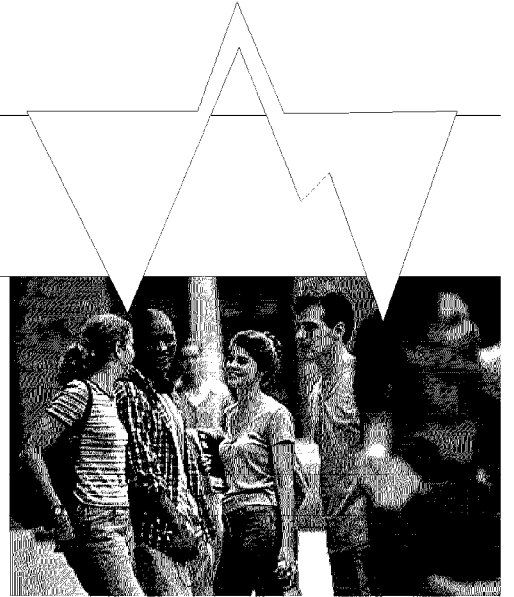


**Excerpts, selected by the HELP Committee, from a larger document**  
**produced by the company**



**Pricing Strategy**  
Discussion Document  
September, 2007



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1

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WP000004122

## Pricing deliberately simplified for 2008 in order to keep us in top quartile of competitors and increase at similar rate

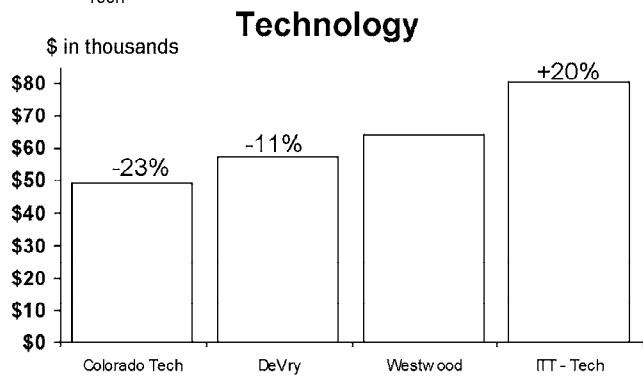
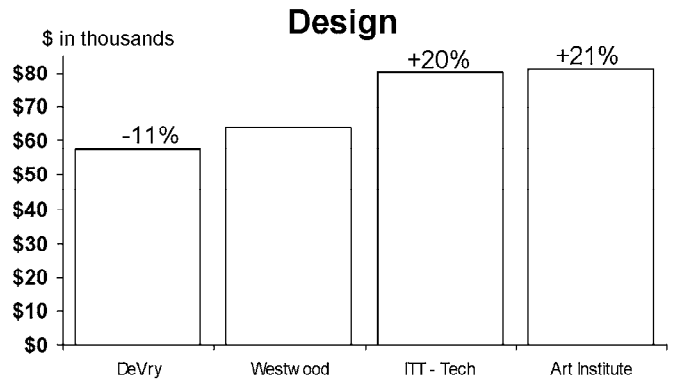
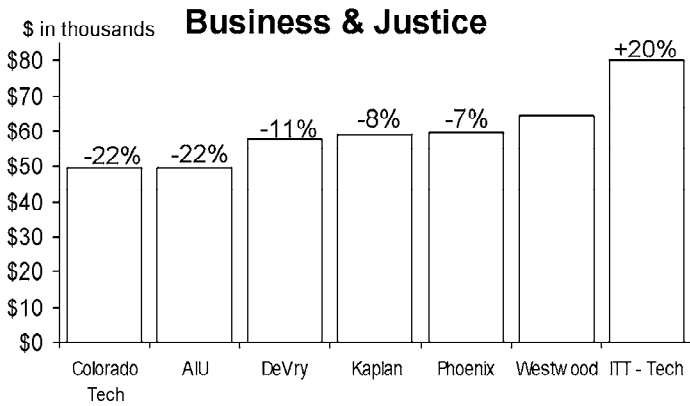
- January 2008 price increase deliberately simplified by precluding variation by region and limiting difference by Institutes
  - Competitive benchmarking indicated that prices are different by market, and price differences by Institutes vary due to different set of onground competitors and local market conditions
  - We are on target to roll out price increase with limited operational challenges. Additional dimensionality such as variation by state will require system changes that will delay rollout
- Current plan is to have Enrollment Agreements ready 1.5 weeks after our October term starts
  - Admissions, RVPs, RA, IT have been actively engaged in the rollout planning
  - Internal communication plan established
  - Typical annual workaround required (telling students price increase imminent), but limited risk if final price can be determined within the next several days
- Next phase of pricing analysis over the next 6 months will analyze feasibility of executing more sophisticated pricing schemes
  - Regionally to reflect true competitive pricing on the ground
  - Bachelor vs Associate
  - Gen Ed vs core courses
  - Online vs onground
  - Full time vs part time
- True differentiated pricing will require system, process and operational changes
  - System must be flexible enough to accommodate multiple price variations along many dimensions
  - Enrollment process and training will need to emphasize the many different prices to minimize confusion
  - Substantial variation by Institute may encourage creative students to game the system by signing up for a cheaper Institute for Gen Ed and then transferring to their desired program. Operational changes need to be made to prevent that
  - Elasticity can be tested by comparing results of like-campus after varying prices, and baked into future budget discussions
  - Regulatory and other constraints can be fully explored e.g. ability to offer scholarships. If HLC approval is obtained in time, flexibility around scholarships will be greatly enhanced
- Additional considerations that will impact pricing decision
  - Qui Tam timing
  - In most markets we are already priced at top end next to ITT and Art Institute, and continued price ups will constrain our ability to test various pricing schemes given earnings impact



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2

## WOL prices are generally higher than competitors



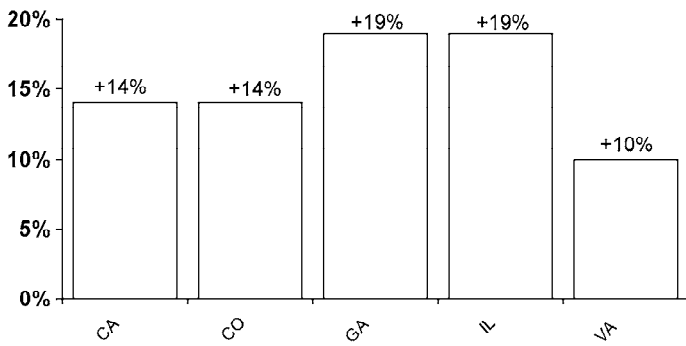
Competitor Price Increases	
DeVry	4%
ITT	5%
UoP	7%
CTU	5%
AIU	2%
Art Institute	4%
Strayer	5%
<b>Average</b>	<b>4.6%</b>



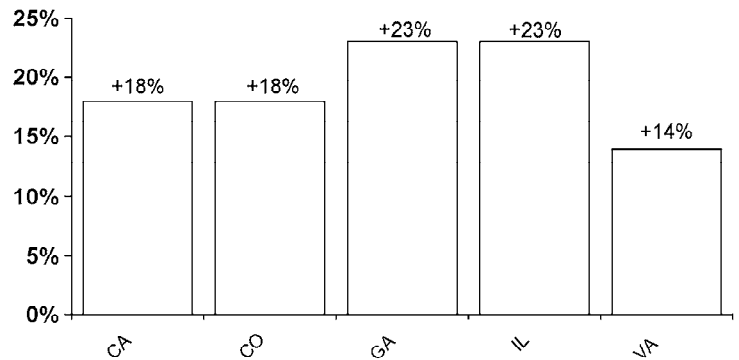
Note: Prices reflect tuition and applicable online fees

Westwood onground prices generally 10% - 20% higher than benchmarked competitors except for ITT in Technology

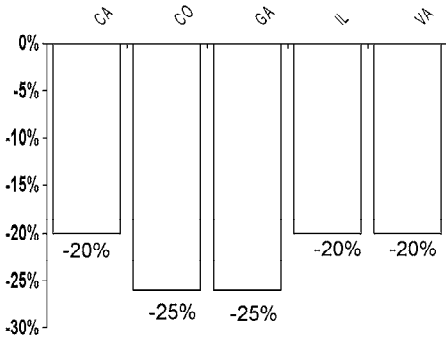
Business & Justice Institutes vs DeVry



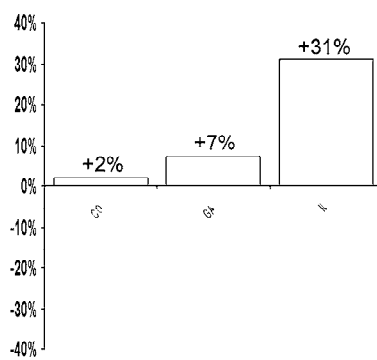
Design Institute vs DeVry



Technology Institute vs ITT

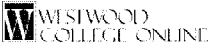


Healthcare vs Various Competition<sup>(1)</sup>

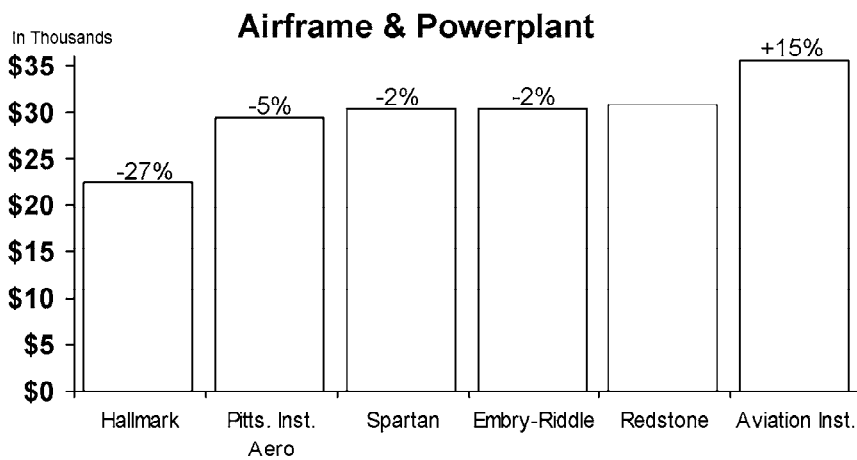


Note: (1) CO: CTU ; GA: South University ; IL: Olympia

Competitor Price Increases	
DeVry	5%
ITT	5%
UoP	7%
CTU	7%
AIU	2%
Art Institute	5%
Strayer	5%
<b>Average</b>	<b>5.1%</b>



Redstone price is comparable to competitors, and competitors are increasing rate by 2% - 7%



2008 Price Increase:	*+2%	+4%	**NA	+4%	+7%
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Prices represent tuition ONLY

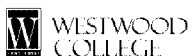


\* - Modest price increase follows two cycles of pricing decline  
 \*\* - Quoted price remains unchanged from last competitive review

**We recommend price increases in Institutes with stronger offerings/brand and reducing/holding constant Business**

WOL	Price Change	Rationale	Student %	Impact
Business	1% online fee	Currently onground 1% more than online. Programs lack differentiation	14%	6.1% effective increase
Justice	1% online fee + 6%	Currently onground 1% more than online. Good programs	11%	Incremental earnings: \$1M vs budgeted
Design	1% online fee + 6%	Currently onground 1% more than online. Good programs	49%	
Technology	1% online fee + 6%	Currently onground 1% more than online. Good programs	26%	
WWW				
Business	-5%	Programs lack differentiation and priced far higher than competitors	12%	4.2% effective increase
Justice	6%	Good and popular programs, increase price to capture value	37%	Incremental earnings: \$1.3M vs budgeted
Design	5%	Good programs, increase price on par with industry	31%	
Technology	5%	Good programs, increase price on par with industry	14%	
Healthcare	5%	Good programs, increase price on par with industry	6%	
Redstone	4%	Good programs, increase price on par with industry		

- Input for recommendations:
  - Competitive benchmarking via mystery shopping and website analysis provided first cut of competitor pricing
  - Restated Lehman report triangulates our competitive intelligence
  - Internal feedback via conversations with Admissions reps and Directors confirmed our analysis
  - Corporate discussions to validate figures and Finance calculations to quantify impact
  - Divisional Presidents and CFO validation of assumptions



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# Appendix



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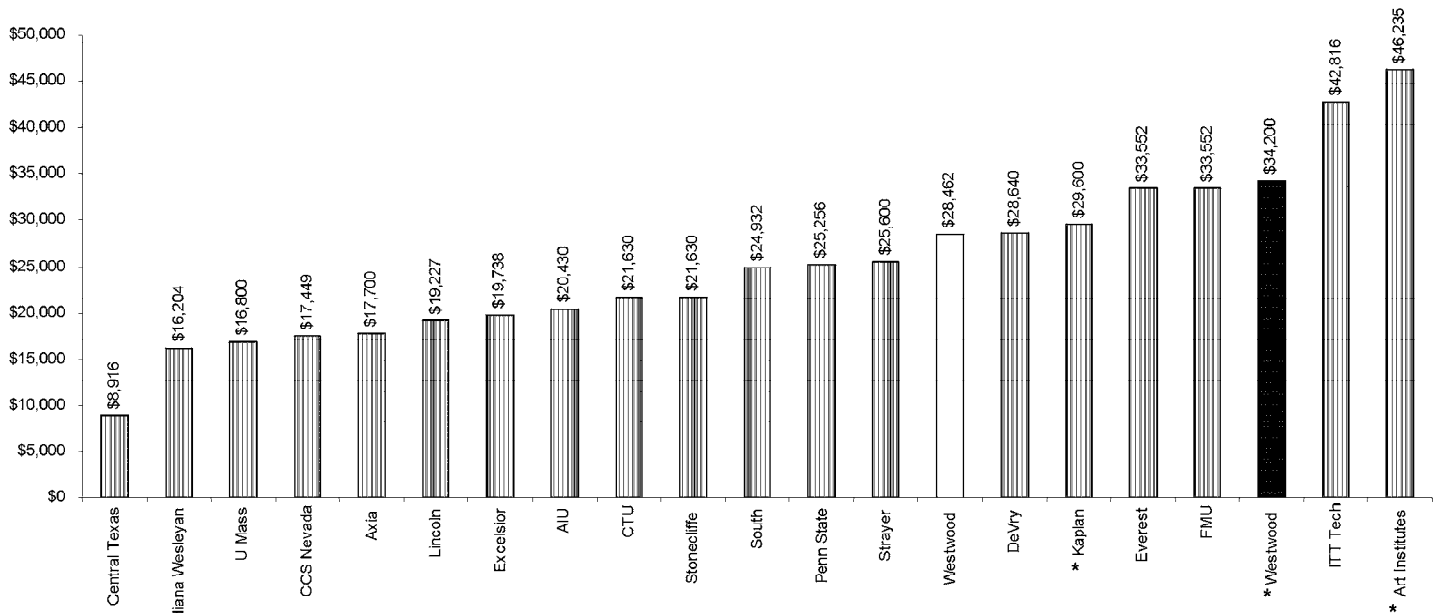
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WP000004128



# WOL has third highest Assoc price when the correct tuition rate is applied and online fees are included

Restated Lehman Brothers September 2007 Online Pricing Survey  
Associate's Degree Online Pricing



Note: DeVry, ITT, and AI rates are restated to reflect most up to date information posted on their website

-- As stated in the Lehman Brothers' September 2007 Online Pricing Survey (Incorrect per credit hour cost (\$266))

-- Updated to reflect accurate cost per credit (\$326 cost per credit average)

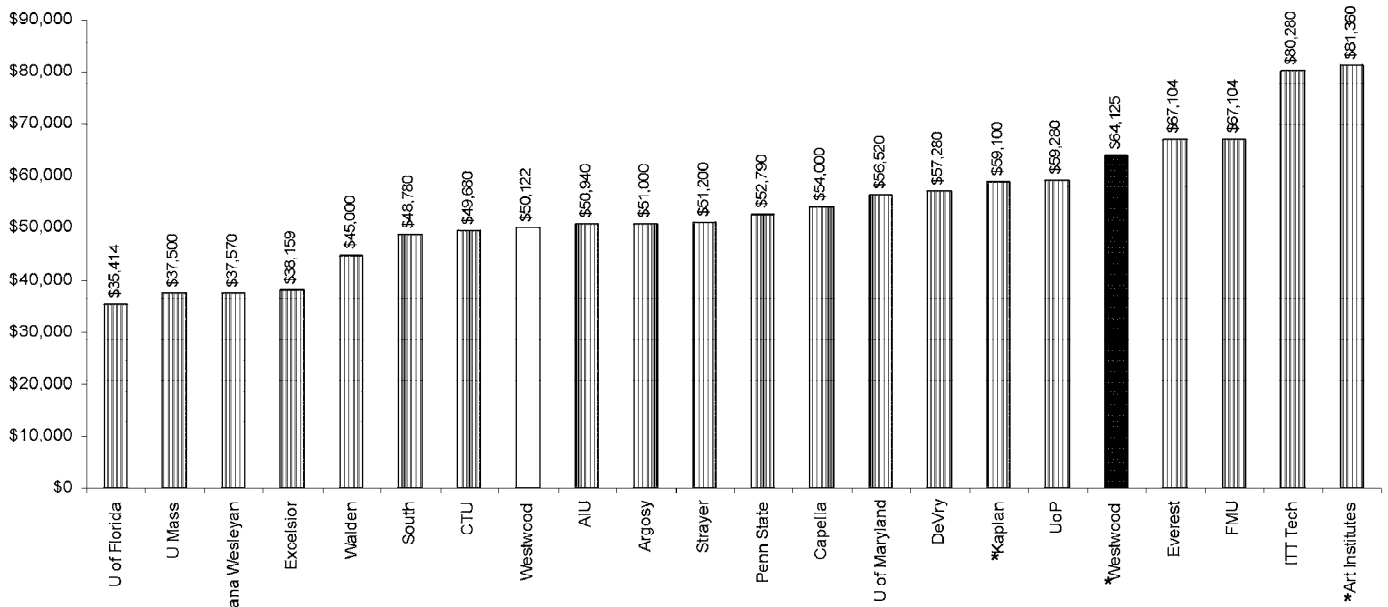
\* -- Updated Westwood (\$30per credit), Kaplan (\$100 per term), and Art Institute (\$100per course) costs to include online fees



Note: Above prices include additional Online fees

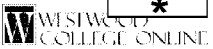
# WOL price for Bachelor is in the top quartile when the correct tuition rate is applied and online fees are included

Restated Lehman Brothers September 2007 Online Pricing Survey  
Bachelor's Degree Online Pricing



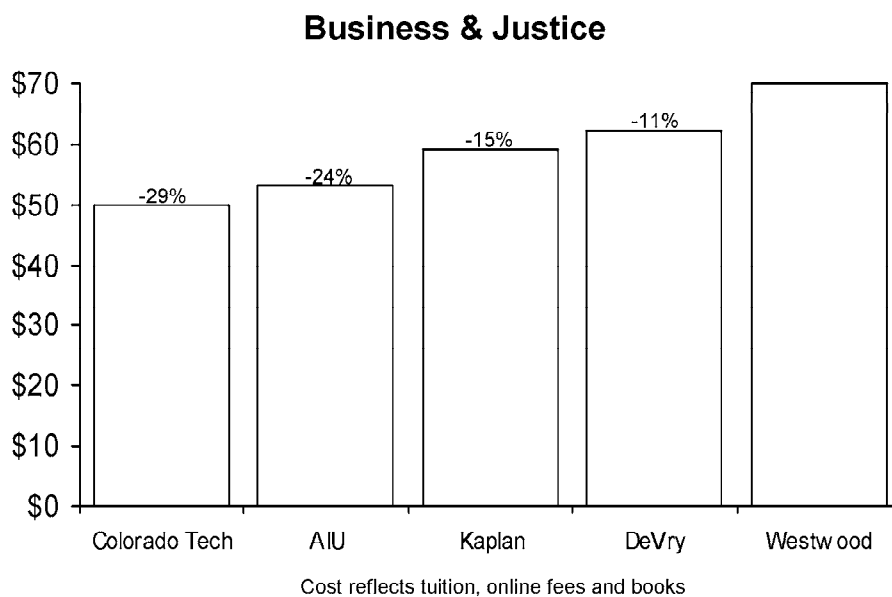
Note: DeVry, ITT, AIU, and AI rates are restated to reflect most up to date information posted on their website

- As stated in the Lehman Brothers' September 2007 Online Pricing Survey (Incorrect per credit hour cost (\$266))
- Updated to reflect accurate cost per credit (\$326 cost per credit average)
- \* -- Updated Westwood (\$30per credit), Kaplan (\$100 per term), and Art Institute (\$100per course) costs to include online fees



Note: Above prices include additional Online fees

WOL price gap versus competition increases when the price of books is added



Above chart shows competition with available data

## Agenda

- Project Description and Background
- Competitive Analysis
- Gap and Financial Considerations
- Implementation Plan
- Next Steps

# Project timeline

	Who	w/o 8/20	w/o 8/27	w/o 9/3	w/o 9/10	w/o 9/17	w/o 9/24	w/o 10/1	w/o 10/8	w/o 10/15	w/o 10/22	w/o 10/29	Nov	Dec
<b>Phase I (Quick and dirty, rudimentary price differentiation)</b>														
<b>Price by market and Institute (may be tier e.g. Tier 1 cities = LA, DC)</b>														
<ul style="list-style-type: none"> <li>Collect local and national competitor pricing e.g. local presence</li> <li>Identify national competition                             <ul style="list-style-type: none"> <li>Update list of traditional nationwide competitors</li> <li>Identify national competition pricing trends</li> <li>Competitive price groupings</li> </ul> </li> <li>Create pricing study template</li> <li>Collect data</li> </ul>	TU/Keith													
<ul style="list-style-type: none"> <li>Interview RVP and ED to understand local conditions</li> <li>Identify local competition                             <ul style="list-style-type: none"> <li>Create local competition template</li> <li>Update list of non-traditional / traditional local competitors by market</li> <li>Identify intensity of local competition</li> </ul> </li> <li>Collect data</li> </ul>	TU/Keith													
<ul style="list-style-type: none"> <li>Macro trends analysis e.g. local economy, demographic, cost of living index</li> <li>Cost of living index / study</li> <li>Compensation surveys (local / national)</li> <li>Cost of goods index</li> </ul>	TU/Keith													
<ul style="list-style-type: none"> <li>Scenario planning and impact quantification</li> <li>Impact on gap</li> <li>Revenue and FRITDA impact</li> <li>Tradeoff and choices</li> </ul>	TU/Keith													
Recommend 2008 price changes by city by Institute to Bud and Dean	TU/Keith													
<b>Phase II (Construct framework to analyze likely elasticity)</b>														
<b>Construct tests to understand true substitution effect</b>														
<ul style="list-style-type: none"> <li>Write project requirements</li> <li>Analyze pricing dimensions that impact students tradeoff decisions                             <ul style="list-style-type: none"> <li>Day vs night</li> <li>By degree type e.g. Bach vs Assoc</li> <li>Online vs onground                                     <ul style="list-style-type: none"> <li>Hybrid &amp; Blended</li> </ul> </li> <li>Full time vs part time</li> <li>Single course (non-matriculating students)</li> </ul> </li> </ul>	TU/Keith Consultant													
<ul style="list-style-type: none"> <li>Recommend new pricing framework and estimate impact</li> <li>Determine most important dimensions that impact pricing tradeoffs</li> <li>Benchmark against competitors</li> <li>Design trial plans with deliberate market selection                             <ul style="list-style-type: none"> <li>Mature markets with limited performance variation</li> <li>Pair wise comparable e.g. LAW as control, LAL as test</li> <li>Not conflicting with other major trials</li> </ul> </li> </ul>	Consultant													
<b>Phase III (Market trials to confirm pricing tradeoffs)</b>														
<b>Analyze trial impact</b>														
<ul style="list-style-type: none"> <li>Trial new pricing over 2 - 3 Terms</li> <li>Isolate and quantify pricing impact</li> <li>Analyze transferability of learnings across markets and dimensions</li> <li>Estimate cross dimensionality e.g. raise Bach price and reduce FT price</li> </ul>	TU/Keith													
<ul style="list-style-type: none"> <li>Prepare for system wide launch</li> <li>Modify system and enhance platform capabilities</li> <li>Engage resource to manage launch as well as ongoing management</li> <li>Enable financial quantification of impact</li> </ul>	TU/Keith													



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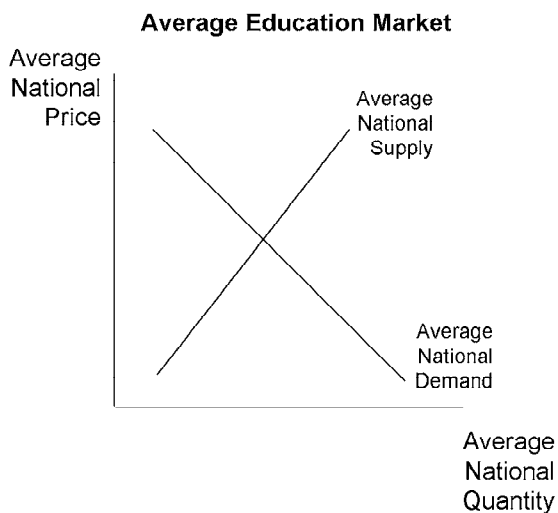
## Project Objectives

- I. Differentiated pricing – prices should reflect the true markets they compete in
  - Market conditions and competition
  - Student's perceived value of education
- II. Leveraging price as strategic tool – achieve other objectives e.g. utilization
  - Tradeoffs students are willing to make for price differences
  - Primarily to adjust for different cost-to-serve
- III. Price elasticity – use price to gain market share and new students
  - Understand true price elasticity
  - If price elastic, strategically lower prices to attract students from competitors as well as prospects who traditionally have opted out due to price
  - If inelastic, price higher in order to achieve growth

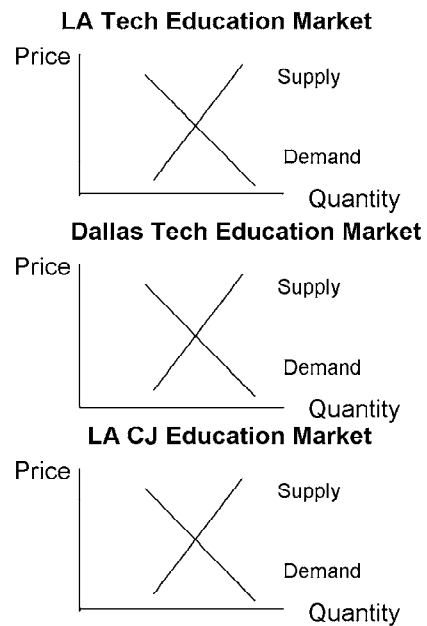
## Differentiated pricing - prices should reflect the true markets they compete in (Sept deliverable)

Traditionally one price fits all, which ignores regional and substantive differences

- LA Tech student pays the same tuition as Dallas CJ student
- LA cost of living is 1.7x of Dallas, and Tech graduate pay is \$65K vs CJ's \$37K
- Locally consumed non-portable items always reflect price variations - a Big Mac costs more in LA than Dallas, and Big Macs everywhere costs more than cheeseburgers
- The key to unlocking value is to understand the true market a product/service competes in - Big Mac market in LA, not burger market nationally



De-average



WESTWOOD COLLEGE ONLINE

WESTWOOD COLLEGE

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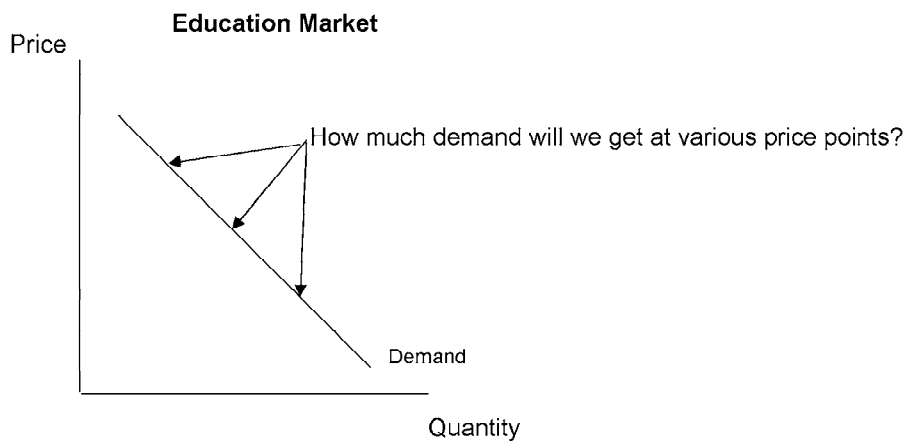
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## Leveraging price as strategic tool - achieve other objectives e.g. utilization (2008 deliverable)

“Yield management” approach can minimize cost or align cost-to-serve with revenue

- Many fixed costs are hard to change in near term e.g. campus lease. Pricing can load balance attendance e.g. day vs night and help drive up utilization
- Cohort size management necessitates shifting classes from offline to online, and pricing difference can help
- Part time students could drive up planning complexity and cost-to-serve in higher administration and Ed wages
- Associates cost more to acquire and serve due to smaller “purchase quantity”
- Airlines utilize yield management and convoluted prioritization and scheduling to equalize demand with price:
  - maximize utilization by charging more for Monday mornings than Wednesday afternoons
  - manage “cohort” size by cancelling flights when insufficient customers for a flight and pay flight vouchers
  - charge more for customers who make planning difficult e.g. last minute travelers
  - retail customers pay more than corporate travelers



 WESTWOOD  
COLLEGE ONLINE

 WESTWOOD  
COLLEGE

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## Price elasticity – use price to gain market share and new students (2008 deliverable)

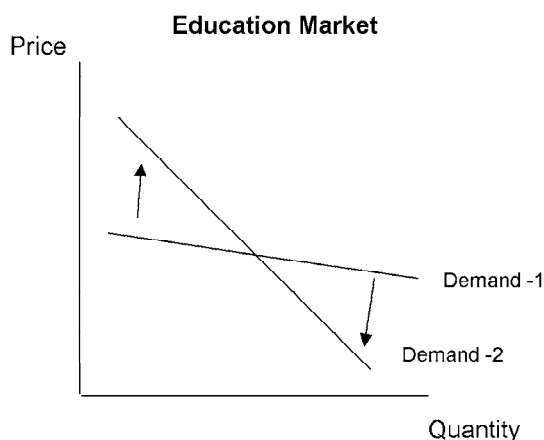
How much do we understand students' price elasticity

- If price sensitive, then lowering prices can win over students from competitors as well as convince prospect to enter market
- If truly price insensitive, price aggressively to maximize revenue per student

In many cases, pricing elasticity levels are only uniform within certain ranges

- Within a band, students may be inelastic e.g. \$1,000 difference for a total cost of \$40,000 may not impact their decision; however, once we go to \$60,000, a \$100 difference may drive a student from one school to another
- The amount of comparison shopping performed by students will skew their sensitivity
- Even companies with monopolistic power e.g. DexMedia enjoy inelastic demand up until prices started to hit a threshold. At some point customers will opt out even if the cost is affordable (or below gap)

Need further analysis in order to construct the right tests, and then trial them to gather data on student elasticity



 WESTWOOD  
COLLEGE ONLINE

 WESTWOOD  
COLLEGE

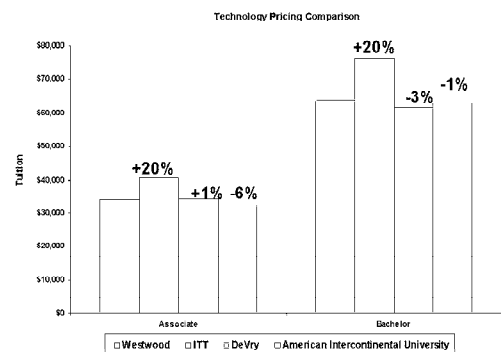
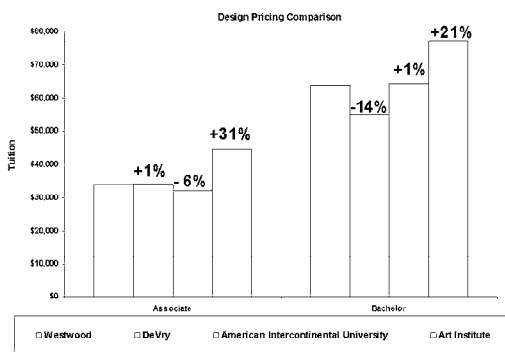
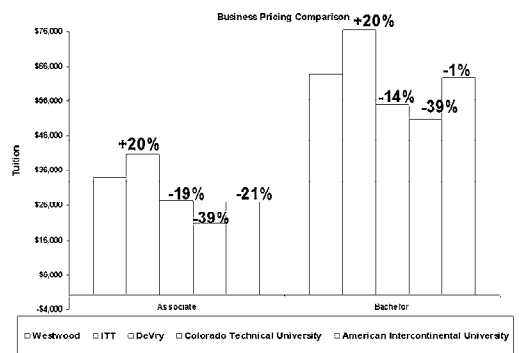
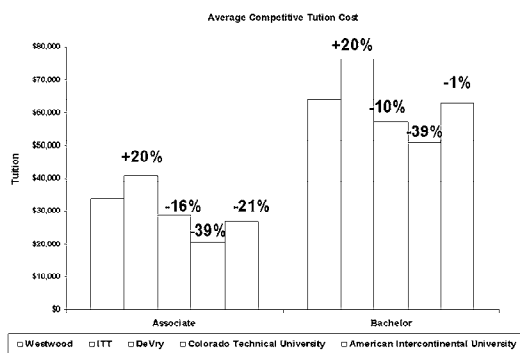
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## Westwood priced higher than some competitors especially in Business Institute



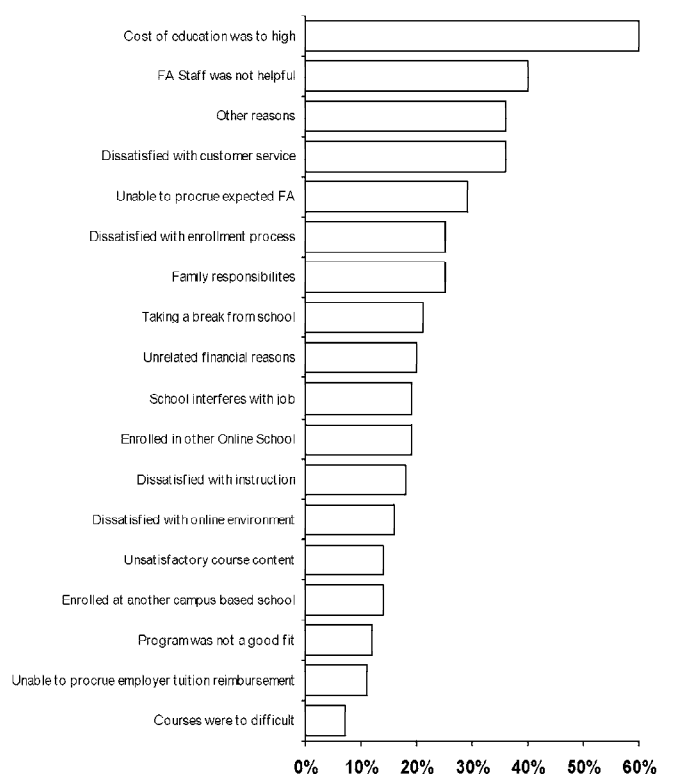
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## Many other observations suggest Westwood is expensive

2005-06 WW Attrition Survey Major Factor Why Students Drop



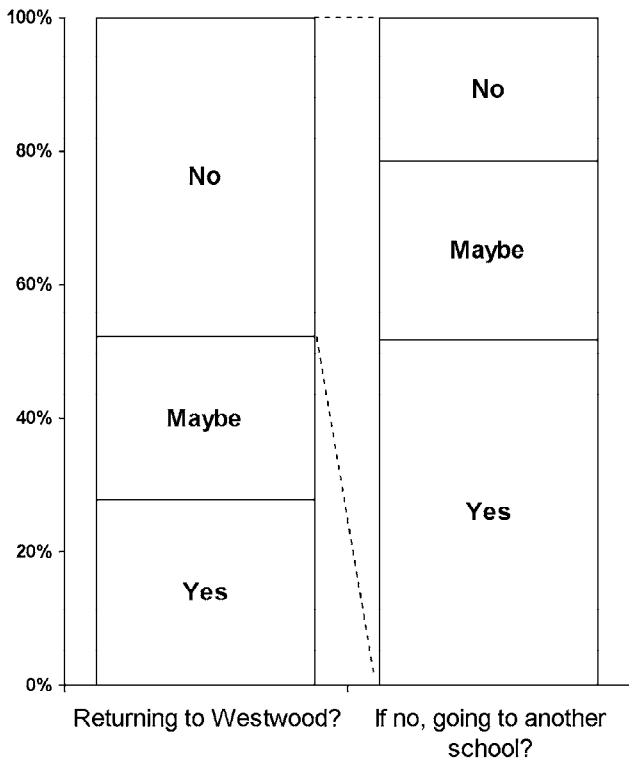
10/2005 WOL Attrition Survey Major Factor Why Students Drop



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## Many students seeking alternative schools rather than drop out completely, probably price shopping

2005-06 WW Attrition Survey of Attrited Students



- “If I had \$60,000 to spend on getting a degree, I would go to medical school.” – 2005 Unconverted Leads Survey

Even in cases where students were positive about us, doubts about cost exist:

- “West wood was a great learning experience and I look forward to getting back in as soon as I can get caught up on some of the financial aspects of the school” – WOL Attrition Survey

Answers to “What do you find lacking about Westwood” by nvision Research

- “Tuition seemed high”
- “Too expensive”
- “Cost too high”
- “Costs too much to attend Westwood”
- “Cost”
- “The tuition is very high”
- “The cost was higher than AIU”

Even where students can afford tuition beyond paying for food and rent, the perceived value (program content, quality of instructors, credit transfers, etc..) is not in line with the tuition costs – April 2006 Campus Attrition Survey



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## Agenda

- Project Description and Background

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- Gap and Financial Considerations

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## Overall observations

1. It is unclear that price difference alone drive the relative performance of Institutes
  - CO Business and Justice Institutes priced similarly i.e. 14% more than DeVry, yet Business underperformed Justice substantially
  - CO Design is priced 18% more than DeVry yet doing well, partly due to our strong reputation
  - TX Tech, Healthcare and even Design (where we have strong offerings) are priced low yet not performing, partly due to our reputation in TX due to Qui Tam
  - CA Design priced aggressively yet not performing well, perhaps impacted by “graphic tightening” episode
2. Perceived value of programs impacts pricing schemes
  - Business programs generally observed to be undifferentiated, hence likely to continue to be pressured given the relatively high price points
  - Competitors generally lower prices of programs that they are not strong in e.g. xxxx
3. Generally, frontline sales leadership does not view current pricing as growth impediment
  - “Usually if pricing comes up as an issue it's because people are not sold on the program value” - Wes Camp, DA LAA
  - “Pricing not a make it or break it issue” - Brian Willingham, DA LAW
  - “Pricing irrelevant. Sell the value of the education” - Alma Salazar, DA LAI

## Agenda

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# F

- I. Need to do gap analysis to understand likely new gap created due to price changes
- II. Leverage feedback from Admissions Directors that CJ and Healthcare students are more sensitive to monthly payment than total price, while others are the opposite, come up with creative ways to price it so that we get the best of both worlds
- III. Leverage <sup>Redacted by HELP Committee</sup> suggestion of designing shorter program i.e. fewer number of credits or longer time spent i.e. quarter time so that we can grab more of the students' Stafford



## Westwood students fund 33%-42% of their educational costs outside of Stafford Loans

