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# Challenges of Tuition fee's decision: Private Universities case in Kosovo

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*This study assesses Challenges that Private Universities in Kosovo face when employing tuition fee strategies. Data are collected on May - June 2012 through in-depth interview and questioners with supervisors and students of three Private Universities in Kosovo. As of low purchasing power of students and overall economic crises in Kosovo, students are very sensitive to pricing strategies employed and according to fee they evaluate before and after -enrollment assessment. Students' academic expectations are much higher relative to their low tuition requirements. In transition economies, employing tuition strategies that satisfy both Universities and students is a challenge for higher educational institutions.*

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## **1. Introduction**

This research is focused in identifying challenges of tuition fee's decision using Private Universities in Kosovo as the case study. This study reviews existing literature on pricing strategies and their impact to customers, analyzes pricing research models, identifies pricing strategies applied by Private Universities in Kosovo, and evaluates the most favorable pricing strategies to be applied in Private Universities in Kosovo.

## **2. Theoretical Foundation**

The purpose of "pricing" variable is not to identify preferences that costumers encounter toward products or services, rather than its aim is to identify what the buyers are willing to pay and so what the optimum price point is to maximize profit or revenue or market share. There are several pricing strategies employed in both public and private organizations, including Private Universities. Yet, the most flexible pricing strategies applied in educational and other types of markets are: product – mix pricing strategies (product line pricing, optional – product pricing, captive – product pricing, by – product pricing, and product – bundle pricing), price – adjustment strategies (discount and allowance pricing, segmented pricing, psychological pricing, promotional pricing, geographical pricing, and international pricing), and new – product pricing strategies (market – skimming pricing and market – penetration pricing), (Armstrong & Kotler & Saunders & Wong, 2005, 680-701).

### **2.1. Pricing Strategies in Private Universities and Students Challenges**

Tuition is the main variable considered by students when making University choice decisions regardless of other characteristics that Universities possess (Breneman & College & Lapovsky & Meyers, 1999). Breneman & College & Lapovsky & Meyers, (1999) state "Universities do not readily change enrollment levels, thereby forcing

all of the market adjustment onto prices”; He further pronounces that Universities have a physical plant, faculty, and staff designed for a set of number of students that the University plans to enroll regardless of economic circumstances.

Considering persistent changes in economy, Private Universities adjust prices in order to get the number of students they seek for. Regardless of the type of the University, characteristics that the University has, reputation the University conveys for the students, etc, each of the University faces a downward – sloping demand curve in regard to price. This means, the number of students enrolling a University, and the price (tuition) of the University are inversely related. In other words, the higher the tuition of the University, the smaller the number of students enrolling the University (Breneman & College & Lapovsky & Meyers, 1999).

According to Breneman & College & Lapovsky & Meyers (1999) the main difference among high selective and less selective Universities is that for less selective Universities lower prices (discounts) increase revenues, whereas for high selective Universities discounts/students aid reduces revenues. As a reason, high selective Universities apply market – skimming pricing strategy, as they enter and operate in the market through high tuition fee. This means that in high selective Universities tuition and student’s enrollment are inversely related, but the downward sloping demand curve is shifted far to the right. From Breneman & College & Lapovsky & Meyers (1999) it can be implicated that probability in employing market penetration strategy is higher in less selective Universities, in comparison to the high selective Universities.

In the educational market, price strategies employed by one University have an influence on the price practice of the other Universities, as pricing strategies have befallen in a significant marketing device. As such, competition among Universities is intense, so Universities continually adjust pricing strategies

### 3. Pricing Research Models

The approaches applied in pricing research are the Van Westendorp Price Sensitivity Monitor, Brand Price Trade-off and Conjoint Analysis (also known as Discrete Choice Analysis), Gabor-Granger technique.

#### *Conjoint analysis*

Conjoint Analysis is the most sophisticated and reliable research techniques compared to other research pricing approaches. Conjoint is excellent at looking at understanding how choices are made and consequently the importance of price. However, conjoint analysis is a more technical form of research and requires higher levels of design skills. If pricing is to be conducted it is often advantageous to include it as part of a broad conjoint study into product and service features.

In conjoint analysis, customers trade off price against other product features, or in Discrete Choice Analysis, price against brand alone. By looking at how customers make decisions, economic impact of price changes can be assessed as can 'balanced-value' positions for price positioning. For some markets where prices are very visible, or where there is a large amount of internal pricing data, it is possible to use econometric methods to examine the impact of price and to understand price elasticities. Using pricing tests, discounts and advanced statistical analysis the impact of price can be assessed live in the real world.

#### *Van Westendorp*

Van Westendorp is one of the most sophisticated pricing research approaches. Respondents are asked four questions to determine what prices are too cheap, where a price is a bargain, when a price is expensive and where a price is too expensive. By plotting the cumulative curves for each of the four prices, the crossing points are deemed to be optimum points - for instance where the expensive and bargain price curves cross. The resultant price "space" helps to determine the range of acceptable prices - and so pricing tactics -

available. This is a technique which is more for price positioning type studies than for estimating optimum pricing.

*Gabor-Granger (direct or likelihood of purchase pricing)*

A Gabor-Granger pricing research technique has been invented by Gabor Granger in the 60s. Under the technique of Gabor – Granger customers are asked to complete a survey where they are asked to say if they would buy a product at a particular price. The price is changed and respondents again say if they would buy or not. From the results we can work out what the optimum price is for each individual. Using this estimate of demand, the price elasticity (or expected revenue) can be calculated and so the optimum price-point in the market established. Note that a revenue optimum may be different from a profit optimum.

**Figure 1**

**Gabor-Granger output**



A weakness of Gabor Granger is that customers may understate the price they will pay (there are also circumstances in which they will overstate the price). Consequently the phrasing of the "would you buy" question is extremely important as are other contextual questions to place the customer in the buying frame of mind.

## 4. Analysis and Findings

### 4.1. *Challenges on Price Strategies, viewpoint of the Universities*

According to this study, key determinant guiding students in Kosovo to choose among Private Universities is the tuition fee employed by the institution.

On the other side, as well, Private Universities in Kosovo consider tuition fee a very sensitive variable; thus, they analyze different external and internal factors when deciding which pricing strategy to employ. In support of this, supervisor of University X pronounces that when deciding on the pricing strategy to apply, they pay particular attention on competition (comprising both direct and indirect competitive Universities), barriers to entry in the educational market, threat of new Universities entering the market, etc. In addition, supervisor of University Y pronounces that to enhance profitable operation and to enlarge students' satisfaction, Private Universities in Kosovo must endeavor to consider external factors, such as purchasing power of the population in Kosovo, inflation rates, etc.

Universities in Kosovo are very cautious in applying pricing strategies that are flexible to wrap all the University costs. In support, supervisor of University Y stated "Being a university that is dependent on tuition, has to be aware that this revenue has to cover the operational and development costs".

As such, Private Universities in Kosovo enunciate that they aim to be very flexible in considering both internal and external factors when deciding on pricing strategies to employ so they enhance their financial and image reputation, whilst the satisfaction of the students.

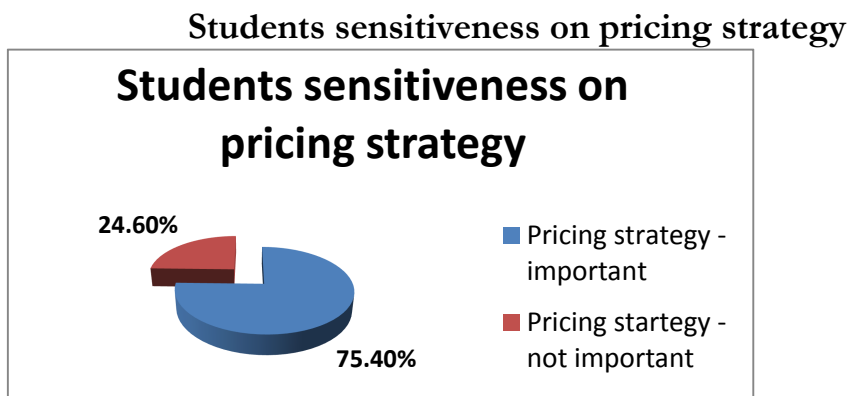
### 4.2. *Challenges on Price Strategies, viewpoint of the students*

Existing literature presents an inverse relationship between Universities' tuition and students' acquisition (Breneman, & College & Lapovsky & Meyers 1999). This means, the higher the tuition per academic year of a Private University, the lower the number of

students enrolling the University, and vice versa. This inverse relationship is the essential indicator that students are very sensitive to pricing strategies employed by Private Universities, when making University enrollment assessments, or when measuring their after – purchase degree evaluations.

This study presents similar findings to the extant literature illustrated above. The current research shows that 75.40% of the students sampled responded that the tuition fee of the Private University is important when making University enrollment decisions, and they are sensitive to the pricing strategy chosen by the University. Whereas, only 24.60 % of the respondents had a diverse opinion. (see figure 2)

**Figure 2**



The respondents of this study support the above percentages by pronouncing that financial constrains of students in Kosovo are the vital factors that boost the strictness at this high level of Universities' pricing evaluation.

#### *4.3.Pricing Strategies employed by Private Universities in Kosovo and Students perception*

Pricing strategies presented under section two and a combination of them are the strategies employed by Private Universities in Kosovo.

New product pricing strategies applied by Private Universities in Kosovo are market – skimming pricing, and market – penetration pricing. The product – mixing strategy applied by Private Universities in Kosovo is the optional product pricing strategy. Whereas, Private Universities in Kosovo apply two types of price – adjustment strategies which are psychological pricing, and discount and allowance pricing.

Market – skimming pricing strategy is applied by Universities in Kosovo which possess a higher price per student per academic year in comparison to competitor Universities. Under market – skimming pricing strategy Universities in Kosovo do not target a very high number of students, rather than they set tuition per academic year by calculating the cost of a high quality education. Armstrong & Kotler & Sounders & Wong (2005) pronounce that market – skimming pricing strategy is applied by organizations which offer specific products/services. This argument is in harmony with this study findings as market – skimming pricing strategy is applied by Universities in Kosovo which offer a specific product or service/s including a Diploma of a foreign University, and lecturing in a foreign language.

Campbell (1999) pronounces that “consumers respond to a price is in terms of the perceived fairness of the price”, thus, customers judgments on whether a price is fair or unfair are very strict, and the products sold at unfair prices are ignored resulting in overall seller loses. In addition to the above extant findings, the collected data of this current research confirms that Private Universities in Kosovo which employ the market – skimming pricing strategy, as well apply the psychological pricing, which is one of the price – adjustment strategies. With psychological pricing strategy, Private Universities in Kosovo aim to tell customers that high tuition per student is justifiable by the highly qualified products and services the University offers comparing to competitive Universities in the market.



Market – penetration pricing strategy is an additional strategy applied by Private Universities in Kosovo. Under this strategy Universities employ low tuition per student. According to extant finding, market – penetration is applied by companies with “quantity maximization” objective (Roth, 2007). In support of this, current research proclaims that Private Universities in Kosovo through market – penetration pricing try to control students demand, particularly the number of students enrolling the University. That is, Private Universities in Kosovo set lower tuition per students (in comparison to competitive Private Universities) to entice enrollment of the maximum number of students. Roth (2007) pronounces that “large numbers of customers purchasing of your product should maximize your revenue”. Relevant to Roth’s pronouncement, this study elucidate that the lower the tuition per student, the higher is the number of student’s increase rate; whilst the satisfaction of the students is greater, primarily as of the low purchasing power people in Kosovo have.

Explained by existing literature, optional product pricing strategy is usually applied together with market – skimming pricing strategy. Roth (2007) proclaims that “optional product pricing strategy is best used when the pricing objective is revenue maximization or quality leaderships”; since, accessory products sold generate more revenue, whilst they project an image of high quality to both current and prospective customers.

This study proclaims that optional product pricing strategy is employed by Private Universities in Kosovo with the purpose of justifying the current high tuition per student, or to insert an additional increase in the current tuition. Yet, Private Universities in Kosovo utilize the identical strategy on employing the optional product pricing strategy, they all sell the same accessory product that is laptop. Even though, Private Universities in Kosovo aim to promote optional product pricing strategy as an image of the high quality/ better quality

than competitors, the same employed optional product pricing strategy reduces competitive advantage among the Universities. Discount and allowance pricing strategy is employed by Private Universities in Kosovo that make use of both market – skimming pricing strategy and market – penetration pricing strategy. Merit and need based scholarships/ aids are forms of the discount and allowance pricing strategies applied by the Universities (McPherson & Schapiro, 1991). McPherson & Schapiro (1991) assert that tuition discount (either merit or need based assistance) plays a vital role for students and Universities respectively as of these two main points: First, the student's decision to enroll in a college respond positively to cut prices and offered need based aid. Second, the increase in aid and tuition discount plays an essential role for the students to decide on where/ what University to enroll (comparing to other Universities available in the educational market). The explained existent findings are relevant to the case of the Private Universities in Kosovo. Students in Kosovo are remarkably sensitive to the tuition discounts, specifically as of their low purchasing power and limited progress on economic development. Furthermore, as of the importance discount and allowance pricing strategy has to students, Private Universities in Kosovo employ discount and allowance pricing strategy with the purpose of attracting a larger number of students, whilst increasing the overall revenue. As well, discount pricing strategy is employed by Private Universities in Kosovo to enhance the image by positioning themselves in the market as a University that cares/prioritizes the requirements of the students.

#### *4.4 Students perception per price strategies*

Section 4.3. illustrates that Private Universities in Kosovo apply various pricing strategies. However, students encounter different evaluations per pricing strategies employed by Universities.

91.40% of the researched students enrolling Private Universities with market – penetration pricing strategy are satisfied with the tuition fee, while, only 8.6% of the sampled students are dissatisfied (see figure 3). As per Universities with market – skimming pricing strategy, 39.4 % of the students are satisfied, whereas 60.6% of sampled students are unsatisfied (see figure 4).

Figure 3

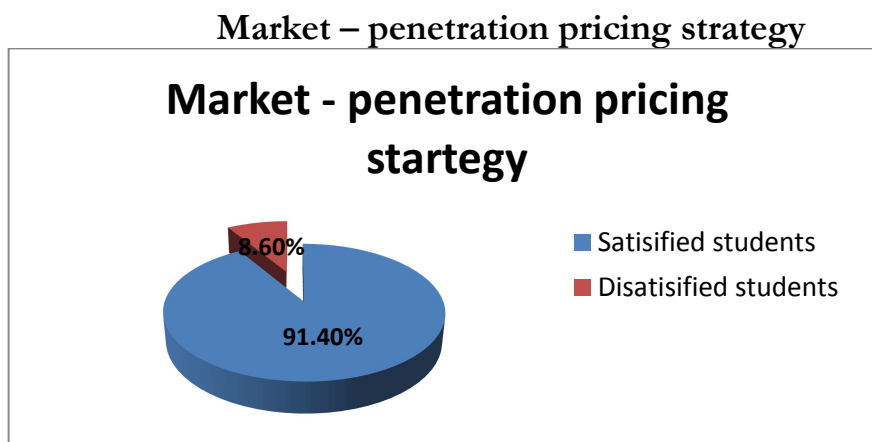
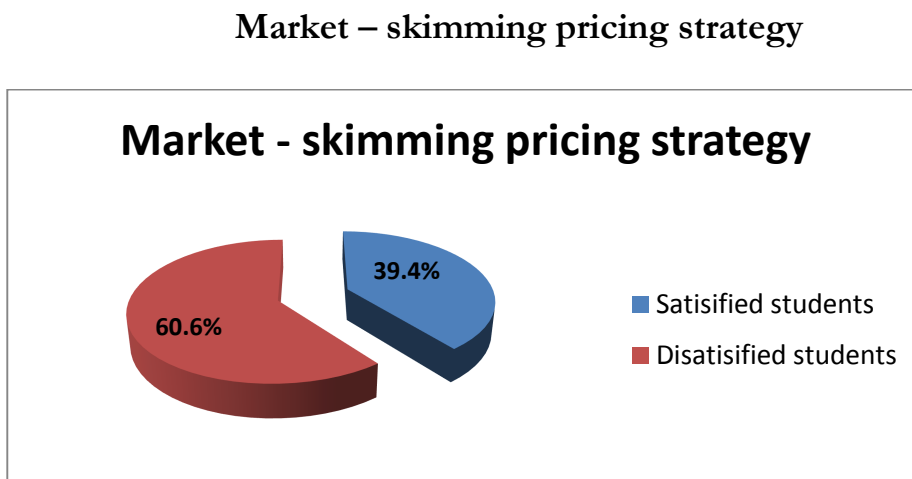


Figure 4



As explained under section 4.3, Private Universities in Kosovo that employ market – penetration pricing strategy as their essential pricing strategy, also utilize discount and allowance pricing strategy. Whereas, Private Universities in Kosovo that apply market – skimming pricing strategy as the base of their pricing strategy, as well use discount and allowance pricing strategy, optional product pricing strategy, and psychological pricing strategy.

From the quantitative findings (see fig. 3&4), students in Kosovo appraise their satisfaction rate above all according to the fixed tuition of Private Universities. Students judge tuition of Universities according to market – skimming pricing strategy and market – penetration pricing strategy. As such, students pay less attention to price – adjustment strategies and product – mixing strategies as they focus on evaluating fixed tuition set by Universities primarily as of the external factors society of Kosovo faces, such as low economic development, limited purchasing power of the students (parents of the students), whilst, the limited forecasted future economic development.

### **5. Recommendations and Conclusions**

As a conclusion, Private Universities in Kosovo should apply the strategy of market – penetration in combination with the discount and allowance pricing strategy. With the application of market – penetration pricing strategy, Private Universities will enlarge the number of students per academic year, whilst the overall generation of the revenue. Market – penetration pricing strategy enhances a better relationship and a higher satisfaction among Private Universities Kosovo and students in Kosovo.

Students in Kosovo have high academic expectations from Private Universities that apply market – penetration pricing strategy.

This study recommends, firstly, Private Universities in Kosovo must be very careful when applying market – penetration pricing strategy; They should, in no circumstances, set tuition per student lower than the cost of a successful operation of the University, as Universities must generate enough revenue to offer enhanced academic services to the students. If the tuition is over – lowered (with the sole purpose of increasing the number of student’s enrollment), and the success of studies is hindered, students will be dissatisfied and the market – penetration strategy will be negatively evaluated by the students. Thus, market – penetration strategy will have an unconstructive impact to the image of the Private Universities in Kosovo, whilst the possibility that students will replace Private Universities with the Public University of Kosovo will be high.

Second, Private Universities in Kosovo to continually research and analyze price requirements of their customers, with the purpose of avoiding unaccepted risk of student’s dissatisfaction, whilst the distraction of University image in the educational market. As the key factor evaluated by the students is the tuition, inappropriate pricing strategy employed by Private Universities in Kosovo may result in total University losses. As a reason, it should be a continues relationship between Universities and prospective students.

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