

Business Tips

Pricing and Inflation of 3.3%?!

The reason I did not time this article to appear two months ago to allow one to assimilate it for September pricing decisions is because certain economic conditions have just become clearer to me, namely, how distorted the CPI data released monthly by our government really is (CPI=Consumer Price Index=inflation rate). The government has every motive to see that the CPI appears to be relatively 'tame,' such as its currently reported 3.3% annualized rate rather than the 6%, 8%, perhaps as much as 10% that I believe it really is.

Where did I come up with my numbers? Admittedly, not through scientific research but, rather, from examining my own personal and business expenses as well as asking numerous business friends and associates to do the same. It is absolutely true, one could make the claim of low inflation if one bought only electronics goods (whose prices have been kept low by technology and Asian labor) or housing (whose cost of ownership has been kept artificially low by an artificially low Federal Funds rate). But, for the rest of us who also buy food, energy, gasoline, health care and building materials, a much higher inflation rate is far more realistic.

Why am I introducing political comment into this column? Because proper pricing of a product is important in any environment but doubly so in an inflationary environment.

Allow me to divert and introduce three interrelated comments about pricing and inflation:

1. I have NEVER seen a financially vital Gym club that has adopted a 'low price strategy'. A 'low price' strategy will necessarily mean the org must be satisfied to pay below market wages which sooner or later translates into poor teaching quality which sooner or later translates into lower enrollment which sooner or later drives profit south.
2. A price increase equal to the inflation rate is not an increase at all but an 'adjustment.'
3. A business that fails to adjust prices at least equal to the rate of inflation is in effect LOWERING ITS PRICE (try that a few years in a row and see how healthy your business becomes).

My club, Kids First Sports Center, being fully aware of this inflationary situation, is raising prices an average of 8.2% this fall (my calculation of the TRUE inflation rate). In addition to this increase/adjustment we are reducing the number of yearly payment periods (Terms) from 6 to 5, necessitating a perceived price increase of up to 30% or so, a scary move. My point in mentioning this is to show that even large clubs like KFSC are not immune to the fears and concerns that accompany price hikes/adjustments. My advice to you is to avoid at all costs failing to adjust prices at least as much as the TRUE rate of inflation whatever you calculate it to be.

Make it a great month!

Jeff Metzger
USA Gymnastics Business Development Partner
President, GymClub Owners Boot Camp
President, Kids First Sports Center