

Business Tips

What is YOUR Pricing Strategy?

Before reading this article, get yourself a cup of coffee, shut the door and put your feet up. If you take the time to truly contemplate your pricing strategy it could mean tens, perhaps hundreds of thousands of dollars to your bottom line over this Olympic cycle.

Our industry is TERRIBLE at pricing its product and fully 90% of the nation's clubs are underpricing their product-not an exaggeration and based on my assessment after conducting BOOT CAMP for 13 years. In our industry, I have identified four basic pricing 'strategies'.

#1-no pricing strategy: Too common in our industry, the best business results one might expect using this strategy is mediocrity and the worst, outright failure. The cure is usually about a 30% price hike which is probably not palatable to the buying public because the business has been too poor to operate 'professionally' and has therefore banked little goodwill. Not a good situation to be in.

#2-low price strategy: As opposed to above, these GymClub Owners have truly thought through their strategy and can validate it with logical argument. There however is a problem, this strategy does not work in our industry! I have never (I don't use that word lightly) seen a truly financially vital GymClub which operates using a 'low price strategy'. A low price strategy works only in an industry where the product has been commoditized-such as selling appliances, electronics, gasoline, etc. In our industry a 'low price' strategy necessarily leads to low wages which necessarily leads to second tier teachers and we all know the long term results of that.

#3-target margin strategy: This strategy can work in our industry and it can work well. Basically, one carefully constructs projections for expenses as well as enrollment, decides on x% profit margin and then uses simple math to determine what price must be charged to maintain the target margin. Kids First/Queen City uses exactly this method combined with Open Book Management to determine its Team tuition, as it helps the decision-maker (me) as well as the person writing the check (the parents) to see things as they are, rather than as we would like them to be. Clearly, one must have proper financial data with which to make accurate projections or this approach falls apart.

#4-maximize profit: When one seeks to maximize profit, in effect, one is attempting to charge an ever higher price stopping at the exact moment just before profit begins to decline. Along the way, one is not concerned with the loss of students, only the loss of profit (long term). This approach is too strong for some personalities because the thought of pricing a client out of the market pushes their guilt button. To those folks, I recommend daily recitation of this reality: when you charge the first 25¢ for your product you price someone out of the market (you just don't know their name or face)! Logically, if you feel guilty about raising prices and causing some clients to no longer be able to afford their product then this person should feel guilty about charging anything at all! The more profit a business makes, the better it can help its clients, its employees, its community, its owners: no profit is good for no one. This strategy also requires accurate and timely financial information (see a theme, here?).

My recommendation: over the long run, there is probably little financial difference between #2 and #1. However, if you gravitate toward #4 or #3 you are either currently experiencing business difficulties or likely to. My bias now revealed, what is your pricing strategy? Think about it.

Make it a great month! Jeff Metzger, Founder, BOOT CAMP

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