

## **Role of Price in Demand Creation of Service Providing Firms with Reference to Educational Institutions**

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### **Abstracts:**

The objectives of the present paper is to find out the relationship between pricing and demand creation of service providing firms. It is assumed that price is one of the important elements of service marketing. In educational institutions, it is the only element that return revenue to the firms and the survival of institutions highly depend on the fixation of fees. Thus, it becomes necessary to know different types of pricing methods practiced by the educational institutions and also to know the relationship between price and demand. The paper is analytical in nature and based on both primary and secondary data. The primary data had been collected through interview schedule from 62 private schools of Hill districts of Assam. The findings clearly revealed that while some institutions are having negative relationship between price (fee) and demand (enrolment) some institutions are found to be having positive relationship.

Key words: Service, Educational Institution, Price, Demand, Enrolment.

**Introduction:**

Education is the fundamental rights of every citizen of the country and also the tool for socio-economic development. Education is being provided by the government as well as the private players. With the increase in the number of private educational institutions, there is increase in the competition among them. A number of Marketing practices are followed by the schools in order to attract and retain students. Among the 7 elements of educational marketing mix, Price is the only factor through which educational institutions earn their income.

As educational institutions are service providing firms, apart from the elements of marketing mix which are seen in tangible goods, like product planning and development pricing, promotional mix and channel of distribution, it has another 3P's i.e. physical evidence, process and people. The service providing firm can be categorised into four groups based on the nature of services. The details are shown in table 1.

Table 1: Category of service provider

a. Producer Services or Intermediate Markets

| Sl. No | Types of Producer Services                                                                                                                                                                                                            |
|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.     | Financial services: banking, insurance and leasing                                                                                                                                                                                    |
| 2.     | Shipping and Distribution: ocean, rail, trucking, air freight, wholesaling, warehousing and distribution                                                                                                                              |
| 3.     | Professional and technical: technical licensing and sales, engineering design services, architectural design, construction management and contracting, other management services, legal services and accounting                       |
| 4.     | Other intermediate services: computer, data processing, communication services (including software), franchising, advertising, other (commercial real estate, business travel, security, postal services, contract maintenance, etc.) |

Source: compiled by the authors from the inputs adapted from I Vasanti & Raghu (2007)

b. Consumer Services or Final markets to private citizens.

| Sl. No | Types of consumers services                                           |
|--------|-----------------------------------------------------------------------|
| 1.     | Retailing                                                             |
| 2.     | Health care                                                           |
| 3.     | Travel, recreation, entertainment                                     |
| 4.     | Education                                                             |
| 5.     | Other social services including Government                            |
| 6.     | Other personal services like restaurants, home repairs, laundry, etc. |

Source: compiled by researcher from the inputs adapted from Venugopal Vasanti & V.N Raghu (2007)

The Service marketing has distinct characteristics which make differences from other form of marketing. The unique characteristics are:

1. Intangibility: Service is intangible which means that the service are performed rather than any action as it cannot be felt, touched, seen like those of tangible goods for e.g teaching is intangible service.
2. Inseparability: Another characteristic of service is inseparability. In case of tangible product it is first manufactured, produced and then consumed but in case of service, it's just the opposite which means that the provider of service cannot be separated.
3. Heterogeneity: Service is provided and consumed by human and thus, service provided cannot be same for all the customers. It is difficult to ensure consistent quality service to its same customer or customers.
4. Perishability: Goods being a tangible product it can be stored but service once consumed by the customer it is gone. It tends to perish in absence of customer.
5. No transfer of ownership: In service, we pay for consumption; as mention educational institution it can never be owned and neither be separated from its provider. The

payment is made for the use of the service rather than purchase of the goods. So, there is no transfer of ownership.

As mention, educational institutions are service providing firm, and like any other business firm, the institutions have to fulfil the need and want of customer in order to survive in the service market. Here the customers are students and parents. With the increase in the number of educational institutions in the market, the competition has also been increased. So, the private institutions become bound to follow the innovative marketing practices.

Price is one of the element of marketing mix and the only element which provides revenue. With the increase in the number of private players in the field of Education, price has become an important element which the private institutions have to consider in order to increase in demand (enrolment). Private institutions are mostly self funded and the survival depends upon the collection of fees from its students. Hence, fixation of fee is very crucial for the private institutions. However, the fees may be collected in different form. A brief review of literature is conducted to find out the types of fees collected by the institution and to find out the research gap. The review of literature is presented below.

Review of literature:

Onyemaechi (2013), Lamb et al. (2004) is of the same view that price is the amount that buyers pay for the service provided; hence, it influences students' enrolment. According to Soedijati and Pratminingsih, (2011), tuition fee is the corresponding price in educational sector and the price needs to be affordable according to the service provided and willingness of the parents to pay. Price involve tuition fee as parents pay for their education and discount offer to the students by schools. According to Alipore, *et. al.*, (2012), price in education marketing include tuition fee, however, there should be provision in giving installments and flexibility in giving fees. From the study of Kemprai (2016), it is revealed that there is a relationship between the change in price and change in number of students which means it gives an impact on the enrollment of students in the private high schools.

Pricing of higher education has become important criteria of discussion for their survival. The value base pricing should be adopted by the educational institution as in value base pricing method the customers view is considered before fixing the fee. The value which are to be

considered are: Highly qualified lecturers, Excellent lecturers, Marketability of graduates, Strong academic reputation, Good research infrastructure, Reasonable tuition fees, World class learning infrastructure, Adequate learning support, Effective support system, World class teaching infrastructure, Efficient administrative staff, Modern support facilities, Availability of financial support, Innovative curriculum, Modern campus, Innovative delivery method. This value can guide the higher educational institution in comparing the merits and demerits of the above value than cost could be ascertained and price could be fixed (Amiz, 2015). Through the activity based data decisions can be made regarding resource allocation, investment decision, adding or dropping new units and pricing decision. Once the cost of services provided is calculated than the cost can be evaluated precisely and pricing decisions can be made which would benefit the schools. In order to calculate the cost the school activity is categories into 16 activities (Coskun & Yilmaz, 2013). The educational institutions should recognise its price variations the value perceived is different customer to customer and if price variation can be determined and understood than the customers' price sensitivity can be known and accordingly price could be fixed. For this price variation is divided into three categories namely: discounting and bonuses, bundling and unbundling and customisation (Jeff, 2022). According to Kotler and Fox (1985) most educational institute depends upon the tuition fees to survive and also covers the expenses incurred by it. So, appropriate pricing strategy has to be adopted by the institute. The pricing strategy are cost-oriented pricing which includes mark up pricing, cost minus pricing, breakeven analysis. Demand-oriented pricing is divided into perceived value, differential pricing and competition-oriented pricing includes going-rate or imitating pricing.

According to Svetlana *et. al.* (2017), In order to achieve educational goal and survive in the competitive service market of Russia, the educational service sector should implement pricing methods like cost method, aggregate method, parametric pricing method, pricing base on current price, method base on demand, competitive method and lastly marginal cost. Pricing method is categories into three parts which are cost-based method, competition-based method and demand-based method. Cost-based method includes target return pricing, break-even analysis, contribution analysis and marginal pricing. Competition-based method includes pricing similar to competitors or according to the market's average price, pricing above competitors, pricing below competitors, pricing according to the dominant price in the market. Demand-based pricing includes perceived value pricing, value pricing, pricing according to the customers need. The research was carried out on the following sector i.e.

banks, transportation and shipping companies, insurance companies, airline companies, information technology companies and medical services. The most popular pricing method to be adopted by the service sectors is the customer-based method (Avlonitis and Indouna, 2005).

A customer is considered as the input as well as the output for the fixation of price. The price to be fixed depends upon the role of the inputs. It should be charge accordingly from the students for attendance. It is seen that the competitive pricing model can help the universities to charge Zero-profit prices and at the same time be competitive (Rothschild and White, 1995). The study was carried out on the five private universities of Malaysia. The study reveals that out of the three pricing method like competition-based method, demand-based method and cost based method; the mostly practice pricing method by the five universities is competition-based method and demand-based method. The cost based method is found not to be used by the five private universities of Malaysia (Maelah et.al. n.d).In the study by Bery & Mukhurjee (2019), the field experiment was conducted at twenty one slum area of Delhi through the tuition centre known as Pratham centre. Firstly a free service was provided to the students but later on in order to survive and earn revenue they used a strategy of first-offer and second-offer was made to the parents of the students. In the first-offer strategy students were given option to choose from different price and in the second-offer once they complete one year of learning and rejoins the centre than they were given a scratch card.

**Research gap:**

A number of studies have been conducted with regard to price in different dimension. However, most of the studies are done in economically developed countries. There is hardly any study which is conducted in remote area of India like hills districts of Assam.

**Research Questions:**

1. What type of pricing practices is followed by service providing firms like educational institutions?
2. What is the nature of relationship between price and demand in service providing firms like education institutions?

### **Research Objectives:**

Based on the above as mentioned research questions, the following objectives are formulated. They are:

1. To find out the type of pricing practices followed by service providing firms like educational institutions.
2. To find out the relationship between price and demand in service providing firms like education institutions.

### **Research methodology:**

The paper is descriptive and analytical in nature; it is also based on both primary and secondary data. The primary data have been collected through interview schedule from the head of institutions. In this study, 62 schools of two development blocks of Dima Hasao district of Assam have been considered. Dima Hasao district is one of the three hill districts of Assam. The period of study is of six years (2014-2019).

### **Discussions and Results:**

1. A number of pricing practices followed by the service providing firm with reference to educational institutions are reported in the review of literature and summary of those practices are shown in table 2. In table 3 the nature of relationship between the price and demand of sample education institutions that is schools is clearly shown.

Here fees collected by the school is equal to price, enrolment of students is equal to demand. From the table 3 it is found that out of the 62 schools, 29 private schools have negative correlation and 33 private schools have positive correlation. Thus, it can be concluded that the nature of relationship differs from schools to schools. For some schools when price increases then enrolment increases whereas for some school when price increases then enrolment decreases.

Based on the correlation value the ranking of the institutions are also prepared. It is also shown in table 3.

Based on the nature of relationship the institutions are divided into seven groups.

This group comprises those schools which have correlation value between

1.  $0 < - > -0.3 =$  Negative weak correlation (14 schools).
2.  $-0.4 < - > -0.5 =$  Negative moderate correlation (11 schools)
3.  $-0.6 < - > -0.7 =$  Negative high correlation (5 schools)
4.  $0 < - > 0.3 =$  Positive weak correlation (15 schools)
5.  $0.4 < - > 0.5 =$  Positive moderate correlation (2 schools)
6.  $0.6 < - > 0.70 =$  Positive high correlation (10 schools)
7.  $0.8 < - > 1 =$  Positive very high correlation (5 schools)

Table 2: Type of pricing in service providing firm:

| Sl. No | Authors & Year                                    | Type of service firm | Title of the study                                                                                      | Type of Pricing                                                                                                                                         |
|--------|---------------------------------------------------|----------------------|---------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.     | Philip Kotler & Karen F.A. Fox (1985)             | College & University | “Strategic Marketing for Educational Institutions”                                                      | <ul style="list-style-type: none"> <li>❖ Cost-oriented Pricing.</li> <li>❖ Competition-oriented Pricing.</li> <li>❖ Demand-oriented Pricing.</li> </ul> |
| 2.     | Michael Rothschild and Lawrence J. White (1995)   | University           | “The Analytics of the Pricing of Higher Education and other services in which the customers are Inputs” | <ul style="list-style-type: none"> <li>❖ Competitive Pricing.</li> </ul>                                                                                |
| 3.     | George J. Avlonitis and Kostis A. Indounas (2005) | Service Industries   | “Pricing Objectives and Pricing Methods in the Service Sector”                                          | <ul style="list-style-type: none"> <li>❖ Cost-based pricing.</li> <li>❖ Competition based pricing.</li> <li>❖ Demand-based pricing.</li> </ul>          |
| 4.     | Ruhanita Maelah                                   | University           | “Pricing for                                                                                            | <ul style="list-style-type: none"> <li>❖ Competition- based pricing.</li> </ul>                                                                         |

|    |                                            |                              |                                                                            |                                                                                                                                                                                                                                                                      |
|----|--------------------------------------------|------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|    | <i>et. al. (2012)</i>                      |                              | Educational Programs at Institute of Higher Education”                     | ❖ Demand-based pricing.                                                                                                                                                                                                                                              |
| 5. | Ali Coskun & Metin Yilmaz (2013)           | Education Institution        | “Pricing Decision in Educational Institutions: An Activity Based Approach” | ❖ Cost based pricing approach                                                                                                                                                                                                                                        |
| 6. | Amizawati Mohd. Amir (2015)                | Higher Education Institution | “Pricing for Higher Education Institution: A Value-Based Approach”         | ❖ Value-Based Pricing                                                                                                                                                                                                                                                |
| 7. | Svetlana Sergeevna Yelena Yuriyevna (2017) | University                   | “The perception of prices by consumer of Educational Service”              | <ul style="list-style-type: none"> <li>❖ Cost method,</li> <li>❖ Aggregate method,</li> <li>❖ Parametric pricing method,</li> <li>❖ Pricing base on current price</li> <li>❖ method base on demand</li> <li>❖ Competitive method</li> <li>❖ Marginal cost</li> </ul> |
| 8. | Sameul A. Olaoye (2018)                    | University                   | “The Effect of Pricing Policy on the student choice of Private             | <ul style="list-style-type: none"> <li>❖ Bundling Pricing.</li> <li>❖ Penetrating pricing.</li> <li>❖ Price skimming.</li> <li>❖ Economy pricing.</li> </ul>                                                                                                         |

|     |                                     |           |                                                                    |                                                                                                                                         |
|-----|-------------------------------------|-----------|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
|     |                                     |           | Universities in Nigeria”                                           |                                                                                                                                         |
| 9.  | James Bery & Priya Mukhurjee (2019) |           | “Pricing Private Education in Urban India: Demand, Use and Impact” | <ul style="list-style-type: none"> <li>❖ First-Price Offer.</li> <li>❖ Second-Price offer.</li> </ul>                                   |
| 10. | Cob Jeff (2022),                    | Education | “How to Price Education Product”                                   | <ul style="list-style-type: none"> <li>❖ Discounting and bonuses</li> <li>❖ Bundling and Unbundling</li> <li>❖ Customization</li> </ul> |

Source: Review of literature

Table 3: Analysis of relationship between pricing and enrolment by using Correlation.

| Sl. No | Name of the School | Correlation Value | Ranking in terms of correlation |
|--------|--------------------|-------------------|---------------------------------|
| 1      | School 1           | -0.18921          | 1                               |
| 2      | School 2           | 0.63679           | 6                               |
| 3      | School 3           | 0.430331          | 4                               |
| 4      | School 4           | -0.06691          | 1                               |
| 5      | School 5           | -0.37784          | 2                               |
| 6      | School 6           | -0.49608          | 2                               |
| 7      | School 7           | -0.03522          | 1                               |
| 8      | School 8           | 0.218235          | 4                               |
| 9      | School 9           | -0.53323          | 2                               |
| 10     | School 10          | 0.26336           | 4                               |
| 11     | School 11          | 0.512786          | 5                               |
| 12     | School 12          | 0.353371          | 4                               |
| 13     | School 13          | 0.432799          | 4                               |

|    |           |          |   |
|----|-----------|----------|---|
| 14 | School 14 | -0.36905 | 2 |
| 15 | School 15 | -0.14402 | 1 |
| 16 | School 16 | 0.406269 | 4 |
| 17 | School 17 | 0.461361 | 4 |
| 18 | School 18 | -0.43652 | 2 |
| 19 | School 19 | 0.895081 | 7 |
| 20 | School 20 | -0.32636 | 1 |
| 21 | School 21 | 0.307349 | 4 |
| 22 | School 22 | 0.764477 | 6 |
| 23 | School 23 | 0.441703 | 4 |
| 24 | School 24 | 0.860672 | 7 |
| 25 | School 25 | -0.4725  | 2 |
| 26 | School 26 | 0.694591 | 6 |
| 27 | School 27 | 0.97439  | 7 |
| 28 | School 28 | 0.105858 | 4 |
| 29 | School 29 | -0.50772 | 2 |
| 30 | School 30 | -0.25633 | 1 |
| 31 | School 31 | 0.753371 | 6 |
| 32 | School 32 | 0.752071 | 6 |
| 33 | School 33 | 0.840473 | 7 |
| 34 | School 34 | 0.61017  | 6 |
| 35 | School 35 | -0.08192 | 1 |
| 36 | School 36 | -0.17984 | 1 |
| 37 | School 37 | 0.674722 | 6 |
| 38 | School 38 | 0.166298 | 4 |
| 39 | School 39 | 0.596285 | 5 |
| 40 | School 40 | 0.576557 | 3 |
| 41 | School 41 | -0.40825 | 2 |
| 42 | School 42 | -0.36116 | 2 |

|    |           |          |   |
|----|-----------|----------|---|
| 43 | School 43 | 0.25     | 4 |
| 44 | School 44 | -0.58333 | 2 |
| 45 | School 45 | -0.25    | 1 |
| 46 | School 46 | -0.09759 | 1 |
| 47 | School 47 | -0.19612 | 1 |
| 48 | School 48 | -0.48666 | 2 |
| 49 | School 49 | -0.65612 | 3 |
| 50 | School 50 | -0.01676 | 1 |
| 51 | School 51 | -0.7786  | 3 |
| 52 | School 52 | -0.29388 | 1 |
| 53 | School 53 | 0.27735  | 4 |
| 54 | School 54 | 0.13484  | 4 |
| 55 | School 55 | -0.75578 | 3 |
| 56 | School 56 | 0.756379 | 6 |
| 57 | School 57 | 0.074493 | 4 |
| 58 | School 58 | 0.750681 | 6 |
| 59 | School 59 | -0.77457 | 3 |
| 60 | School 60 | -0.32216 | 1 |
| 61 | School 61 | 0.813285 | 7 |
| 62 | School 62 | 0.731709 | 6 |

Source: Field Survey

**Conclusions:**

In this study, the authors have made an attempt to understand different pricing practices followed in the educational institutions in general and schools in particulars. There are many different pricing practices followed by the education institutions; they are cost-based pricing, demand-based pricing and lastly the competition-based pricing. However, in the study area no standardized pricing method/ practice in educational institutions is found. The Educational institute should understand and adapt the different pricing method to gain competitive advantages over the rivalry. From the study it is clearly revealed that, there is positive(some institutions) and negative (some institutions) relationship

between the price and demand. Hence, it cannot be denied that price plays a very important role in survival of any private institution like schools. It is suggested that to retain in the market the educational institution should adopt innovative marketing practices.

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