

Pricing and Disciplined Thinking

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When I receive a letter like the one below, it hits me hard as it probably does you. Please read it and refer to my numbered notes below.

Dear Mr. Metzger,
My children have attended various classes at Kids First for the last five years. I am a true fan of your facility and have referred countless people to your programs. My youngest daughter, Suzie, is in the Tumble Bees program and loves her classes and her amazing teacher. Due to our summer schedule and the fact my son was having surgery, we opted not to enroll her during the summer but have been eagerly awaiting the start of Term I.

Mr. Metzger, our anticipation was dampened by reality when we received Kids First's class schedule the other day (1) I completely understand you are running a business, and a very successful, well respected one at that.

However, I am a stay-at-home mom of three incredible children (2) and the ever increasing cost (3) of your classes is becoming prohibitive for us (4) I would also venture to guess we are not the only Kids First family who has found themselves in this same predicament and, therefore, have had to switch our older two children to more affordable sports programs. I am hoping this will not have to be the case for my Suzie.

Kids First is unquestionably a top-notch facility, but I urge you to try to provide more affordable classes or, at the very least, to stop the ongoing tuition increases (5). This is especially true for the preschool classes, which most parents just have their kids in for fun (6). From a more practical, business standpoint, lower prices could also stimulate higher growth and, in the long run, greater revenue and a win-win situation for all (7). Thank

you for your consideration of this important issue and kudos to you and the entire Kids First family for the wonderful job you do with the children. It truly is appreciated.

Sincerely, K

Maintaining clear thinking about such letters is not easy, but you must!

1. The class schedule K received reflected a 3-4% adjustment, no different than previous years, in fact, less than the year before. It appears however that this was enough to hit K's price threshold and she has let me know with this letter. Here, I must exercise disciplined thinking, remembering, K's PRICE THRESHOLD IS NOT EVERYBODY'S; some will be higher and some lower. Thinking logically, even if Kids First charged half of what it does, some families would still be priced out of the market. The fact that I received this letter

from a very nice, reasonable person named K may cause me to feel badly, maybe even a little misplaced guilt. More discipline. I cannot allow my misplaced emotions lead me into faulty reasoning and jeopardize our company's financial vitality.

2. A commendable, personal decision, but not the norm, and therefore not pertinent to our pricing decisions.

3. The USA's monetary system allows the Federal Reserve Bank to make up the shortfall of government spending by creating new dollars, which ultimately drops the value of the dollar and essentially means it takes more dollars to buy everything, including gymnastics classes. If Kids First did not adjust its prices in harmony with dollar creation, then its profits would dry up and ultimately it would be unable to pay its mortgage, the electric company and its employees.

4. Repeating, the fact that Kids First pricing has become prohibitive for one family cannot be allowed to cloud my thinking. Kids First has priced its product so that the MAJORITY of people in the greater Cincinnati area cannot afford to purchase classes. Does that mean Kids First is priced too high? Of course not. I would wager that 75% of the people in the USA cannot afford a Lexus but that does not mean Lexus is priced poorly.

5. A nice thought but again, we would go out of business if we chose that path.

6. According to our experience, people will often pay more for their preschooler.

7. Nice thought and according to the law of supply and demand, K's logic is correct. However, through her lack of knowledge, K fails to consider the reality that Kids First's expenses rise proportionately with every additional eight students. Teaching 800 students costs exactly 10 times as much as teaching 80 students. (Note: in some industries, selling greater quantities does fatten margins; as Sony makes more TVs, the incremental cost of each TV goes down due to quantity discounts on raw materials as well as other economies of scale.)

The dilemma is obvious, and until recently our only choices were to lower prices or lose K's business. Now, I am happy to report, we have a third option, the (updated) KF Scholarship Program, the subject of my next article. Make it a great month! Jeff Metzger ✂