to be fully included within the overall cost of the activity.

(xi) Theatre performances

Many HEIs have theatres used for academic or student activities during term-time, and seek to make a contribution towards fixed costs by hiring out the facilities in the vacations. Calculation of hire charges should take account of a proper apportionment of whole-year costs between the two types of usage, and rates payable at other local venues (bearing in mind also the quality of the facilities). The opportunity to make a contribution at a marginal cost rate should be resisted. It might be more cost-effective to close the theatre completely outside term-time if income will not cover full costs.

(xii) Room and equipment hire

For public use of institutional facilities, much the same parameters apply as in the previous paragraph.

## B1.3 **The price-setting process**

Many people in HEIs may participate in setting prices. Senior management might provide direction through a pricing policy, but staff at operational level may have a great deal of freedom within the policy to set specific prices. The following steps should be followed when determining the price of a product/service:

(i) Management should set pricing objectives and policies consistent with the overall institutional strategy.

(ii) Market analysis should be undertaken to:

- estimate customer demand and assess the elasticity of demand
- analyse competitors' prices, as an institution is in a better position to set prices when it is aware of those charged by others; there may be a going rate for the service
- ascertain if the institution has a competitive advantage in the service being provided (reputation and standing of the institution, department, research group; differentiating elements in the service provided)
- determine any price sensitivity.

iii) Ascertain any indirect benefits and opportunity costs in providing the service. Determine the risks, including reputational risk.

(iv) Costs should be calculated to include staff costs, non-staff costs and all indirect costs (see the Pricing Toolkit for a discussion of fixed and variable costs).

(v) Determine price-setting methods. Cost-plus pricing, competition-oriented pricing, market pricing, and break-even analysis are all methods to use and compare. (See Module 3 of the Pricing Toolkit)

(vi) Set the final price. Pricing policies and strategies should be framed in such a way as to guide price setters to the final price. Pricing is a complex area and one where it is necessary to make judgements. These judgements need to be made within an agreed framework.

## Case study: Indirect costs

The University of Albany has determined the different categories of activity for which indirect cost rates are needed. The indirect cost rates have been analysed into relevant components so that they can be selectively built up for different categories of activity. For example, distance-learning students attract a different indirect cost rate from students attending study programmes at the university.

Space costs have been reviewed for different categories of space. The calculation includes a science loading for energy costs, but apart from this does not discriminate. It is probable that there are significant differences in maintenance and servicing costs among the different ages and types of buildings, but it was not considered cost-effective to carry out the detailed analysis needed to evaluate these differences.

### B1.4 **Multiple services and price bundling**

Where institutions offer services and products that are attractive to similar markets, they should consider consolidating two or more services into a single package for a special price. This practice is known as 'bundling'. It may provide a competitive edge in the marketplace, as offering a single package may differentiate an institution's service from that of other HEIs. Common examples of bundling include institutions putting together packages that include training courses, accommodation and use of sports facilities at an inclusive rate.

### References and sources of information


- Committee of Vice-Chancellors and Principals 'Costing, Pricing and Valuing Research and Other Projects' CVCP, 1998
- Joint Costing and Pricing Steering Group 'Costing and Pricing for Decision Makers in Higher Education, User Guide' JCPSG, 1999
- JCPSG 'Transparent Approach to Costing (TRAC), Volumes I and II' JCPSG, 2000
- JCPSG 'Pricing Toolkit for the Higher Education Sector' JCPSG, 2000
- JCPSG 'The Use of Indirect Cost Rates in Costing Government Contracts: Technical Guidance' JCPSG, 2001
- JCPSG 'Costing Nursing, Midwifery and Other Health Professional Teaching Provision: Guidance for the HE Sector' JCPSG, 2001
- Universities UK 'Optimising Consultancy' Universities UK, 2001
- http://dis.shef.ac.uk/sheila/marketing/pricing.htm – gives information on how to cost and price information services

## B2 **Negotiating and Contracts**

The negotiation of agreements and contracts is already a significant factor in managing an HEI, ranging from research contracts to supply contracts. In all these areas, there is an increasing need for a more professional approach as customers and suppliers both insist on clearer terms of business, in particular the definition of liability for non-performance. Many institutions will have developed pockets of expertise in negotiating contracts to meet specific needs, such as in research support and in the procurement office. If institutions wish to extend their commercial activities across new areas, or develop further those at an early stage, they need to ensure that expertise in contract negotiation is available to all those who require such skills.

Staff involved in potential negotiations must either be trained in negotiating skills, or have easy access to such skills. These skills may already be present within the institution, or it may be necessary to acquire the expertise through training courses, readily available from many providers of conventional training programmes. The Joint Procurement Policy Strategy Group has a range of publications and courses available for the development of procurement skills, encompassing negotiation and contract skills.

Contracts with customers are perhaps less well developed in the HE sector than in other public-sector industries. Research is a possible exception, but many HEIs are moving into new research fields where different skills will be needed. The increasing complexity of research business means that legal advice must be taken to ensure that contracts give adequate protection to both customer and provider. Many institutions have their own in-house legal team, which should provide the first source of advice, with referral to external specialists where necessary. Any institution that intends to develop new products or services with a contractual element needs to ensure that access to good-quality legal advice is available.

The acquisition of appropriate legal skills is often seen as an unnecessary overhead cost at a time when funds are scarce. Understandably, institutions would prefer to allocate their resources to the core business, but the price of poor or absent legal advice can be high.

Sector examples of failures to negotiate contracts effectively include the following:

- suppliers or customers with superior negotiating skills who increased costs and/or decreased expected income, such that the project no longer recovered the full price
- liabilities for non-performance were not clearly defined and the institution found itself unable to recover costs from a defaulting customer, thus decreasing expected income
- lack of confidentiality or intellectual property rights agreements resulted in a customer selling knowledge that could have been retained within the institution.

### References and sources of information


- Roger Fisher ‘Getting to Yes’ Arrow Books ISBN 0 099 24842 5, 1997
- Tim Hindle ‘Essential Managers: Negotiating Skills’ Dorling Kindersley ISBN 0 751 30531 6, 1998
- Howard Raiffa ‘The Art and Science of Negotiation’ Harvard University Press ISBN 0 674 048813 X, 1990
- Gavin Kennedy ‘The New Negotiating Edge’ Nicholas Brealey Publishing ISBN 1 857 88505 9, 1998
- www.jppsg.ac.uk – Joint Procurement Policy Strategy Group’s website

## B3 Intellectual Property and Knowledge Transfer

Intellectual property is now recognised as one of higher education's greatest assets, and one which can generate significant benefits for HEIs. Intellectual property resides in many guises, some not often thought of as being exploitable. The most high-profile cases of exploiting IP have been companies set up to commercialise inventions in the sciences, mainly arising from the research-intensive HEIs and originating from engineering, computing and life sciences. Some companies have passed through the whole life-cycle from start-up to plc to takeover. But what is often not so visible are those that fall by the wayside, and the many small, unpublicised deals that can be very profitable to an institution if carried out professionally.

Intellectual property can arise from almost any academic activity. It is not confined to inventions in the laboratory, as it can also be found in books, courseware, designs and know-how. Intellectual property is not therefore a feature of science disciplines alone, but arises across the whole range of academic subjects and programmes. This makes IP a very complex issue, and consequently a range of specialisms have grown up around it. Many institutions now have technology transfer offices with staff who understand the complexities of issues such as patenting, venture funding and appropriate legal frameworks. They also have IP policies in place to protect the intellectual property assets of staff and the institution, and to rationalise procedures. There are IP offices in most of the leading law firms active in the HE sector, and patent agents used to dealing with HEIs. Any institution contemplating setting up or expanding its technology transfer arm would need to consider how this range of expertise could be provided.

Intellectual property exploitation can be by spin-out company, licensing or outright sale. Advice on the most appropriate route should be obtained. Several law firms active in the HE sector have specialist expertise in this area. Institutions with existing operations are usually willing to share their knowledge on an informal or consultancy basis. Regional Development Agencies also support institutions that have IP rights work.

### Case study: Exploitation of intellectual property

The University of Albany has taken the following steps to increase its income from IP:

- staff contracts include reference to compliance with IP procedures, including ownership by the university of any IP generated by staff; similar conditions are set out in the student regulations
- a technology transfer unit has been set up; it liaises with the research services office to identify IP arising from research, and any pre-committed rights
- links have been formed with local firms and business networks to provide expertise in business planning, legal matters, finance and marketing for new companies
- a redundant office building has been refurbished as cheap incubator space on campus
- an annual technology transfer 'fair' takes place to publicise and increase business links
- a rolling programme of technology audits in departments has been instigated
- the services offered by the technology transfer unit are widely disseminated through the university's newsletter, the intranet and periodic seminars held in faculties
- the university finances this activity by taking a percentage share of all revenues arising from this source.

### References and sources of information

- ‘Managing Intellectual Property – A Guide to Strategic Decision Making in Universities’, The Patent Office – download a copy of this new guidance for HEIs from www.patent.gov.uk/about/notices/manip/index.htm

## B4 Non-financial Pricing

All HEIs trade in markets which do not have prices valued in monetary terms – for example, they deal in points scores or grade classifications in respect of students. Decisions relating to GCE A-level points and/or GNVQ, access and other entrance requirements are as much pricing decisions reflecting the institution’s corporate objectives and its analysis of the marketing mix as any set of financial price decisions.

In this market, students compare HEIs and make assumptions based on the number of GCE A-level points required, among other personal parameters. Experience shows that students often relate the level of points required to the quality of the course. Consequently, an increase in ‘price’ (e.g. from 16 to 20 points) could result in an increase in demand, or vice versa.

### Case study: Adoption of a non-financial pricing strategy

The University of Albany undertook a SWOT (strengths, weaknesses, opportunities, threats) analysis and identified the following weaknesses:

- an insufficiently high overall ratio of applications to places, which partly reflected the university’s lack of sufficient ‘brand recognition’ and differentiation
- correspondingly heavy reliance on the UCAS clearing system for recruitment
- a disappointing quality of intake in some subject areas.

As a result of this analysis, the university formulated the following strategic priority:

**To improve the quality of the student intake and develop its brand value while reducing reliance on the UCAS clearing system and building on its reputation for teaching quality.**

The strategic planning executive began to evaluate the university’s current pricing strategies in the various full-time markets in which it traded. In evaluating these markets and their characteristics, it found a number from which the university might:

- attract more students of better quality to apply if the ‘price offer’ of GCE A-level points were increased. These markets reflected a combination of ineffective competitor activity (particularly regionally), buoyant student demand, and good promotional activity relating to the university’s excellent teaching quality scores

and a number which would:

- attract fewer students because of intense competition from ‘higher reputation’ HEIs and diminishing markets (particularly nationally).

The strategic planning executive decided to adopt a high-risk strategy. Each faculty in the ‘higher price/higher value markets’ segment determined the increase in price (i.e. increased entrance requirements) they believed their market would bear, by academic programme. They also agreed student number targets they thought could be achieved. For example, in the Business School, it was judged that an additional 100 students would be attracted to certain undergraduate full-time programmes at higher grades. The total number of expected additional students from 'higher price/higher value markets' was such that a compensating transfer of student numbers from 'low price/low value markets' segments was required. This was in order to stay within the constraints of the HEFCE funding bands, which are calculated by reference to student numbers. In making those transfers, clear resource and internal political implications had to be considered.

**Strategic outcome**

The response to the increase in price was a reduction in the number of applications by some 2,200. However, programme admission tutors rejected 2,000 fewer applications than in the previous year. The overall result was that the university recruited 5% more students than in the previous year. Overall, this was a high-risk strategy, but one that was prepared thoroughly with consequent organisational benefits. In particular, adopting such a pricing strategy has opened up a more general debate about price culture across the whole institution.

## B5 Taxation

Where the pricing and marketing strategy implies the commercial use of products or services, taxation issues arise. The basic principle is straightforward: HEIs have charitable status because their objectives of teaching and research are valid charitable objectives. However, any activity falling outside those core functions may give rise to a liability to taxation, both corporation tax on profits and VAT on trading income and expenditure. In broad terms, this means that even commercially priced educational programmes, such as executive MBAs, are not taxed on their profits and are exempt from VAT, while consultancy contracts (as opposed to research contracts) priced at a true profit are subject to taxation. Taxation is a very complex area, and most HEIs which cover a wide range of activities already employ taxation experts, either in-house or retained consultants, to advise them.

The business plan for any initiative should state clearly that the taxation implications of the proposal have been thoroughly examined and taken into account in costing and pricing the offering. The inclusion or exclusion of VAT, for example, can make a significant difference to a proposal's viability. Costs may be 17.5% more than estimated if VAT payable on supplies cannot be recovered. If VAT is payable on costs, but cannot be charged on income, then the margin is significantly squeezed.

If trading becomes an extensive part of an institution's portfolio of activities, corporation tax and the threat to charitable status can become a real problem. Again, it is essential to address these issues in the business plan, and in the costing and pricing principles adopted by the HEI. Many institutions have adopted a policy of 'sheltering' trading activities in subsidiary companies that covenant or gift aid their profits back to the HEI. Setting up subsidiaries creates indirect costs (e.g. legal fees, separate accounting and audit arrangements) which have to be factored into the cost base. The HEFCE has circulated guidance on establishing and operating subsidiary companies ('Related Companies: Recommended Practice Guidelines').

There may also be unexpected and significant tax implications, such as stamp duty or VAT on the purchase or construction of buildings used for commercial purposes. The institution's advisers should be kept informed of any new plans.

As with legal advice, tax advice is an area that can be costly unless the institution is able to monitor and control requests for assistance. The institution may contract out the provision of tax advice to an external adviser for a fixed price. Further work might be carried out on a contingent basis, with the adviser only receiving a fee if successful in creating benefit for the HEI; the fee would be based on a proportion of the gain. The institution would need to ensure that individual departments do not seek advice elsewhere, as this could undermine the contract and lead to disputes about policies and liabilities.

Despite the cost of proper advice, the consequences of not taking tax advice can be serious, and can have a direct impact on the viability of projects.

### References and sources of information

- HEFCE 'Related Companies: Recommended Practice Guidelines', HEFCE 00/58, 2000

## B6 Supporting the Strategy

An institution's pricing and costing strategy should be supported by ensuring its integration and consistency with other aspects of the HEI's mission and strategy, such as:

- internal management culture
- the human resources strategy, including incentives and rewards
- resource allocation and other financial policies
- delegation, authorisation limits, accountability structure
- policies regarding the ability to retain surpluses and invest for new initiatives
- management information systems
- decision making using TRAC-derived data.

### B6.1 Training

Pricing and marketing are complex issues, as demonstrated by the effort now being devoted to improving pricing strategies throughout the HE sector by the JCPSG. Discussions with colleagues engaged in various aspects of institutions' commercial activities have highlighted the need for greater appreciation of the benefits of proper pricing policies at all levels within HEIs, along with an understanding of the relevant techniques.

The JCPSG has already provided the Pricing Toolkit, which indicates the different areas of expertise that need to be drawn together and called upon to support successful pricing strategies. It is unlikely that any single institution could afford to recruit experts in all these associated fields, or would need to, as some are only required at specific stages of projects. Institutions are therefore likely to need a mix of internal training and external consultancy. For example, training and guidance on writing business plans is readily available (see section A3) and should be provided for internal staff where it is thought that a large number of plans will be developed across the institution. Market analysis skills might be better covered by engaging consultants with specific expertise in different markets, on an ad hoc basis.

Institutions may like to consider providing appropriate training via their existing staff development programme, or as part of any induction courses given to new staff.

## Case study: Training

Training is seen as an integral part of the University of Albany's pricing strategy. In order to make informed pricing decisions, it was recognised that users needed to receive information that they understood, and in a usable format. To achieve these objectives, the finance department has designed a half-day workshop on understanding and using the financial information already received by staff, put into a pricing context.

This workshop runs three times a year and is part of the university's staff development programme. Guidance on pricing is also included in the seminar for new heads of department and the 'Introduction to Finance' courses held for financial administrators.

Other training and development sessions delivered by the director of finance and the management accountant have covered the revised financial regulations and the financial context of the pricing strategy and policies.

Periodically, articles have been placed in the university's internal newsletter to maintain the profile of pricing and marketing as important aspects of institutional activity.

### B6.2 **Information requirements and systems**

Effective information systems are key resources for making pricing decisions. In designing such systems, institutions should ensure that the information to be collected includes the following:

- full recording of direct and indirect costs – this information can be found in the internal accounting system, and helps in understanding the financial contribution from different types of activity
- data on customers, largest buyers – analyses of sales invoices and records of customers' orders should be easily available, for use as market data or mailings, for example
- marketing intelligence – data from external sources such as government agencies and private organisations
- student record systems – a full range of information about applications and enrolments on courses should be available
- market intelligence – for example, competitors' offerings, costs
- key performance data to confirm whether or not the strategic plan is succeeding or if there is a need to take corrective action.

Access to this information should be available to those who need it, through easy-to-use analysis and reporting tools. Modern software systems offer many facilities which enable end-users to access and review information, but that information has to be entered into the system in the first place.

### Case study: Database and intranet

The use of a simple database can reduce paperwork and help to sustain the process of implementing pricing procedures.

In order to ensure that its new pricing procedures are fully understood and applied consistently, the University of Albany has published downloadable guidance notes and copies of the JCPSG publications on its intranet. The notes contain advice on the allowable costs when pricing a research bid for research sponsors, and on market-based pricing for other projects and services rendered. Help and advice are available from the costing and pricing accountant, as well as from faculty finance teams.

## B6.3 **Support mechanisms**

As with any major new initiative which is intended to be ongoing, the pricing strategy and the activities deriving from it need to be properly supported into the future. Otherwise, the gains that can be made from adopting proper pricing and marketing mechanisms will not be achieved. Institutions need to ensure that the resources required to implement the strategy are carried forward at an appropriate level to support the strategy as it develops:

- budgets should continue to take into account the need for market research and investment in renewing and enhancing facilities
- training will continue to be needed for new staff, and to update and refresh the skills of existing staff
- annual or other periodic reviews of the success of the strategy should be built into the implementation process, and should be taken account of in departmental reviews and the revision of long-term plans
- successes should be disseminated across the institution
- if external skills have been used to develop the pricing strategy, that knowledge should be transferred to the institution’s own staff.

### Case study: Business development manager

The appointment of a business development manager at the University of Albany has enabled the institution to standardise its approach to pricing. The manager is responsible for advising departments on opportunities and techniques for securing better pricing; organising training where necessary; developing information support systems; and keeping the governing body advised of progress against planning targets.

## B6.4 **Embedding the strategy**

To embed the pricing strategy into the day-to-day activities of the institution, all processes and procedures have to reflect the new policies and objectives of the strategy. Monitoring and control mechanisms need to be in place and corrective action taken as required. Changes in rewarding individuals and departments will reinforce the objectives of the strategy, as will training and other support systems, as outlined above. Institutions should consider the following questions:

- Is this a separate initiative or can it be linked with existing processes?
- What are the links between pricing, marketing, business planning and budget allocation?
- What role does internal audit play?
- Do the financial regulations, human resources policies and other documents reflect the new policies and procedures?
- What resources will be available on an ongoing basis to support the pricing strategy?

### Case study: Embedding the strategy

The University of Albany's pricing strategy has been considered and approved by the board of governors. The executive board has established a steering group, chaired by the deputy vice-chancellor. The group includes representation by a senior manager from each faculty, and the director of finance. The steering group manages the work of the project team and acts as a channel of communication to other academic managers.

Members of the steering group have seen the management teams within each faculty and the heads of school staff group. Presentations and discussions have been held with the management teams on a number of occasions, both to communicate developments and to discuss future options. Each faculty has also been asked to include a section on pricing as part of its individual faculty strategy.

## B6.5 **Incentives**

While incentives on a group or individual basis are common in the commercial sector, the HE sector has, in general, found the concept more difficult to embrace. Performance measures in many areas are lacking or controversial, especially those seen as being imposed externally. In addition, individual incentives may be seen as counter to the principle of collegiality that underpins traditional academic culture. However, HEIs are increasingly introducing resource allocation formulae that are incentivised for teaching and research at a departmental level. There seems no reason why similar schemes should not be introduced for enterprise, provided that the use of any such funds is strictly controlled under normal financial regulations.

Incentives on an individual basis are more complex and raise many human resources issues that would need to be resolved at institutional level, particularly in relation to equal opportunities legislation. Some HEIs have taken non-core service and enterprise activities out of the departmental framework and established them as subsidiary companies, which allows differing salaries and benefits to be paid. This may be done to recruit specialists who would not otherwise be attracted to the HE sector. There are also examples where staff are allowed to accept external consultancies, which effectively increase their income. Again, care has to be taken to see that such arrangements are monitored and controlled under a common protocol.

Management needs to address the issue of incentives according to local conditions and practice. If commercial targets are being set, then staff have to be motivated and success recognised in some way, although it may not necessarily be financial.

## Case study: Incentives

The University of Albany's incentives working group has established rules for sharing indirect cost recoveries and other benefits between the university and the relevant department. A different minimum indirect cost rate for each activity is retained centrally. Any amounts in excess of this are returned to the department, thus encouraging maximisation of cost recovery.

The working group has also discussed personal incentives for academic staff. For the university, allocating resources to be spent on research activities and supporting departmental activity more widely is preferable to using the resources to increase remuneration, provided this is appropriate motivationally for the academic staff. The working group has recommended that staff could be paid a consultancy fee where the research sponsor's conditions allow this. Where it is not possible, departments are encouraged to recognise significant achievement by increasing research time, facilities and sabbatical leave.

In support of the university's objective of increasing earnings from technology transfer, the working group has also proposed that staff could hold paid directorships (within their allowance of consultancy time) and equity in spin-out companies. Where technology is licensed rather than spun-out into a company, the inventor and the department would also receive a proportion of the licence income.

### References and sources of information


- HEFCE 02/14 'Rewarding and developing staff in higher education: Good practice in setting HR strategies'
- Joint Information Systems Committee 'Guidelines for Developing an Information Strategy – The Sequel' JISC, 1998
- Committee of Vice-Chancellors and Principals 'Costing, Pricing and Valuing Research and other Projects' CVCP, 1998
- Universities and Colleges Information Systems Association, at www.ucisa.ac.uk

# B7 Monitoring and Review

## B7.1 Post-implementation review

The pricing strategy should include a post-implementation review, carried out perhaps on an annual basis. The findings of the review should be reported to management and the governing body. The review should assess the implementation outcomes to verify whether the strategy has achieved the desired results and has met the strategic outcome measures established by the institution.

The post-implementation review should assess and report on:

- the extent to which the original objectives have been achieved
- any problem areas that may have a detrimental effect on the overall corporate plan
- the extent to which the pricing strategy remains relevant to the overall strategy of the institution
- changes to the external environment, including competitors and markets
- any lessons learned and changes or improvements to be made for the future.

The review process should be able to concentrate on easily gathered data for performance measurement, which will ideally have been established during the implementation phase. The review should be rigorous, but should not become a bureaucratic exercise, since decisions may need to be taken quickly to remedy perceived defects. The level at which review takes place depends on individual institutional strategies, and the extent to which decisions have been devolved to ‘front-line’ units.

### Case study: Review of pricing decisions

The University of Albany has decided that all significant pricing decisions made over the last three years should be re-appraised for effectiveness. This is part of a structured approach towards developing new activities and reviewing ongoing activities. Within the framework of an academic and business planning process, there is now greater emphasis on proper cost analysis, formulation of business cases and investment appraisals, consideration of pricing issues where appropriate, and monitoring of outcomes.

A process of contract approval and sign-off seeks to ensure that costs are correctly identified, and there is a process for ensuring that prices or indirect costs are optimised.

## B7.2 Appraisal of individual policies

As well as the strategy itself, significant specific pricing policies, practices and decisions should be re-appraised for effectiveness. In evaluating their effectiveness, institutions need to consider whether due account is taken of:

- the overall strategic objectives of the institution
- the external environment, including the competition

- the quality of the goods or service offered
- the extent to which objectives have been met
- constraints or barriers to market success.

Institutions should consider the appropriate balance between regular monitoring and periodic review of the strategy. Financial monitoring of income and expenditure should take place through normal processes for budgetary performance; these will give some indications of potential problems where these impact on financial outcomes. Monitoring should consider the effectiveness of the pricing strategy in achieving its stated aims. Periodically, the continuing validity of those aims and the outcomes themselves should be reviewed.

In general, monitoring is an activity likely to be undertaken within faculties and central departments. The review, on the other hand, would normally be an institutional process, often involving the internal audit service or other, external participants.

## Case study: Evaluating the strategy

The University of Albany has undertaken a market analysis of all its home/EU full-time undergraduate markets. This determined that in certain undergraduate markets, the university might attract more applicants of better quality if the ‘price offer’ of GCE A-level points were increased. These markets reflected a combination of:

- ineffective competitor activity
- buoyant student demand
- heavy promotional activity relating to the university’s excellent teaching quality scores
- the existence of robust faculty programmes which could incorporate increases in student numbers at marginal cost.

The evaluation of this pricing strategy initially caused managers some concern. The response to an increase in price in GCE A-level points was a reduction in the number of applications by some 2,200, or 8.4%. During the six-month period when applications were being received, managers and tutors had to ‘hold their nerve’ – particularly as the press put the university in the bottom 10 of HEIs in terms of reduction of applications as against the previous year. However, programme admission tutors rejected just under 2,000 applications fewer than in the previous year and the overall result was that the university recruited 5% more students than in the year 2000. Overall, it was a high-risk strategy, but one that had been prepared thoroughly, with consequent organisational benefits.

A more detailed evaluation was undertaken in preparation for the following year’s recruitment. The university decided that it did not have sufficiently robust data relating to these recruitment markets to require yet higher GCE A-level points for entry in the following year. It thus decided to maintain its home/EU full-time undergraduate entry price while concentrating on analysing other market segments, particularly postgraduate overseas students.

# Appendix 1 Glossary

**Break even:** the level of activity at which there is neither profit nor loss. It can be ascertained by using a break-even chart or by calculation.

**Bundling:** the practice of marketing two or more services/products in a single package.

**Contribution:** sales value less variable cost of sales. It may be expressed as total contribution, contribution per unit or as a percentage of sales.

**Cost-plus pricing:** a policy of setting prices by totalling costs and adding a margin of profit.

**Database:** an information system's store of information gathered from internal and external environments and used to retrieve data selectively.

**Elasticity of demand:** the rate at which demand changes in response to price changes.

**Indirect cost:** expenditure on labour, materials or services which cannot be economically identified with a specific saleable cost unit.

**Indirect cost rates:** a means of attributing support costs to a product or service, usually on the basis of direct staff cost. The accepted calculation of an indirect percentage cost rate for a department/department type by activity is:

$$\frac{\text{Support costs} \times 100}{\text{Direct staff cost}}$$

**Market analysis:** the gathering of information on, for example, demand, competition, market environment, the resources needed to deliver products to the market, and political, legal and other constraints. Marketing analysis is undertaken to identify marketing opportunities and to monitor, from time to time, market changes.

**Market-based pricing:** a pricing methodology that uses the demand for a product or service to determine its price. The price reflects the perceived value derived by the customer and is independent of the costs of providing the product or service.

**Pricing objectives:** stated goals that an institution wishes to pursue in its pricing decisions.

**Pricing policies:** the framework of rules and constraints within which pricing decisions are taken.

**Pricing strategy:** a plan for achieving pricing objectives.

**Risk analysis:** identification of the risks (financial and non-financial) associated with the proposed activity and the actions to be taken to deal with these risk factors.

**Risk management:** the process that provides assurance that objectives are more likely to be achieved, that damaging things will not happen or are less likely to happen, and that beneficial things will be or are more likely to be achieved.

**Strategic pricing policy:** having a longer-term view of the pricing of services and products being delivered by an institution. The policy should come out of the corporate strategy and should aim to enable achievement of the institution's overall strategy. Strategic pricing policy should lay down guidelines for pricing against which individual pricing decisions should be assessed.

**Transparency Review:** the exercise undertaken in HEIs to identify the costs of teaching, research and other activities.

# Appendix 2 Checklist

| Key questions | YES | NO |
|---|---|---|
| **A1: Pricing, Marketing and Strategic Planning** | | |
| Are there clear objectives for the strategy? | | |
| Have you considered how to embed pricing and marketing into institutional plans? | | |
| Will this be a bottom-up process (individual operating units developing local strategies for pricing and marketing) or a top-down approach (considered at a corporate level and then engaging with operational units to see how each may contribute to the success of the whole)? | | |
| Have you considered using a planning template to ensure that questions are addressed in a consistent form across the institution? | | |
| Does the strategic plan contain contingency plans describing what action should be taken by the institution if any of its initiatives fail? | | |
| **A2: Implementing a Pricing Strategy** | | |
| Have you involved all those concerned with developing the strategy or in making pricing decisions? Have you also communicated with other stakeholders (e.g. staff, students, external bodies)? | | |
| Have the responsibilities for developing and operating the pricing and marketing strategy been defined and formally approved? | | |
| Have you set out a clear timetable that is realistic and has appropriate review points? | | |
| Have the resources to deliver the strategy been identified? | | |
| Has the strategy been formally approved, since it will form part of the overall strategic plan? | | |
| Has the strategy been widely disseminated and understood by those involved in making pricing decisions? | | |
| **A3: Business Planning** | | |
| When bringing forward proposals, are departments expected to produce fully worked-through business plans? | | |
| Have you considered providing business plan templates and named staff to support the formulation of these plans? | | |
| **A4: Risk Management and Risk Analysis** | | |
| Do all proposals identify and evaluate any potential risks? | | |
| For each proposal, is the impact and likelihood of potential risks measured and does the project plan state how risks are to be dealt with and monitored? What contingency will be activated if risks materialise? | | |

| Key questions | YES | NO |
|---|---|---|
| **A5: Market Analysis** | | |
| Have you carried out a market analysis to gather information on customers, competitors and the market environment? | | |
| Are all cross-subsidies recognised, transparent and agreed as a necessary part of the strategic plan? | | |
| **B1: Pricing Products and Services** | | |
| Do you have different pricing objectives and policies for different types of activity? | | |
| Are all your pricing policies consistent with the overall institutional strategy? | | |
| **B2: Negotiating and Contracts** | | |
| Have staff involved in negotiating agreements and contracts been trained in negotiating skills or do they have access to such skills? | | |
| **B3: Intellectual Property and Knowledge Transfer** | | |
| Do you have appropriate IP policies in place and staff specially trained in the complexities of issues such as patenting, venture funding and legal frameworks? | | |
| **B4: Non-financial Pricing** | | |
| Does your pricing and marketing strategy consider the non-financial aspects? | | |
| **B5: Taxation** | | |
| Are business plans expected to state clearly that the taxation implications of the proposal have been thoroughly examined? | | |
| Are staff aware of who to contact, in the first instance, for advice on corporation tax and VAT issues? | | |
| **B6: Supporting the Strategy** | | |
| Does your institution have a training programme for supporting the strategy? | | |
| Does your institution have effective information systems for recording costs; for holding data on customers, the competition and the markets involved; and for monitoring the strategic plan? | | |
| **B7: Monitoring and Review** | | |
| Are individual policies appraised for effectiveness? | | |
| Does the strategy include regular review stages, including a post-implementation review? | | |

# Appendix 3 Useful References

Committee of Vice-Chancellors and Principals ‘Costing, Pricing and Valuing Research and other Projects’ CVCP, 1998

HEFCE ‘Risk Management: A Guide to Good Practice for Higher Education Institutions’ HEFCE 01/28, 2001

Joint Costing and Pricing Steering Group ‘Costing and Pricing for Decision Makers in Higher Education, User Guide’ JCPSG, 1999

Joint Costing and Pricing Steering Group ‘Transparent Approach to Costing (TRAC), Volumes I and II’ JCPSG, July 2000

Joint Costing and Pricing Steering Group ‘Pricing Toolkit for the Higher Education Sector’ JCPSG, 2000

Joint Costing and Pricing Steering Group ‘The Use of Indirect Cost Rates in Costing Government Contracts: Technical Guidance’ JCPSG, 2001

Joint Costing and Pricing Steering Group ‘Costing Nursing, Midwifery and Other Health Professional Teaching Provision: Guidance for the HE Sector’ JCPSG, 2001

Universities UK ‘Optimising Consultancy’ Universities UK, 2001

HEFCE publications are available on the web at www.hefce.ac.uk under ‘Publications’.

JCPSG publications are available on the web at www.jcpsg.ac.uk under ‘Publications and Newsletters’.

**Additional copies of this publication, price £25, are available from:**

**Higher Education Funding Council for England**
**Northavon House**
**Coldharbour Lane**
**BRISTOL**
**BS16 1QD**

**tel 0117 931 7317**
**fax 0117 931 7203**
**http://www.hefce.ac.uk**