UCSC Extension in Silicon Valley: Early Enrollment Incentives

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INTRODUCTION

An economically healthy continuing education institution thrives or declines on its ability to offer courses that sufficient numbers of students want to enroll in and do in timely fashion. A key metric associated with this is the percentage of courses offered in any given quarter that are cancelled. Low cancellation rates contribute to institutional stability economically as well as to greater organizational productivity by sustaining efficient use of staff, facility, instructional, and marketing resources.

Many variables can affect course cancellations:

- the relevance of and demand for the content;
- the pricing of the course versus competitive offerings;
- the scheduling and location of the classes;
- the skill and reputation of the instructor;
- word-of-mouth circulating among current and past students (or more broadly, public relations);
- the availability of reasonably priced instructional materials;
- and the stature of the institution in its community.

Another easy to overlook factor is the timing of registrations for the course. Controlling this variable can significantly reduce the economic risk associated with deciding whether to hold courses open or cancel them. Course cancellations can have a significant negative financial impact on the viability of an institution.

To quantify this, University of California-Santa Cruz (UCSC) Extension in Silicon Valley conducted long-range tracking of the impact of early registration incentives against several key metrics. The director of our largest department, who eventually became our head of enrollment, initiated the effort, which showed that well-conceived, tightly implemented incentives could have a substantial beneficial impact on a continuing education operation.

BACKGROUND

UCSC Extension is a 40-year-old institution with continual presence in its primary territory in Silicon Valley. During the Internet boom years, enrollments ballooned to 52,000 per year. To support this level of demand, Extension offered hundreds of programs and operated five geographically dispersed facilities with 300 employees. After the 2001 dotcom bust, the adult continuing education market suffered throughout the region. Most notably, San Jose State University terminated all its public professional development programs. And symptomatic of the overall state of the continuing education market, UCSC Extension did not experience a windfall of enrollments even in a downturn.

The decline in UCSC Extension's enrollments coincided with a change in leadership. Extension's new dean began the systematic retrenchment of the institution by aligning costs with revenues. Over a three-year period a series of reductions ensued: 60 percent of staff was cut; 33 percent of programs were curtailed; and two of the five facilities were closed. Marketing investment remained robust, but catalogue frequency was reduced from four to three issues per year. In addition, substantial resources were put behind expanding corporate training programs. Nevertheless, enrollments remained in double-digit decline and revenue continued to track downward.

The high rate of course cancellations—regularly 30 percent of courses offered—associated with declining enrollments resulted in wasted staff time, unutilized instructional content, low return on marketing investment, and the eventual closing of a third facility.

STRATEGY AND OBJECTIVES

The strategy for addressing the problem was very simple: give students an incentive to register early. Although this could easily be mistaken for a marketing tactic, it was a strategic initiative to staunch and reverse the enrollment decline, with four objectives:

1. Grow enrollments: Extension was under a mandate to grow or shut down. Hence, reversing the enrollment decline was the key objective. Without restoring enrollment growth, long-term viability could not be reestablished. So, any incentive had to have a measurable impact on the key driver of the business—enrollments.
2. Maintain positive revenue: If a price incentive were to be offered, it had to be more than revenue neutral, otherwise enrollments would be dissociated from rather than drive revenue. Our economic revival depended on growing revenue while growing enrollments.
3. Reduce cancellations: Course cancellations had a marked negative impact on morale and productivity, debilitating program support staff and artificially inflating their workload every quarter. Facilities staff responsible for allocating classrooms to accommodate the full roster of scheduled courses similarly felt the impact. Finally, instructors lost faith in the institution's inability to attract sufficient students to their courses, and recruitment was an issue. Thus, course cancellations represented a global problem for the organization, one that had become a structural impediment to the successful conduct of the business.
4. Establish differentiation: UCSC Extension had been marginalized by educational institutions that were larger, had greater market presence, and offered degree programs as alternatives to their continuing education unit's certificate programs. However, the UCSC main campus was 40 miles away, on the far side of the Santa Cruz Mountains. This geographic dislocation, combined with the campus's implied location—Santa Cruz—made it difficult for UCSC Extension to establish itself in the market. To have a hope of being competitive, UCSC Extension needed some meaningful point of difference. Given the impact of market instability on the economic vitality/viability of our direct competition, we concluded that discount pricing was an approach that none of our competition would embrace. Because the price reduction could be substantial to the prospective student, we would be able to establish "value" as a meaningful point of difference.

In order to ensure that we would capture incremental revenue, we instituted an across-the-board 12 percent price increase to offset the early registration discount, an effort similar to stepping on the accelerator and the brakes at the same time. The concept of fractional redemption is widespread—supermarket coupons, for example, are used to increase the pool of purchasers, and however temporarily, the higher percentage of purchases far exceeds the actual amount of the discounts of redeemed coupons. While there was anxiety about introducing the pricing incentive, the situation of UCSC Extension called for dramatic measures.

Implementation

Offering a price incentive to secure enrollments up front and reduce cancellations implementation required a multidimensional effort. The program had six key components:

1. Ten percent early registration discount: Implemented in time for the summer quarter, this rate was already in use for special affiliations and group discounts.
2. Enterprise system reprogramming: Software had to incorporate new pricing and expiration fields, and staff had to enter the data.
3. Catalogue reformatting: We created a new layout for course listings that carried twice as much pricing information in the same space.
4. Qualification policy: Registration had to be completed more than 14 days before the first session of a course.
5. Enforcement policy: To prevent enrollee abuse and staff misuse the academic department head had to approve all exceptions.
6. Marketing communication: Everything in production was revised to mention the discount: website, e-mail, and catalogue.

Implementation of the early enrollment discount was not easy. It was important to build consensus among the support and facilities staff, who constituted half the employees in our now dramatically smaller institution. Their work volume and procedures were significantly affected. During the prelaunch, skepticism among operational, registrarial, and publications staff was high, almost entirely associated with the incremental workload. In addition, the marketing department was not happy about the imposition of a program by the academic side of the house.

During the first year, students repeatedly tried to get the policy overridden to evade the registration deadline. The most common tactic was calling as many people as they could until someone relented. However, line

staff and department heads held firm, which contributed meaningfully to delivery of the results.

Measurements

Five metrics were used to evaluate the impact of the early enrollment discount program, which began in the first quarter (summer) of UCSC Extension's fiscal year 2007-08:

1. Course cancellation rate: percentage of courses cancelled after being marketed.
2. Paid seats: net of all enrollments for free events and corporate training, neither of which qualified for the discount.
3. Revenue: total dollar volume generated from paid seats.
4. Revenue composition: percentage of regularly priced versus discounted paid seats.
5. Enrollment timing: percentage of enrollments registered 15 or more days before the class start date.

We tracked in-market performance data across three fiscal years. In order to ensure that the incentive was associated with enrollment growth and that all the data were consistent, we used a "versus same period year ago" basis for the year over year comparisons. It should be noted that our institution's marketing investment declined from Year 1 to Year 2 following the introduction of the incentive program. By the end of Year 2, the marketing budget was 40 percent lower than the base year prior to Year 1. In Year 3 marketing spending was flat versus Year 2; however there was appreciable change in the marketing mix. Hence, we do not consider the enrollments reported below to be attributable solely to temporary pricing incentives.

RESULTS

Course cancellation rate

Course cancellation rates have plummeted from 24 percent in the base year to 5 percent in Year 3, demonstrating that early enrollment incentives can have a dramatic, positive impact on business predictability. While zero cancellations would have been the best outcome, the 79 percent reduction represented a strong positive shift from an unacceptably high to a manageable level. Although we are encouraged by what has been accomplished, we are working to reduce this even further.

Paid seats

In Year 1 paid enrollments declined only 2 percent compared to a 10 percent loss a year earlier. In Year 2, enrollments grew 3 percent, the first growth registered in the decade. Year 3 evidenced robust growth—an 18 percent gain in paid seats.

Revenue

Typically, the institution's revenue performance closely parallels the production of paid enrollments in traditional classroom programs. Although revenue from paid enrollments continued to decline through Year 2, this was the function of ongoing restructuring; approximately one-third of the total curriculum was eliminated, including all arts, humanities, lifelong learning, second language, international, and corporate training programs. At the same time, further staff reductions were taken, by a similar amount, and two of the remaining three facilities were closed. By the end of Year 2, UCSC Extension had a single venue supported by a total workforce of 36 full- and part-time employees. In light of this, the 5 percent revenue falloff in Year 2 was respectable. The increase in paid seats more accurately reflected the vitality of the remaining core curriculum. This strength was evident in Year 3 revenue from paid seats, which grew 21 percent.

Revenue composition

As expected, the mix of revenue from full versus discounted enrollments shifted strongly over the first three years of the program. In Year 3, 76 percent of revenue from paid enrollments came from early registrants. The progress has been steady year over year, beginning in Year 1 when half of revenue was generated from early enrollments. The following year again showed strong movement in the revenue mix to 68 percent from early registrations.

Enrollment timing

Mirroring the shift in enrollment-revenue composition, the shift in the timing of enrollments posted nearly identical results: 75 percent early enrollments in Year 3. The pattern in Years 1 and 2 also paralleled the shift in revenue composition.

DISCUSSION

Most of the anxiety among senior management centered on the potential negative financial impact of the incentive. The fears proved unwarranted

even as redemption increased over the long term. Because a 12 percent price increase was built into the program, the 50 percent redemption rate in Year 1 netted average per course revenue gains of 6 percent. Had no further pricing action been taken throughout the program, the same metric would have been 3 percent in Year 3. But programs have continued to adjust pricing. In some instances, they have selectively increased prices of individual courses, reflecting targeted demand. In other cases, programmers have increased prices annually for entire program curricula. Because pricing activity is dynamic, per course revenue has actually grown despite a 75 percent redemption rate. And far from alienating students or undermining their perception of quality, overall demand for our core programs has grown consistently throughout the life of the incentive: total enrollment and average class sizes are both trending upward.

Another concern was the impact on our institutional image in the marketplace. Some senior managers expressed discomfort that an institution of the University of California's stature would stoop to offer a discount. They overlooked the fact that this strategy is employed by high-profile, high-status organizations of all kinds, including UCEA, who offers an incentive to register early for conferences. The feeling was that it smacked of desperation and, for that reason, risked tarnishing the image of the parent institution—meaning UC Santa Cruz—as well as ours. This sentiment overestimated UCSC Extension's prominence in the Silicon Valley marketplace and underestimated our financial straits.

In the final analysis, the problem did not materialize. A quantitative survey of the customer base in Year 2 indicated that the image of the institution was strong in part because of its association with the flagship University of California brand. UCSC Extension's image was equally strong among current customers. Since this was a point-in-time survey, not a pre-post, we do not know whether this reflected a change in perception, but by all indications, the early registration incentive reinforced our students' relationship with the institution. Not only did they rapidly shift their registration behavior the way we wanted, but they have also tolerated pricing actions in every curriculum. Demand for our offerings is stronger than ever and we are increasing paid enrollments and attracting new students at a record pace.

CONCLUSION

The case of UCSC Extension in Silicon Valley suggests that any continuing education organization struggling with high course-cancellation rates can benefit from offering incentives to customers to modify their behavior in ways that are beneficial both to the enrollee and to the institution. Greater predictability in course offerings/schedules is good for both parties. Students will get to take their chosen courses when they want to and programs will be able to count on the revenue expected from the courses they schedule. This kind of reliability for customers and predictability for continuing educators makes for sustainable enterprises. Well-conceived, closely tracked promotional incentives can be an important part of the mix for continuing education operations. Strategic use of incentive pricing, when combined with the operational changes necessary to support initial rollout and ongoing implementation, can produce marked performance improvements. And bottom-line impact is where the benefits will be felt most profoundly.