

How much more will students pay?

Primary research evidence on students' likely responses to changes in Higher Education tuition fees

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If the cap on tuition fees is lifted substantially, it will have a potential impact on both the revenue stream and the image of higher-education institutions. It is therefore becoming increasingly important to determine what students will be prepared to pay for higher education and, even more crucially, how this might vary across different types of student and institution.

Based on over 37,000 interviews with new first year students over three years, the analysis presented in this report provides potentially valuable information to assist university planners in determining the likely impact of tuition fees on the demand for different types of higher education and, more importantly, the differentials in willingness to pay, by subject, university type and background of student.

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Foreword

For six years now Opinionpanel has been supporting universities with their marketing, planning and course development. Our annual *Higher Expectations* surveys have been tracking the importance of a range of factors in prospective students' decision-making processes. To date we've learned that the salient point about undergraduate tuition fees is their *unimportance* in that process. They (and, in fact, most factors relating to cost) play second fiddle to the real drivers of choice: course suitability, location, reputation and UCAS (Universities and Colleges Admissions Service) tariff points required (the real 'price' of entry into higher education). In a market in which the majority of degrees have the same price tag, it is not surprising that this is the case. But what would happen if tuition fees went up substantially? Would students taking clinical medicine degrees be prepared to pay substantially more than those doing, say, psychology degrees? Would students from a poorer family background be less willing to pay? Could Russell Group and 1994 Group universities charge a premium over other university mission groups? And, if so, by how much?

There has never been a time when the likelihood of a substantial tuition-fee increase has been higher. At the time of writing the government was promising a cut of 12.5% in real terms for teaching funding over three years, and further cuts may be around the corner. With teaching funds becoming scarcer, the competitive environment is likely to get a lot tougher for universities. Some may not even survive. But, for many, there will be a greater need than ever to start charging higher tuition fees in order to fill the 'funding gap'. The lobbying has already begun, as Lord Browne, who is currently reviewing higher-education funding, will be well aware.

We at Opinionpanel have appreciated that the prospect of substantially higher tuition fees has been looming since the new financial arrangements were introduced in 2006/7. So since then we have been asking new cohorts of full-time undergraduate students how much they thought their degrees were 'worth' in an uncapped market. From the outset we've been surprised by our findings. First, we learned that, for very many students, a low fee level would suggest a low-

quality degree. So pricing low has, in our opinion, always been a questionable strategy. Second, we learned that the difference in what students would be willing to pay in an uncapped market would be vast, the implication being that the utility of degrees does vary massively between students. Finally, we learned that the background of students was far less important to how they valued their degree than the anticipated benefit of that degree.

This report is a synthesis of what we have learned from over 37,000 interviews over the past three years. It has been written by Anna Vignoles, a leading higher-education economist based at the Institute of Education. She has been very ably assisted by Samantha Burton, a project manager at Opinionpanel Research. My sincere thanks go to both of them. Finally our collective thanks go to Carlos Michelsen, whose advocacy of the Price Builder approach that we have employed in this study has been central to our ability to provide a clear analysis.

Ben Marks

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1. Summary

It is widely anticipated that the review of tuition fees due after the election will recommend increasing the cap to at least £5,000. Increasing costs not only increases uncertainty among students, but also forces them to, more than ever, think about the long-term outcome of their decision (i.e. will undertaking a specific degree lead to a well-paid job that outweighs the increased financial burden?). This report focuses on differentials in willingness to pay, investigating the attributes that cause changes in price sensitivity. Therefore the findings are a valuable tool for all university planners who want to assess the relative value of their degree portfolio, and the differences in demand among their different target markets.

The data in this report are obtained by Opinionpanel Research for their annual *Higher Expectations* study. This has run for the past four years, with a total of 47,000 online interviews with new full-time first-year undergraduates at publically funded UK higher-education institutions [note: the 10,000 interviews for 2009/10 came out too late to be included in this report which covers the period 2006/07, 2007/08, 2008/09; 37,000 interviews in total].

This report focuses on just two of the questions: ‘In an uncapped market where fees could be anywhere between £0 and £18,000, what price would you consider to be so cheap that you would doubt the quality of the course?’ and ‘What price would be so expensive that you wouldn’t consider paying it at all for your course?’ Respondents are effectively asked to ‘bracket’ the appropriate price for their course, which is more realistic than bluntly asking ‘What would you be prepared to pay for this?’ – a notoriously unreliable question. This approach is a modified form of the van Westendorp Price Sensitivity Meter, a form of pricing research based on the precepts that a) buyers have at least a rough idea of what they would expect a product or service to cost, and that b) price can be an indicator of quality – a price can be too low to trust, as well as too high to be good value.

The bulk of the analysis in this report is based on looking at different student groups and comparing the number who would reject their course at each price point either because the fees are too high or because the fees are too low. The plotting of these combined totals creates rejection curves, which we view as close proxies to demand curves.

Generally, rejection curves will be minimised around £3,000 as students' expectations are linked to the price they currently pay. However, the results do indicate that there are a reasonable number of students who would be willing to pay higher fees. By looking at rejection curves we can see that there is little difference in the levels of rejection whether one charges £2,000 or £4,000. Therefore, from a revenue (and probably image) perspective, it makes far more sense for institutions to charge £4,000 than £2,000 – the numbers put off will be the same but the overall income will be doubled.

According to our findings, the largest differentials in willingness to pay are seen when comparing rejection levels across different subject areas (JACS subject area). For example, if tuition fees were increased to £6,000, then approximately 60% of Education students would reject their course, compared with fewer than 40% of Medicine and Dentistry students. The differences in willingness to pay across all the subject areas that are found in this report are in line with wage differentials in the labour market across sectors. This indicates that there is a case for the introduction of variable tuition fees within each institution.

The findings also show difference in willingness to pay across different types of institution. If tuition fees were to increase to £5,000, 35% of students at Russell Group universities would reject their degree, compared with 48% of students at Alliance universities. These findings indicate how students' willingness to pay is linked to perceptions of value. At universities with an established reputation and image, a degree may be considered to be more valuable and therefore students may be more willing to invest in it. Even when holding subject area constant, there are major differences between mission group. Although not supplied with this report, the results are also available for analysis at the level of each individual institution. Therefore it would be possible to look at differences in willingness to pay between competitor institutions, which would be indicative of differences in perceived value.

The data used in this report include several measures of social background, including school type, bursary eligibility, and analysis by widening-access wards. These results all show that poorer students are less willing to pay higher tuition fees. The differences can be seen most prominently when analysing by school type. At £6,000, 44% of students from fee-paying schools would reject their degree, compared with 54% of students from state schools. These findings therefore have important implications for any future increases in tuition fees, as it will be important to ensure that poorer students have sufficient financial assistance so as not to deter them from entering higher education, or limiting their choices to the lowest cost universities. However, in comparison to the other attributes in this report, social background is a less potent discriminator than subject area or institution. This suggests that students' expectations of how much their degree will 'add value' to their earning potential has a greater impact on willingness to pay than does their social background.

We also find differences in willingness to pay when filtering the data according to the background of the student. Some key findings are:

- Females are significantly more likely to reject higher tuition fees than males
- Students of 'Other Black' ethnicity (that is students of 'Black' ethnicity who are not 'Black Caribbean' or 'Black African') are most willing to pay higher tuition fees
- Those with fewer UCAS points are less willing to pay higher tuition fees than students with more UCAS points
- Students who live at home while at university are significantly more likely to reject higher fee levels than those who are not living at home.

Of course, all of the factors discussed may be related, and therefore we look at results when combining these factors. Some key findings are:

- Poorer, female students are less willing to pay higher fees
- There are residual differences in willingness to pay by ethnicity even when allowing for socio-economic background
- There are residual differences in willingness to pay by school type even when allowing for subject type

- Within specific institution types there are clear rankings of willingness to pay by subject type
- There are residual differences in willingness to pay by institution type when allowing for school type.

The results in this report therefore show the value of these data on willingness to pay when analysing the effects of increases in tuition fees. This report gives an indication of the varying demand at different price ranges. The full data set allows for more complex filtering, which can be tailored to specific institutions in order for them to assess how changing tuition fees might affect their enrolment numbers.

The full set of results behind this report is available for unlimited analysis from Opinionpanel Research. Released as the '*Higher Expectations Pricing Analysis Pack*', the data are provided in the form of an online database. Appendices 3 and 4 set out the charts produced by the application and the list of almost 400 analysis variables available for filtering. The Pricing Analysis Pack provides a 'finer-grained' analysis than the data in this report (showing willingness to pay at £100 rather than £1,000 increments). It also reports at JACS principal subject level and at the level of the individual institution.

Opinionpanel

Opinionpanel is the owner and manager of the UK's only substantial research panel of higher education 'consumers'. We have helped over 60 universities as well as HE policy bodies, HE finance organisations and Mission Groups. Our ad hoc projects have covered topics as diverse as course development, bursary and scholarship provision, tuition fees, the decision-making process of sixth formers (longitudinal study), academic contact time, student satisfaction, accommodation needs and corporate branding and benchmarking.

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