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Agreeing on Practical Extension User Fees
Extension Economics Notes # 2012-4

If your program team is exploring user fees, this *Note* describes the process for setting practical fees for an educational event. A "practical fee" is one that is:

1) high enough to provide sufficient revenue to cover direct delivery costs, at least when combined with other cost recovery options;
2) less than what participants are willing and able to pay;
3) applied to the types of program events for which fees work well;
4) not very costly to collect; and
5) set with the collaboration and understanding of the target audience.

Part I: Does Your Program Event Have a "Market-Set Fee "or a "Unique Fee?"

First, see if you have any choice on the level of fee or if it is determined by the market.

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Market-set fees: Commodities, e.g. corn or other common products, have characteristics which result in the market setting prices (or "fees"). Trying to sell corn above the market price simply does not work. Vice versa, why would anyone sell for less? Commodities have prices set by the market.

Unique fee program events are educational activities without direct competitors. "Without direct competitors" means that the target audience perceives the Extension activity as substantially different from other potential program events available on the issue. The views of the Extension staff on the existence of direct competition are irrelevant. Only audiences' perceptions matter.

Part II: How to Discover Market-Set Fees

How many others do a program event which is almost identical to yours?

If your answer is either "several" or "many," then your event has *market-set fee characteristics*. In this case, you should set the fee at the going rate for the similar program events.

Extension Economics Notes *may not reflect the views of the University of Minnesota or its units. I appreciate the feedback from several colleagues but any errors or omissions are my responsibility. From 1974 to 2002 I was a faculty member and Extension economist at South Dakota State University, Ohio State University, and University of Minnesota. From 2002 to 2007 I served as the Associate Dean and Director for the University of Minnesota Extension.*

Keep in mind that you do not get to decide if your program event is almost identical to others. This is completely up to the participants to decide if they see other events as substitutes.

Since Extension is publicly funded, shouldn't we charge less than others do?

No. If other providers have the same type of audience and same educational activity, than you should charge as much as others do. If you charge less than others, the following happens:

1. Participants will think your program event or service is worth less than your competitors;
2. Businesses can justifiably claim that you are crowding them out of the market; and
3. You will have fewer resources to deliver this program to other people.

If your program event has "market-set fee" characteristics, why is Extension even doing this?

Extension is creating public value if your program event is offered in either of the following circumstances:

1. in different geographic areas than the "competing" program events; or
2. to a different audience than the audience served by the competing program events.

Either of these traits means your event really is a "unique fee" one rather than a "market-set fee" type.

Part III: How to Set Fees for Unique Events

Unique fee program events are ones the audience recognizes are only available from Extension. Hence, fees can be set at different levels, depending on your team's policy objectives. Yet, you cannot set the fee at any level because it is still limited by the customers' willingness and ability to pay. Here are the five basic tasks necessary to set fees for unique events:

1) estimate the costs per person;
2) start with low fees and then increase them as your reputation grows;
3) estimate participants' willingness to pay (WTP);
4) discuss whether your team wants to maximize participation or cost recovery; and
5) discuss costs and fees with stakeholder leaders.

Task 1: Estimate the costs per person of developing and delivering the program event.

Knowing the costs per person is important in helping your audiences understand the importance of fees and that other funding sources cover many of the costs. See *Extension Economics Notes # 2012-3* for how to do this. While one person on your team might develop the initial estimates, the major value of the estimates comes from a team-wide discussion of them. After finding that the cost per person was over $1,000, one team changed their delivery methods radically to reduce this.

Task 2: Start with low fees and then increase them over time.

Since people's willingness to pay (WTP) depends on their understanding the benefits of the program, you have to establish your program's reputation with the audience before you can charge fees. This means not only working out the bugs in the curriculum but also doing enough solid evaluation and human interest stories to build your program event's reputation.

After you are confident with your event, use the approach in the next task to learn what people are willing to pay (WTP). As you learn the results of the WTP and have data on your costs, you can gradually increase the fees with the support of existing audiences.

Some programs have successfully set fees higher than the expected WTP for an initial program and immediately offered "pilot program discounts" as a means of setting expectations for higher fees later. This can even spark interest in doing the program now during the "sale period."

Task 3: Estimate participants' willingness to pay (WTP) for a program event.

If your program has no benchmarks for setting fees, the contingent valuation survey method can help you learn what people are willing to pay. Ohio State economists used it to estimate Extension participants' WTP for a program event by asking the following question as part of an end of the meeting evaluation:

> *In these times of tightening budgets, support for programs such as this might be decreased such that an increase in registration fees is necessary. Would you have attended this event if the registration fee would had been $__X__ higher?"*

To get a high response rate at a meeting or event, use a simple one page survey. Hand it out when there is about 20 minutes to go and have people take 5 minutes to do it before going back to the final topic – one they really want to hear about. Almost everyone will complete the survey when done this way.

While this approach seems straightforward, there are some tricky economic and statistical issues in this approach. So ask an economist, preferably an econometrician, to help you estimate the WTP and how attendance changes with higher fees. The Ohio State article by Professors Brian Roe, Brian, Timothy Haab, and Brent Sohngen was "The Value of Agricultural Economics Extension Programming" in the 2004 journal ***Review of Agricultural Economics***. http://ageconsearch.umn.edu/bitstream/19861/1/sp02ha01.pdf

If our estimates of the median user's willing to pay is much higher than current fees, should we increase it this much?

In the Ohio State study, the authors found a WTP eight times the current fee of $12.50 per person. The authors suggested it wise to proceed carefully about raising the fees this much. However, their findings suggested providing two types of program events, a low-fee event for large audiences and a highly specialized, high fee event for the smaller group with very high WTP.

Task 4: Decide if you want to maximize participation or cost recovery.

Participation is the easy answer in Extension, right? It least that is my bias. In practice, it is more complicated and requires balancing these two goals.

Maximizing participation often means the program event will be provided at a level where the additional costs of serving additional persons exceed the additional revenues from these individuals. In other words, you would keep increasing the size until there is no "net revenue over the direct or incidental costs" to invest in program improvement or new program events. With a large enough attendance, you might not even cover all direct costs of the event. This means that you will not have funds to use for the costs of developing new programs or paying for some of the delivery costs during the pilot programs. Ultimately, your team will need to make a judgment call on the right balance.

Task 5: Discuss costs and fees with stakeholder leaders.

Discussing the costs of program events and potential fees with leaders from external stakeholders is particularly important in programs with a long history of not paying fees or paying very low ones.

Participants respond positively to paying user fees if they understand the rationale for the fees. To achieve this, Extension educators need to work closely with representatives from the existing audiences to help them understand the costs per person, the other sources of funding being used, the percentage of the total costs which might be charged in fees and the importance to the sustainability of the program.

On the other hand, the trust of historical audiences can be lost quickly by springing major new fees on them. (Remember the public outcry about the sudden increase in fees for using bank debit cards?) As we know, nothing is more important to Extension than the ongoing trust of its existing audiences. To help in building this trust, share the total cost of events with the public as suggested in *Extension Economics Notes # 2012-3.*

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Discussion Questions

These questions can help your team move from deliberation to action.

1. Does our program event have a "market-set fee "or a "unique fee" characteristics?
2. Is our program event well enough known to charge fees or are we in a pilot phase?
3. Where does our program event fit on the private/ public continuum and what the implications for fees? (If uncertain, go back to *Extension Economics # 2012-2*.)
4. How do we want to balance cost recovery with participation?
5. Who on the program team is willing to do each of the five tasks outlined above? By when?
6. Who knows an economist we can get to help us with the willingness to pay estimates?