Building a Direct Marketing Bridge to High Achieving Students: Introducing a Cost Effective Financial Aid Leveraging Model

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BUILDING A DIRECT MARKETING BRIDGE TO HIGH ACHIEVING STUDENTS:
INTRODUCING A COST-EFFECTIVE FINANCIAL AID LEVERAGING MODEL

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BACKGROUND

The use of financial aid leveraging in higher education is so prevalent that a researcher could cite hundreds of articles on the topic. It is useful, however, to reiterate Avery and Hoxby’s (2003) “rational investor” model of college choice which states that an attractive financial aid package will positively influence a prospective student’s enrollment decision. However, the offering of “extreme,” wildly extravagant discounts framed as grants or scholarships may not be in an institution’s best financial interest. Research by Redd (2000) clearly illustrates that profligate discounting practices can create serious fiscal challenges to those institutions offering them. It therefore becomes critical for enrollment managers to achieve that delicate balance between financial aid leveraging packages and student enrollment objectives.

MODEL

Admission data from a mid-sized regional teaching university was tracked and analyzed over a two-year period. Of specific interest was financial aid leveraging data in relationship to enrollment. The research design incorporated a two phase (two-year) process. In essence, statistically significant data derived in the first year was used to predict successful matriculation the second. The discriminant model utilized standard test scores and high school GPA to predict both [gift money] and [matriculation].

The proposed model provides a unique solution, blending direct marketing and financial aid leveraging practices. In practice, it is a two-step process that identifies high achieving students and determines the minimal financial “breakpoint” for their enrollment. The model
employs a discriminant function that sorts students into three discrete segments (i.e., enrolled, dropped and non-enrolled students) along academic [ACT; GPA] and personal interest [extra-curricular activities] characteristics. This information is then utilized by enrollment managers to craft customized offers and personalized contacts with selected student prospects.

**DERIVATION OF HYPOTHESES**

This research builds and combines earlier investigations: First, Avery and Hoxby’s (2003) “rational investor” model stated that an attractive financial aid package will positively influence a prospective student’s enrollment decision; second, St. John (1994) acknowledged that one central problem for universities is that administrators do not know when or if they have leveraged enough; and third, St. John (1990) found that one hundred dollars of aid (any type) had a stronger influence on enrollment than a one-hundred-dollar reduction in tuition.

**HYPOTHESES AND FINDINGS**

**H1:** An [academic profile] as defined by the students ACT score and High School GPA; can account for a significant amount of variance when predicting [gift money]. Gift money was operationally defined as institutional money awarded independent of State and Local grants, or financial need - Significance was found (F(2, 476) = 48.96 p < .0001).

**H2:** [Gift Money] can account for a significant amount of variance when discriminating between those who enroll from those who do not [matriculate] - Significance was found (F(1, 1098) = 56.61 p < .0001).

**H3:** [Participation Grants] can account for a significant amount of variance when discriminating between those who enroll from those who do not [matriculate]. Participation grants are operationally defined as less than 300 dollars - Significance was found (F(1, 148) = 4.58 p < .03).
DISCUSSION AND IMPLICATIONS

This study examined three hypothesis related to financial aid leveraging. The first \{H1\} looked at the relationship between an institution of higher education granting \{gift\} money and a students’ \{academic profile\}. Findings suggest that students not only receive a certain predictable amount based on their academic accomplishments but have an expectation of receiving such an amount; that is, given the findings in \{H2\}. For as the second hypothesis \{H2\} found; \{gift money\} alone can predict \{matriculation\}. However, given the constraints and nature of financial aid, - not every student receives that “expected” amount of \{gift money\}. Factors the effect the amount of gift money a university will grant, include, but are not limited to: financial need, family contribution or outside scholarship. Thus, though a student may receive the same overall financial aid amount, but the package looks different – hence, cognitive dissonance appears to play an important role. Therefore, it is not surprising that \{H3\} found significance. The implication is that a small amount of financial aid - when packaged as an “add-on” has a significant ability to influence \{matriculation\}.

CONCLUSION

Findings in this study support Avery and Hoxby’s (2003) “rational investor” which postulates that an attractive financial aid package will positively influence a prospective student’s enrollment decision. Likewise, findings suggest that St. John’s (1990) contention that one hundred dollars of aid (any type) had a stronger influence on enrollment than a one-hundred-dollar reduction in tuition is strengthened. More importantly, findings suggest that universities using progressive leveraging models have the ability to predict \{matriculation\} using a linear \{gift money\} discriminant model. Thus, the benefits of using this model of financial aid leveraging within enrollment management is manifold.
In the end, the model as offered is intended to “target” high achieving students. This financial aid leveraging process is not intended for the university as a whole but rather a “sub-population” defined in our case as high achieving (e.g., ACT scores above 30). More specifically, once a formula has been developed, the offered packages can be sorted according to those statistically or theoretically “at-odds” not to matriculate; and then adjust the financial aid package according to “add-on” [gift money] determined by “known” personal interest [e.g. extracurricular activities as listed on the ACT profile]. The major benefit to a university is that it has the ability to sort prospects according to the predicted amount of [gift money] needed to attract the targeted high achieving student. Therefore, the minimum amount of [gift money] can be determined; thus, preventing excessive financial aid leveraging. The final goal is to have enrollment managers to craft customized offers and personalized contacts with selected student prospects.
REFERENCES


