Imagine you live in a rural state with a small population and cold winters. Your state has a declining number of students graduating from your high schools and many young people leaving your state.

To make matters worse, your state has more public colleges and universities than your population can support. And despite declining tax revenues, elected officials are reluctant to close any because these institutions provide a significant economic contribution to their region. As a result, the state struggles to adequately fund its public colleges and universities.

Sound familiar? If you guessed North Dakota, you are right. But Maine could profit by learning how North Dakota addressed this problem. North Dakota recognized that half-empty classrooms in its 11 public colleges and universities were like vacancies in hotel rooms. If a seat in a class or a bed in a dormitory goes empty for a semester, the potential revenue from that seat or bed is lost forever. The marginal cost of filling empty seats is practically negligible because faculty members are paid the same amount whether they teach 15 or 30 students in their classes.

North Dakota also realized that its high out-of-state tuition served as a barrier to attract students who might have provided much needed revenue for its public colleges. It took the bold step of discounting out-of-state tuition to near in-state rates – charging lower tuition than students would pay at public colleges and universities in their home states. The result: a 56 percent jump in nonresident students.

Even though North Dakota has only half the population of Maine, the economic impact of its public higher education system reached $3.7 billion compared with Maine’s $1.5 billion. North Dakota and other states have recognized that their public universities and colleges operate in a highly competitive market — no longer flooded with applicants from high school graduates or enjoying a monopoly on low-cost education. In these tough economic times, even in-state tuition is beyond the means of many students and their families.

There are good reasons why states charge a premium to out-of-state students for attending their public universities. State tax dollars built these colleges and universities and continue to support their operating budgets, which allows universities to charge in-state students a lower tuition rate.
than would otherwise be possible. In some states such as California, Virginia and Michigan, flagship universities attract many out-of-state students willing to pay a premium price.

But Maine has achieved only limited success in attracting students from out-of-state to its public colleges and universities. By charging out-of-state students approximately 250 percent its in-state rate, Maine has adopted a policy that largely serves to keep students from coming to the state — a policy designed for an era when its public colleges and universities were at full capacity.

Discounting the price of a product in any industry to gain market share or move excess inventory requires a careful weighing of advantages and disadvantages. Universities that lower their out-of-state tuition will have to reap benefits that outweigh the potential loss of revenue from students currently paying the higher price. But in an environment of under capacity when the marginal cost of adding more students is negligible, recruiting students from out of the state with an attractive rate makes good sense.

Tuition can be reduced in various ways: financial aid, scholarships, discounts on select programs or an across-the-board reduction. But pricing is just one of the strategic tools that universities can employ to increase enrollment. Universities must also provide students with a great learning and living environment and provide programs that meet expectations regarding career preparation. In difficult economic times, an attractive tuition and a high-quality learning-living experience will draw students to our colleges and universities.

Maine could fill the need for the international and out-of-state student seeking a reasonably priced, high-quality education. If Maine adopts a successful pricing strategy to attract these students, public higher education can become a growth industry.

State leaders can learn a lesson from North Dakota and come to see out-of-state students just as they now see tourists — as visitors who stimulate our economy by spending on tuition, lodging, food, entertainment and shopping. Their presence in larger numbers can have a ripple effect on the state’s economy. Considering under capacity and sunk costs in facilities, the state’s public colleges and universities would be wise to offer competitive tuition rates to bring more students to Maine.

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