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Our Desire for God

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Because They're Not Full

A New Look at the "New Normal"



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Catholic Schools Fail Because They're Not Full

By Frank Ferguson

Seems simple enough, fill the schools and they will be financially stable. All references to long dead fictional British detectives, notwithstanding.

The problem for many Catholic schools that are struggling financially is that they simply do not have enough students enrolled at the right tuition rates to pay the bills, let alone pay for mounting deferred maintenance and fixed operating costs. In many situations, especially at older schools, pastors and principals see additional students as leading to added costs for teachers, aides, and supplies and so are reluctant to increase enrollment. This zero sum game approach leads to underutilized schools, with empty seats, and lost opportunities for thousands of kids. (1)

Underutilized schools, long thought to be the result of changing demographics and higher tuition rates, are in truth a management problem. While demographics and increasing costs do indeed play a role in the demand for Catholic education, enrollment is in fact, far more dependent on management behavior and sound revenue management practices. Based on our study of hundreds of Catholic schools, operating characteristics like tuition rates, household income, ethnicity, Catholic versus non-Catholic student bodies, and test scores have little or no statistical correlation to school enrollment. Rather, management focus on enrollment and the strategic use of tuition assistance are far better enrollment drivers. Principals and pastors who focus on school enrollment and effectively leverage tuition assistance get more students.

While somewhat counter to conventional thinking in the world of Catholic education, none of this is a surprise to those in the airline, hotel, or cruise line industries. They, like Catholic schools, each run business with inventory that "goes bad" or spoils with time. Airlines know that every empty seat represents lost revenue. Hotel operators live

with rooms that spoil at the stroke of midnight. And cruise lines hate to set sail with empty cabins. To avoid spoiling inventory, they all manage inventory and pricing minute-by-minute to maximize revenue from each available seat and room. As rooms fill up, prices increase - to a point. If it looks as though rooms or seats might go empty, prices on the remaining inventory drop. Not all passengers or hotel guests pay the same price - this is revenue management 101.

Of course Catholic schools are mission driven first, but they too must use effective revenue management techniques to attract as many students as possible. Secular businesses set published rates and use discounts to capture every available customer. It is important not to simply reduce prices across the board, lest the business's value proposition be equally devalued. Similarly, Catholic schools can use tuition assistance rather than reduced tuition rates or discounts to fill partially empty classrooms.

Just as with the empty seats on a half-full airplane or empty cabins on a cruise ship, when the plane takes off and the cruise ship sails, the cost of each empty seat in a partially full schoolroom has already been spent. As a result, any tuition paid by even one additional student falls right the school's bottom-line. Offering significant tuition assistance on empty seats costs a school nothing, but each tuition dollar collected on those same seats has a profound impact on the school's net income and financial viability. (2)

Even a marginal increase in enrollment can be significant. Imagine a diocese with 50, K-8 parochial schools with a total enrollment capacity of 22,500 students. If, like most dioceses these hypothetical schools operate at 70% of capacity, there is room for approximately 6,750 children. Then, if each new student paid just one-third the stated tuition rate (assuming a tuition rate of \$3,000 per year) the schools would realize \$6.7

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million of combined incremental revenue, most of which is pure net income.

Catholic school administrators have long grappled with the "fairness" of variable tuition pricing. Our sense of justice seems violated if one student pays more than another, unless of course, one can afford it and the other can't. Financial need remains the conventional rationalization for discounting tuition. While we would not argue with this approach, we would also offer the parable of the Laborers in the Vineyard (Matthew 20) as an additional guide. The parable of course tells of a vineyard master who pays each laborer the same full day's wage even though only some worked the entire day. The vineyard master cheats no one, but through his generosity offers the gift of a job and a wage to workers who would otherwise go without. In the work of evangelization, we are called to do the same and invite others to join us in this vineyard; no matter when they are called or when they respond the reward of eternal happiness is the same for all. This same spirit of generosity should permeate the work of evangelization which goes on in every venue in which the Church is present, particularly in our schools where our Lord reminds us "Let the children come to me ... for the kingdom of God belongs to such as these." (Luke 18:16). Therefore the mission of evangelization must come before money and perception.

Our many wonderful Catholic schools

represent thousands of classroom vineyards waiting for laborers. By being better stewards of the gifts we have already received, we can fill classroom seats that will otherwise go empty. Filling empty seats means full classrooms and more viable Catholic schools.

It's not just the money. Full schools enjoy many other benefits from a healthy dynamic, including a more engaged student body and parent community. The school becomes not just another decaying part of a dying neighborhood, but a sign of hope and a rallying point for revitalization. It also drives greater parishioner involvement through increased financial support and in-kind-services, even in schools that are predominately populated with non-Catholic students. Of course, more students and parents attract more donors and donor support enabling fixed costs to be spread over a broader community further driving down per student costs.

Finally, full schools mean waiting lists, the ultimate sign that something good, vibrant, and healthy is happening. Full schools are self-fulfilling and self-sustaining if we not only employ sound revenue management practices to fill empty seats, but also keep as our primary motivation and inspiration the generosity of our Lord by constantly seeking ways to make the opportunity of a Catholic education available to as many children as possible.

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(1) In some situations, particularly with inner-city schools, many have argued that there is no student demand even with a zero tuition rate. Framing the problem as a pricing issue of course denies the entire value proposition of the school in question. Alternative school operating models are the solution here.

(2) Revenue management strategies employed in the business world are very sophisticated, driven by complex computer models that track demand continuously. They are also run in tandem with equally well crafted marketing and advertising campaigns. More on how these strategies can be modified to fit the needs of Catholic schools will be addressed in future Tertium Quid articles.

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