Full Steam Ahead: Part 2

Cutting-Edge Research and Opinion for Excellent Independent Schools
In a recent document titled “Full Steam Ahead,” ISM responded to the timely question “Should private schools fear that they’re pricing themselves out of the market?” It’s a reasonable question, and the importance of answering it became even more pronounced as we watched our economy fall into the worst recession since the Great Depression.

ISM first responded to this question by citing data derived from our annual parent survey conducted in the fall of 2008. Responses indicated no change in the decision-making trends of private-independent school parents, despite the economy. The same parent survey was completed again a year later (and will be repeated again this fall). Last year, ISM saw no change in the reasons parents choose private schools, or in their intention for their students to remain until the last grade of their school. We project no difference this fall.

However, to further validate our findings, ISM recently joined with another leading research and consulting firm serving the private school industry, Measuring Success (www.measuring-success.com). Together, we investigated another viewpoint to address this important question called the MS/ISM price elasticity study. We started with the assumption that private schools had indeed reached a price breaking point, and therefore we wanted to know when it occurred and how much it was.

Measuring Success/ISM (MS/ISM) polled 140 schools from across the United States. The schools represented the broad private school market and included tuition-sensitive schools, elite day schools, boarding schools, religiously affiliated schools, and secular schools.

Other variables were also included in the study to assure that the market was well represented, including region of the country and locale (metropolitan, urban, suburban, and rural). Other economic indicators were accounted for, such as average income for each school’s ZIP code and changes in median house values. Schools were asked to submit tuition, enrollment data, and financial aid data from 2005 to 2010.

Seventeen different mathematical regressions were run by a robust statistical team. Schools were examined by division (lower, middle, and upper) and by whole school. Tuition was considered by whole dollar increases and the percentage increase year-to-year.

Additionally, we studied changes in new enrolling students, and changes in those students leaving private schools and the entry points of those students entering private schools (e.g., grade nine of a 9-12 school). Data was also compared in non-recession and recession years to ascertain causality.

The key finding: There is no mathematical relationship between tuition change and enrollment. This finding was true in every regression run by our team of statisticians.

Consider the following graphs.
Graph 1

Graph 1 represents whole school, whatever the grade levels. The best fit line is flat. Had there been an impact upon enrollment, the best fit line would increase or decrease indicating a change in enrollment as tuitions increased.

Graph 2

Graph 2 represents enrollment in all schools with a lower division. Notice again that the best fit line is flat, indicating no relationship in enrollment and tuition increases.

Graph 3

Graph 3 represents enrollment in all schools with a middle division. Again, the best fit line is flat, indicating no relationship between price increase and enrollment.

Multiple regressions were run examining the entire data set and each time the same result was determined; there is no relationship between the price private schools charge and enrollment.

There were, however, noteworthy and surprising findings from our recent work.

- The percentage of students on financial aid is a significant factor for entry grade and new student enrollment. A 10% increase in students on financial aid yielded a 1.5% increase in enrollment at the school's entry point. (The average change in entry point enrollment was 1.8%.) And, a 10% increase in students on financial aid yielded a 2.0% increase in overall new student enrollment. (The average increase in new student enrollment was 3.7%.) This is a significant finding, indicating that the strategic use of financial aid yields more students (both full paying and discounted) when financial aid is spread across a greater number of
students, rather than using large amounts to assist a few students.

• **Decreasing home values have had a negative impact on private school enrollment.** A 10% decrease in median home values (from 2006-10) resulted in a 1.6% decline in enrollment. This is an important finding and one totally out of the control of private schools. Schools that are located in areas hit hardest by declining real estate values have suffered the most.

• A marginal finding indicated that schools that do not compete primarily on low price (tuitions above $11,100 annually) enjoy a 0.73% enrollment increase for every $1000 they raise tuition.

This is all good news for private schools! While there has been concern that higher tuitions and the recession were placing greater pressure on enrollments, this study proves that notion false. However, there are important lessons with which schools must come to terms. Schools that raise their price have a 50/50 chance of losing or gaining students—but that simply supports our long-held belief that value is the key driver in parents’ decision to pay high tuition prices for private education. To stay competitive, private schools need not artificially hold down tuition; their goal must be to continually improve—and to validate the strength of—their high-quality academic and cocurricular programs.