The Tagoras Collection

Pricing Online Learning

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From *Balancing Act: The Newsletter* (No. 94: June 2007):

There are only a few really vital aspects of pricing: The perceived value of your offering, the price point, the margin of profit, and the volume of sales. You can materially affect all of them unilaterally.

I ran across the above passage from Alan Weiss, author of *Million Dollar Consulting: The Professional's Guide to Growing a Practice* nearly two years ago when I was attempting to articulate my thoughts about how to price e-learning. It struck me as a good framework at the time, and it still does. Here are some brief thoughts on how these "vital aspects" apply in our current environment.

The Perceived Value of Your Offerings

What you are able to charge for your e-learning offerings – or anything else, for that matter – is dependent upon the value your prospective customers place upon them. It is essential to recognize that this value is a dynamic phenomenon. It changes over time and from customer to customer, and most importantly, you have the power to impact it through your product strategy, marketing efforts, and ongoing interaction with prospects and customers.

When attempting to assess the value that prospective customers might place on your e-learning offerings (e.g., through surveys, competitive analysis, etc.), I believe it is important to lay aside any biases you may have – or assume your customers have – about the delivery method or how online offerings relate to any classroom-based education you may offer. If you start with the assumption that education delivered online is inherently of lower value than classroom-based education that is almost certainly where you will end up with your customers.

Instead, consider the qualities your prospects are likely to value across *any* of the educational experiences you offer – regardless of delivery method - and then determine where each e-learning product fits within your full range of educational offerings.

As a general rule, perceived value of an educational product tends to be lower when,

- the product is highly generic, designed for the largest possible audience
- the product offers users limited or no ability to get input specific to their individual needs
- the intellectual content of the product is produced by an unknown or little known expert
- free or lower cost alternatives to the product are widely known and easy to find

Note also that convenience as a value driver for a product – the driver I most often see associations use for e-learning – almost always correlates with lower perceived value. The reason for this is that convenience is nearly always based on a transactional relationship with a customer rather than a deeper, more nuanced exchange of value.

The bottom line is that e-learning is not an *inherently* low-value offering. You have control over all of the factors above, and the strategic decisions you make about each will drive the perceived value of your offerings up or down. Determine where it makes most sense for e-learning to play a role across the spectrum of educational value your organization offers, and then plan and implement accordingly.

The Margin of Profit

Margin is the spread between what you charge for a product or service and what it costs you to provide the product or service. It is critical to understand how value is perceived and constructed because it is a key factor in determining the top end of this spread. On the bottom end is cost.

A key factor that makes e-learning so attractive for associations and other organizations that sell education is that in theory it offers an opportunity for driving down costs substantially, thus creating the possibility of higher margins by managing the bottom end of the spread. In practice, many organizations do not actually have a good gauge on their underlying costs for creating and delivering e-learning. Many also make the decision to price e-learning significantly lower than their place-based offerings without considering the value factors discussed above or the overall impact on margins. The result is that the full net revenue potential of e-learning is often not realized.

While organizations do not have complete control over value perception, they do have the ability to influence value perception significantly. And certainly they should have control over the amount they invest to construct a desired level of value. In other words, any organization that pursues e-learning strategically and plans properly should be able to achieve and maintain healthy margins. (Or possibly determine that healthy margins cannot be achieved and thus make the strategic decision to stay out of e-learning.)

There is no magic number or percentage for what your margins should be, but whether you operate on a for-profit or a nonprofit basis, my bias is always to try to maximize margins. There will nearly always be downward pressure on prices in the future and you will need to continue to invest in your e-learning offerings. Your margins give you the funds to do that, and the more cushion you can create, the better.

The Volume of Sales

Value is one key factor in determining the top end of your margin spread. Volume is another. High perceived value doesn't get you very far if the size of the market you are targeting isn't large enough to cover your total costs. Put another way, if your total product costs are $100, finding two people who value the product at $40 per unit won't do you much good (you'll lose $20), but finding 5 people who value it at $25 will (you'll make $25).

Seems simple enough, but of course, there is more than a little guesswork involved in determining how many potential purchasers value your product and at what level. This is an area in which organizations selling e-learning can benefit greatly from two essential practices of successful Internet marketers:

- **Test** (and re-test) your market before producing
- To the greatest extent possible, **pre-sell** before producing

Covering these two items fully is beyond the scope of this article, but the general idea is that you can test a product's viability by creating a variety of different promotions for it that ask people to take an action – like, for example, handing over their e-mail address in exchange for additional, valuable information.[1] The response rates to these promotions gives you an idea of how many people are actually interested in the product. Based on the size of this group, you can then run an introductory offer at a price designed to at least cover your fixed production costs.

I deal with many groups that are in a position to all but skip the first step simply

[1] It is relatively common for organizations to send out a survey asking people about their interest in a particular course topic or set of topics, but this is rarely a sufficient gauge of actual behavior.

by going to a member or customer with the ability to make a reasonably large purchase and setting a per unit price that covers total fixed costs for launching the product. Even in these cases, though, I still recommend doing broader market testing: you may have your downside covered, but you also want to know what your upside might be (i.e., how large your overall market it) to help you gauge how much you should invest in promotion and assess the level of gross margin you may ultimately have available to apply against operational costs.

I noted above that my bias is to try always to maximize margins, but of course this has to be done within the context of volume. You want to sell as much as possible at the highest possible margin, but adjusting margin up or down – assuming costs remain constant – can impact the volume you are able to sell. This trade-off is reflected in the final and most visible factor in pricing – the price point.

The Price Point

Although Alan listed the price point second as an aspect of pricing you can affect, I think it is important to understand value, margin, and volume before attempting to establish the price point. When you have really understood these factors and assessed them in your market, you will have the clearest possible understanding of the right products to create (value), the appropriate range of investment for creating them (value plus desired margin), and the size of your potential market (volume). The price point is the synthesis of all of these factors and it should strike a balance between them that maximizes your net revenue.

In truth, it is likely that you will not establish a single price point for an e-learning product. Because your product will be valued in different ways by different audiences, or segments, within your overall market, it makes sense to vary pricing for these different audiences. This doesn't mean favoring one group with a lower price while pulling the wool over the eyes of another in order to charge a higher price. Rather, because you will have an understanding of value, you can add or remove value based on audience preferences and adjust price accordingly.

For example, a portion of your audience is likely to value receiving credit or some other form of validation for successfully completing an e-learning program. This might be a feature for which you charge extra. So, too, might getting access to a recorded version of a Webinar. And it is certainly fair to give discounts to individuals or organizations that purchase courses or other learning events in high quantities.

What then are typical price points for e-learning in the association market? I am tempted not to cite any because the only other price points that should matter to an organization are potentially those of competitors. (And as Apple, for example, has demonstrated so well, even competitor pricing should be given only so much weight.) Additionally, our research suggests that only 20 percent of associations have any sort of formal process for setting price – which makes me wonder how much thought is being put into value, margins, and volume.

Still, it can be helpful to have some sort of benchmark, however, general, against which to gauge your organization's pricing. We go into much more detail about pricing in our *Association E-learning: State of the Sector* report, but the average price per e-learning content hour in the association sector – based on our survey of nearly 500 organizations – is $56.79. Per credit hour the average is $73.97. So, for example, based on these figures, the average fee for a 90-minute Webinar that offers CE credit would be around $110.

Conclusion

I began this discussion by focusing on value, and it seems important to note as I conclude it that the price point is not only dependent upon perceived value, it helps drive perceived value. Part of what gives a

Mercedes or a Louis Vuitton handbag its sheen of value is the high price point associated with each. To a certain extent, of course, the price is driven by underlying cost. But it is also true that these companies simply have the audacity – the organizational self-esteem, you might argue – to set a premium price. And people gladly pay it.

Few associations, I find, are willing to take such an approach with pricing their e-learning, and perhaps few would succeed if they did. But my suspicion is that most organizations are pricing at a lower level than they need to simply because they have not fully assessed the value – volume - margin relationship. And this is not a trivial matter: it is well established that an increase in price is one of the most effective ways to increase profit. A study by the consulting firm McKinsey & Co. way back in the 1990s showed that a 1% increase in price translates into an 11% increase in profits. On the other hand, increasing volume by the same amount resulted in only a 3.3% increase. Cutting variable costs by 1% resulted in a 7.8% increase and cutting fixed costs – only a 2.3% increase.[2]

Given the need that most organizations have right now for finding new revenue sources and getting more revenue out of existing sources, putting some effort into setting the best possible pricing for e-learning offerings seems certain to be time well spent. ■

[2] This study has been cited in a wide range of places, but I came across it most recently in Todd Sattersten's excellent eBook *Fixed to Flexible*.

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About the Author

Jeff Cobb serves as the managing director of Tagoras, where he heads up the company's consulting and education services. He is an experienced Web entrepreneur who writes and speaks frequently on topics related to social media and the strategic implementation of Web 2.0 and learning technologies for engaging customers and members. **More information about his speaking is available on his personal Web site at jeffthomascobb.com**.

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