



## INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE AND MANAGEMENT

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- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio," Ohio State University.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

**Conference papers**

- Chandel K.S. (2009): "Ethics in Commerce Education." Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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## PRICING STRATEGY IN MARKETING OF B-SCHOOLS: A STUDY OF THE INDIAN CONTEXT

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### ABSTRACT

The purpose of the present paper is to understand the various aspects of pricing strategy— intake capacity, scholarship, fundraising activities and generating other sources of income for marketing of B-Schools. The pricing strategy of the institute / B-Schools should be designed in such a way that the income of institute increases without compromising scholarship to the talented or meritorious students, attractive pay package to faculty members, upgrading and expanding the infrastructure facility for the benefit of the students etc. The finding is based on large, representative samples of 150 B-Schools as a primary source and with the real life examples of different aspects of pricing strategy of Indian B-Schools from various secondary sources. Survey results shows that the number of applications received for admission purpose are ranging from 500-200000. However, because of demand and supply gap, even “C” category of institutions get, on an average 500 applications. Whereas the institutions like IIMs, MDI, FMS, IIFT etc get more than 2,00,000 applications for admission. The chi square test (Test of Association) reveals that there is a significant relation between Number of Applications received and Category (A, B, C) of the institute. This research study include mainly two types of management institute i.e. private and grant-in-aid (government) and focus on the ranking like A, B and C. The study does not include the other the various categories of B-Schools like autonomous institute which are not approved by the AICTE, distance education, and various sub categories like A+, A, A-, ,B+,B-,C+,C,C- etc.

### KEYWORDS

AICTE, AICWA, AICA, MDP, ROI, UGC.

### INTRODUCTION

Pricing decisions for the service offer are of a major importance and should ideally relate to achievement for marketing and organizational goals. **Price** includes: Fees, Scholarship, Payment terms, Loan facility, Consumers perceived Value etc. Pricing decision is vital as it is directly related to the objectives of organizations. Such as achieving a certain Return on Investment (ROI) or increasing the revenues by a certain percentage. No organization can survive without profits in the long run, except the government funded or charitable institutions. So implicitly, price assumes the center stage for any organization. For an education service, the price paid by the customer is known as the fee, and it is subject to many constraints mainly in developing countries.

Most educational institution, in fact all public institutions like the Universities, Institutes of Technology, Medical and Engineering colleges come under the category of services where price are subject to public regulation. In all such cases the price element is not controllable by the marketers, instead it becomes a subject matter of public policy, where political, environmental and social considerations take priority over purely economic considerations. Autonomous institutions also subject themselves to formal self regulation of price for example, the institution like **The Institute of Works and Cost Accountants of India (AICWA)** and **Institute of Chartered Accountants of India (AICA)** are subject to institutional regulations relating to fee structure which they decide for themselves. On the other hand private institutions, typically in specialized field like medicine, engineering, computers and management tend to price their services on what the market could bear. As most of these institutions operate in subject fields where demand far exceed supply, price charged depend upon economic condition, consumer feeling about prices, buyer need urgency, competition in market place, level of demand etc. The pricing strategy becomes more important today because government is slowly and gradually withdrawing financial support to educational institutes and encouraging them to be self sufficient and on the other hand there is a growing competition amongst the self-financed B-Schools.

### INTAKE CAPACITY AND ADMISSION

A bulk of the Indian schools admits 60 to 90 students while the more adventurous among them could go up to 200 or more. Almost 40 percent of the schools admitted between 60 and 120 students. The batch size is important to get the benefit of economies of scale. **The smaller** schools charge anything between Rs.50,000 to Rs.1 lakh per year and as you go up to the value chain A and A+ category of B-Schools, the fee charged averaged around Rs.2 to Rs.2.5 lakh per year and in some cases could go up further, right up to Rs14-16 lakh charged by the Indian School of Business.

What could be the payback period of the B-Schools? Once again smaller schools are at an advantage as they do not spent too much investment in their premises- most are located in rented places. Almost the entire “A+”category schools have large owned campuses with a range of 2 to 25 acres and **fixed investment of between Rs.20 crore to Rs 60 Crore**. The payback is also long despite the fact the **Return on Investment (ROI)** is almost **40 percent**. The reason is low annual turnover owing to the fact that the schools, particularly the smaller ones depend entirely on the fee income.

Following table gives the breakup of Revenue and Expenditure

Gross Revenue Rs.29,736 Lakh	
MDP Research	10%
Fees Income	60%

Others	30%
Gross Expenditure Rs.8,619 Lakh	
Library	15.5%
Faculty Development	18%
I.T. Investment	22.5%
Others	44%

Source: A Thothathri, Raman Business India, "The Way to go" October 24, November 6, 2005 pp-82

**Strong** industry interface helps in an institute to reduce its dependence on fees. Many B-Schools earn sizable revenues from training programmes for corporate executives. For example M.D.I earned over Rs. 7 crore from the **Management Development Programme (M.D.P)**. Such revenue model provides a solution to B-School's resource constraints. – a limiting factor that hampers investment in infrastructure and intellectual capital.

Heterogeneity of services and different pricing considerations used by different types of institutions make price important determinant of consumer choice in educational services.

The more the services are homogenous (undergraduate, graduate courses in the basic disciplines) the more competitive would tend to be the pricing. Another generalization that to be drawn from product marketing is that the more unique the education service offer, the greater would be the ability of the providers to vary prices according to the buying capacity of the consumer population. For example **The PGPM** programme run by **IIM-A**, which emphasis on "managing across the borders and culture", in which there is a five-week international project. All of this at a cost of **Rs.8,00,000** Executive programme also make a good business sense for institute. For example **At IIFT, the one-and-a-half years Executive Masters in International Business** cost Rs. 1,00,000 for a day programme. It is more like a weekend course with about 90 days of classroom teaching. The same also spread over three years on a part time basis. **I.M.T Ghaziabad** offers 15 months, full time residential post graduate diploma in executive management at a cost of Rs. **4 lakh**. As part of the programme students do a two week stint in some European countries. The above information makes a strong business calculation. When an institute offers a three year, part time executive management programme which consist of **30** contact hours each, what does really boil down to? **Forty-five days (take a 24 hours circle) of teaching out of total 1,095 days (three years) of the course duration. The cost is Rs.2.25 lakh.**

#### PRICING STRATEGY

Price in management education includes fees charged by the institute from the students and intake capacity (batch size). In India there are different types of fees charged by the management institutes which are depending upon the type of management institutes (self financed / grant-in-aid) and government regulations like (SC/ST quota, management quota, NRI quota),. There are other issues like offering scholarship to meritorious students, bank loan facility, fund raising, etc which are need to be considered while designing the pricing strategy of the B-Schools.

A survey was conducted of 150 B-Schools of A category, B Category and C Category of self-financed and grant-in aid B-Schools across the nations with respect to Price (fees) charged by them, Intake capacity etc. The following results had been obtained.

#### PRICE - 'FEE STRUCTURE'

The response received from various management institutes in respect of the component fee structure has been reported in Table-1 given below:

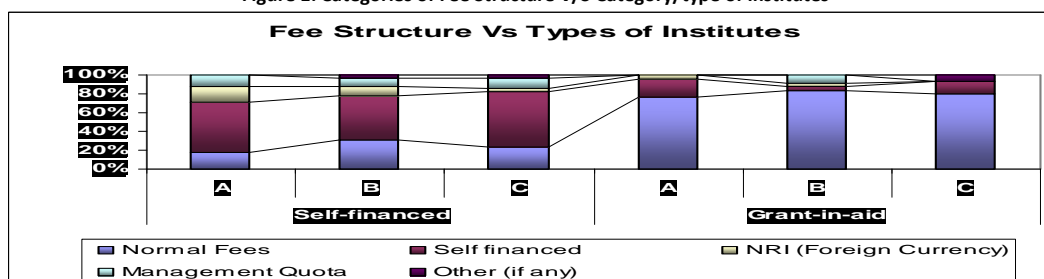
Table -1: Categories of Fee Structure V/S Category/type of Institutes

Fee Structure	Self-financed institutions			grant-in-aid			Total
	A	B	C	A	B	C	
Normal Fees	6	17	8	16	20	12	79
self financed	18	26	20	4	1	2	71
NRI (Foreign Currency)	6	5	1	1	1	0	14
Management Quota	4	5	4	0	2	0	15
Other (if any)	0	2	1	0	0	1	4
Total	34	55	34	21	24	15	183

From the Table-1, it can be observed that the highest number of institutions i.e.79 (53.37%) have "Normal Fees" as fee structure, followed by 71 (47.97%) institutions have "self financed" as fee structure irrespective of self-financed and grant-in-aid institutions. The numbers of institutions are same in the fee structure of "Management Quota" and "NRI (Foreign Currency)".

The detailed analysis of the different category of institutes 'A', 'B' and 'C' for both self-financed and grant-in-aid institutes are shown in Fig -1

Figure 1: Categories of Fee Structure V/S Category/type of Institutes



FROM ALL THE THREE CATEGORIES A, B AND C THE HIGHEST DIFFERENCE IS OBSERVED IN "B" CATEGORY OF INSTITUTIONS.

In the light of the above facts, following findings have been deduced:

The major source of income in educational institutions is income from fees. Indian B-Schools have to follow the norms for fees as given by the AICTE / UGC / State Government. There are other issues which are closely linked with the fees structure which are as under:

- Scholarship to the meritorious students
- Salary to staff and
- Expansion and up gradation of infrastructure facility

B-Schools have to fulfill all the above parameters with the constraints imposed by AICTE/UGC or State Government for charging fees. All these compulsions and constraints create new vistas of problems and opportunities for B-Schools. Majority of "A" grade institutions have started generating money from other sources like organizing faculty development programmes, management development programmes and offering consultancy to industries. This finding is also supported by the survey conducted by **Premchand Palety**, entitled "*New-Age Schools the Rising*", in Outlook (September-19, 2005, Pp-36-37)

#### INTAKE CAPACITY

The response received from various management institutes in respect of the component intake capacity has been reported in Table -2

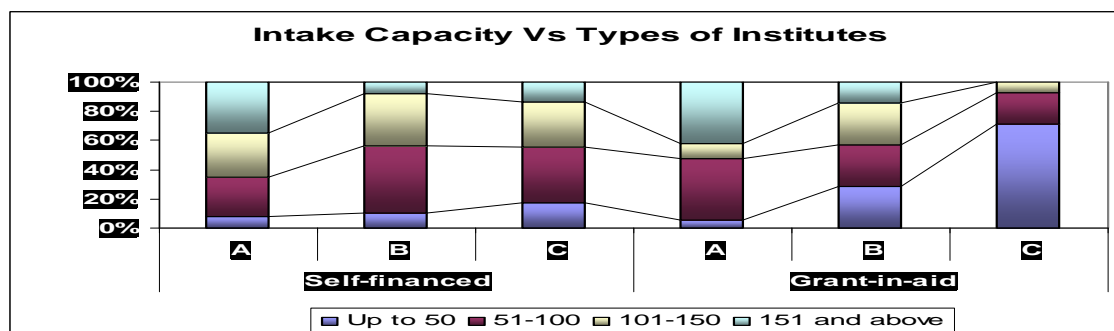
**Table: -2: Intake Capacity V/S Type / Category of Institute**

Intake capacity	Self-financed institutions			grant-in-aid			Total
	A	B	C	A	B	C	
Up to 50	2	4	5	1	6	10	28
51-100	7	18	11	8	6	3	53
101-150	8	14	9	2	6	1	40
151 and above	9	3	4	8	3	0	27
Total	26	39	29	19	21	14	148

From the Table-2, it can be observed that the highest number of institutions i.e. 53 have an intake capacity between '51-100', followed by 40 institutions have an intake capacity between '101-150' irrespective of grant-in-aid institutions and self-financed institutions.

The detailed analysis of the different category of institutes 'A', 'B' and 'C' for both self-financed and grant-in-aid institutes has been shown in Fig -2

**Fig: 2: Intake Capacity V/S Category/type of Institutes**



FROM ALL THE THREE CATEGORIES A, B AND C THE HIGHEST DIFFERENCE IS OBSERVED IN "C" CATEGORY OF INSTITUTION.

#### TEST OF ASSOCIATION: INTAKE CAPACITY V/S / TYPE/CATEGORY OF INSTITUTE

The above facts have been further verified by the test of association i.e. chi-squared test. The result of chi-squared test has been reported in Table -3

**Table -3: Chi-Square Tests: Intake capacity V/S /TypeCategory of Institute**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	50.336(a)	15	0
Likelihood Ratio	45.508	15	0
Linear-by-Linear Association	12.262	1	0
N of Valid Cases	148		

$H_0$ : There is no significant relation between intake capacity and Category (A, B, C) category of the institute.

P value = 0 or p value < 0.05



It is therefore, Null Hypothesis is rejected. It means the chi-squared test revealed the significant association between the intake capacity, and the category of institute. From the chi-squared output table number -3 we see that a significance level of 0.00 (Pearson's) has been achieved. This means that chi-squared test is showing a significant association between the above two variables at 100% confidence level (100- 0 obtained).

Thus we conclude that at 100% confidence level or when  $p$  value  $< 0.05$ , the two variables are associated significantly with each other. This leads us to conclude that intake capacity plays a vital role in the grading/ type of an institute.

However, when we dropped the categories i.e. A, B and C and focus on type i.e. self financed V/S grant-in-aid following result is obtained.

**H<sub>0</sub>: There is no significant relation between intake capacity and Type of B-Schools (Self-financed V/S Grand-in-Aid)**

**Table -4: Intake Capacity V/S Type / Type of Institute**

**Crosstab**

Count		q-6 What is the intake capacity of M.B.A programme?				Total
		up to 50	51-100	101-150	151 and above	
q 2b is your institute is self financed	No	17	17	9	11	54
	Yes	11	36	31	16	94
Total		28	53	40	27	148

**Table -5: Intake Capacity V/S Type of Institute (Chi Square Test)**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.125 <sup>a</sup>	3	.011
Likelihood Ratio	11.045	3	.011
Linear-by-Linear Association	2.972	1	.085
N of Valid Cases	148		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 9.85.

Result shows that there is no significant relationship between intake capacity and type of institute (Self-financed and Grant-in-Aid). However, if the level of significance is increased to 10%, there exist a significant association between intake capacity and type of institution.

**In the light of the above facts, following findings have been deduced**

Intake capacity has a direct relevance to revenue and cost. The demand and supply gap tempts the self financed institutions to grab the growing market share whereas grant-in-aid institutions are not pro-captive in grabbing the opportunity. However, mere increasing in In-take capacity without recruiting full time faculty members may give short term benefit but in long run it is a suicidal attempt.

The other aspects of pricing strategy like scholarship, loan facility, fund raising activities by the leading B-Schools has been collected from the secondary source and how it is useful or important in marketing of B-Schools or designing the pricing strategy (fee structure) is discussed as under.

**SCHOLARSHIP**

Most B-Schools provide financial assistance in the form of scholarship to deserving students. Some of the major institutes providing scholarship are listed below.

**IIM-A**

The following scheme of awarding financial assistance to students is available:

Industry and Other Scholarship (**IOS**)

Scholarship for SC/ST students (**SC/ST**)

Need-based scholarship (**NBS**): Instituted by **IIM-A**

Need-based scholarship (**NBS**) Sponsored by Industry

Government of India Merit-cum-Means Scholarship (**MCM**)

**IIM-B**

IIM-B, some second-year students are selected by instructor to provide tutorial assistance to first year students in selected subjects. Such selected tutors are paid an honorarium.

In addition, a limited number of merit based awards, are available from some sponsors to partially/fully support students' expenses. Awards are currently available from **Citibank, Nestle India, the Ratan Tata Trust and the Aditya Birla group**. A merit-cum-means scholarship form **Bharti Enterprises** is also available for deserving students.

**FMS-Delhi**

FMS has a tie up with State Bank of India for providing loans. Scholarship is provided by **Sanwa Bank Foundation, Nestle India and GE**.

**ISB-Hyderabad**

At ISB about one third of the students get scholarship. The ISB has negotiated with **HDFC, Andhra Bank, State Bank of India** to facilitate loan offers for admitted applicant, at low interest rate, that covers up to **90-95** of the programme cost.

**MDI- Gurgaon**

MDI offers "**MDI Merit Scholarship**" of Rs.1,00,000/- each. "**GE Foundation Scholarship**" of Rs.3 lakh each to two students on the basis of **citizenship, academic performance and leadership capability**. Scholarship by way of tuition fee waiver is also provided to incoming foreign students under exchange programme.

**IIFT**

Under Need based scholarship scheme, interest payable on educational loans of **Rs.1.5 lakh per annum** up to a maximum period of two-and-a-half years in borne by IIFT in respect of all students who avail educational loans from a bank and whose family income is less than Rs.2.5 lakh per annum

Differential pricing, based on consumer willingness to pay may also be utilized for the education service. The practice of charging fees for the sponsored candidates and the non sponsored ones is common in professional courses, so is the practice of charging differential fees from full time and part time evening participants of the study programme.

**LOAN FACILITY**

MBA is an expensive course to pursue. Such sum of fees can throw most middle classes house hold budgets out of gear. But help is at hand. Almost every institute offers tie up with the banks. Several banks offer reasonably priced students' loans that cover the **cost of tuition fees, boarding and lodging expense, and cost of books and laptops, other incidental expenses and in some cases, even the cost of travel**. State Bank of India, Oriental Bank of Commerce, Corporation Bank, Canara Bank and Bank of Baroda and several others offer loans that include **moratoriums** on repayments till **6-12** months after the completion of course.

Most banks give loans of up to Rs **8-10 lakh** at rates of **10-11 per cent per annum**. These loans are for duration of up to **7 years**. You may have to pay **margin money of 5 percent of value of loan** and may also need to furnish a third party guarantee or collateral security if the loan amount is large. But most banks don't insist on these for loans of up to Rs. 4 lakh.

**FUNDRAISING**

The performance of Dean should have the criteria of how much money he/she has raised. Fund raising should not be considered as a secondary activity. However, without the active cooperation of all the faculty members and alumni fund can't be raised. All three has to work in harmony. B-School must create its fund raising team and it has to be headed by the director of development who reports to the Dean of the school. In addition, schools should hire expert fundraisers or firms that help in this effort. These funds are in addition to those saved by the school from its own investments, tuition fees, overheads on research grants & institutional consultancies. There are three broad constituencies from whom funds are raised: the alumni, development & family foundations, and corporations. Surviving only on tuition fees creates many constraints for the institutes to design state-of-the-art infrastructure facility, scholarship to meritorious students etc. Institute must raise fund so that they should meet the above mentioned requirements without diluting the quality of the students and staff. For example Spring University of US has raised huge endowment fund which will take care of all the overhead for the next 50 years. The B-Schools must create corpus to take care of expanding and upgrading infrastructure without charging very high tuition fees from the students.

The fund raising team meets potential donors, make presentations, and distribute fundraising dossier. The donor is patiently and systematically engaged with the school and its activities. Once the campaign is over, the donors are formally acknowledged both privately and in public. Most B-Schools name buildings/chairs/centers after the donors, place plaques outside facilities like classrooms/dining facilities/recreational facilities etc. and display names of donors who contribute significantly at a prominent place on the campus e.g IIM-A has Kasturbbhai Lalbhai Management Development Centre (KLMD), ISB has raised huge fund from corporate houses and constructed the lecture hall or centre of excellence in the name of corporate house or donors e.g Reliance Lecture Hall, Wadhvani Centre of Entrepreneurship etc. As it may be obvious, fundraising is done by a dedicated team of people at the school with lots of help from people outside the school both in its planning and implementation. Interestingly, most management institutes appoint members on the board with a potential to contribute directly or help raise funds for the school. Fundraising by these schools is done globally.

**FINANCIAL RESOURCES**

The B-Schools raise huge financial resources along with the market driven tuition fees. It is worthwhile to consider market driven fees with large number of scholarships to students who are meritorious and unable to fund their education. Building of corpus is essential to develop state-of-art educational facilities, acquiring academic resources do develop new programmes and to enhance existing ones, and for providing competitive compensation (without being a burden to the government) so that they can attract best of faculty. Professional Manager should be appointed who can help in raising the fund through donation and also market the short-term or Management Development Programme of the institute to raise the fund. B-Schools also need to learn about nurturing relationships so that well wishers can bequeath resources to the school.

School leadership may develop events where such well wishers could be engaged with the school. Another possibility could be resources generated through sale of intellectual property developed at the school (e.g., IIM-A sales case study developed by IIM-A). Schools that invest in research will be able to develop these and other new opportunities for raising resources for various activities.

### CONCLUDING REMARKS

Price is the only P in marketing mix which generates revenues. Rest of the P's is cost oriented. The cash flow of the institute depends upon the amount generated by proper pricing i.e. fees. In all types of business the cash flow takes place through out the year but in education the major chunk of cash takes at the beginning of the academic year. All the activities, expansion programmes, salary of the staff and upgrading of infrastructure is totally depend upon the price. Intake capacity has a direct relevance to revenue and cost. The demand and supply gap tempts the self financed institutions to grab the growing market share whereas grant-in-aid institutions are not pro-captive in grabbing the opportunity. The survey results also revealed that there exists the significant association between the intake capacity, and the category of institute. However, there is no significant relationship between the intake capacity and the type of institute (self-financed V/s grant-in-aid). Of late many management institutions started generating money by organizing management development programme and other short term courses. The importance of price gets multiplied in the environment of competition and withdrawal of the government's funding. Therefore, we can conclude that pricing is the most important element in designing the future programme.

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