

NAPMA Member Special Report
- Confidential -

*April 2008 – for inclusion in the “June 2008”
member materials. NAPMA Members Only*

To: All NAPMA Member Schools
From: Stephen Oliver.

April, 14, 2008

After having reviewed MANY member surveys (if you haven't returned yours, please do so today www.NAPMA.com/survey) and having viewed the member discussion board, read hundreds of emails and faxes, and generally after “taking the pulse” of many of the members, I've seen several common trends that need to be discussed.

For this special report I will share with you my observations on the relationship between student counts and school revenue. And, ultimately the relationship between pricing, student counts, and profitability.

Much of what I'm going to share in this confidential members only report is NOT INTUITIVELY OBVIOUS. However, it's documented. It's proven. And, it's held true across a variety a wide variety of communities (in the United States and Canada as well as throughout Europe, the Middle East, Australia, New Zealand and other locations.) And, it has held true for schools teaching kids and adults. Schools teaching fitness oriented programs and those focused on character development. It's held true for Tae Kwon Do schools, BJJ schools and JKD schools. For traditional and modern schools.

Personally I'm concerned about the number of schools that struggle financially while harboring misconceptions about how their core business operates. I've covered many of these topics for Maximum Impact members but thought this one important to share with everyone – quickly.

First. Let's discuss what many people think is true.

Most business owners think is that there is an “inverse relationship” between price (tuition rate) and volume (number of students.) They think that as they raise their prices their volume of students will likely drop.

Anyone who's studied basic economics has been trained to think this way. It seems obvious. In the current market you think of common commodities such as gas prices. The price of a gallon of gas goes from \$2.00 to \$3.50 and obviously "Demand" will drop, it's obvious. And, maybe that is true of gas. The U.S. auto industry is certainly witnessing a drop in demand for SUV's and an increase in demand for small cars and/or hybrids (again, by the way not having learned their lesson before.)

However, for other products and services that relationship is not so obvious. An example that's probably "in your face" is Starbucks. The growth of Starbucks has increased demand for coffee (previously on the wane.) They certainly are not an example of making a commodity cheaper and therefore increasing demand. Maybe there's another factor at work?

Anyway. There's a book that you should read. It's called "Influence Science and Practice" by Robert Cialdini (we'll post a link at the member website to get the book if you like.) It's the most scientifically documented book on persuasion. It's the book that served as the foundation of the programs on sales and influence that Tony Robbins taught and a text that's referenced by the NLP crowd for it's emphasis on modeling and on scientific documentation of the various conclusions.

In that book the first example is of a tourist gift shop. By accident a display of items that weren't selling had the price doubled rather than cut in half in an effort to move them. Interestingly the items sold-out quickly at double the price when the shop couldn't give them away at the previous price. What's at work there?

Well the first principle that I'd like you go get is this.

"Absent other criteria, often price determines perception of value"

Is a cup of coffee at Starbucks really better than the one at 7-11? Is a Mercedes really better than a Buick? Maybe, maybe not. And, in both of those examples arguably there's more ability to do a side by side comparism than in martial arts instruction.

Let's move the conversation from the
theoretic to the practical.

The first thing I look at both in my Mile High Karate schools and in the Coaching Clients that I work with personally is their value per student. Perhaps you've heard numbers discussed by Jay Abraham as "life-time customer value" or by EFC or Jeff Smith as "Student Value" These concepts are similar in concept. However I've found the easiest way to look at it is this:

What's your average monthly revenue divided by your active student count?

This calculation sorts out a variety of "extraneous factors" and lasers in on a very important number. What's the average gross revenue for your school PER STUDENT.

Having seen feedback from many schools. Those who are successful and those who are struggling the biggest difference (although, clearly not the only one) is their average value per student.

The schools with THE MOST STUDENTS also tend to have the HIGHEST VALUE PER STUDENT. Clearly the schools with the highest gross AND highest NET have the highest value per student.

Very specifically.

I've seen several schools recently who look like this:

Monthly Average Gross:	\$7,500	Active Count:	85
Monthly Average Gross:	\$11,500	Active Count:	134
Monthly Average Gross:	\$6,500	Active Count:	82

Others looked like this:

Monthly Average Gross:	\$2,200	Active Count:	65
------------------------	---------	---------------	----

Well you can run the numbers yourself but they are averaging anywhere from \$33 to \$85 per month per student.

However, I also work with schools that look like this:

Monthly Average Gross:	\$47,000	Active Count:	202
Monthly Average Gross:	\$16,500	Active Count:	108

I'll let you know that my minimum target for coaching members is to be at \$200 a month average revenue per active student., My target for Mile High Karate schools is to be at \$300 a month revenue per active student.

How do you get there? How do you improve your VALUE per student?

Well very directly there are only several things you can do to improve this value. The first and most obvious is raise your tuition rates.

The three examples at the top were schools charging \$65 to \$85 per month for lessons. Where should you be at on your pricing?

Well I'll answer that first with our Mile High Karate pricing:

New Enrollment:

\$397 to enroll (\$200 + first month \$197) then \$197 per month.

Leadership Renewal:

\$1,500 to Renew (downpayment) then \$359 per month.

Leadership – Elite (Coaching Program)

\$997 per month.

What should you be charging?

Well, at the minimum you probably should be charging in the range of \$139 to \$159 per month. Then you should have an "upgrade" that escalates your tuition at least 50% from that point. Ie. \$139 enrollment price. \$209 renewal price.

How do you go about this? Well I've taught A LOT about this in past – and, will more in future Maximum Impact packages. The basics are as follows:

1. Remember that your current pricing is "irrelevant" for the next new member in the door. You can change to whatever you want for new people without messing around with your existing student base.

2. Whatever contracts you have with existing members must be honored. Therefore you must create "the next new thing" to entice them into higher levels if they are on long-term contracts (ie. Black Belt Club or Beyond.)
3. If your students are not on contracts (which they should be, by the way) then you can do anything you want with the rates. However, you must show them "value" in exchange for higher rates. I recommend when working with coaching members a structured process for "grand-fathering" in existing students while increasing their actual monthly payment by 50-100%.

What are the benefits to raising your price and the likely results.

Well, first in almost all cases enrollment ratios (the ratio from an inquiry to enrollment) will either stay steady or in many cases will improve. You likely won't enroll fewer students. Probably will enroll more (that's been my experience repeatedly since the 1980's)

Second, the more a student pays the happier they tend to be with your program, absent any other change.

Third, at higher revenues per student you can provide higher quality service. Additionally you can run a higher profit school with less square footage and fewer staff members.

Fourth, at higher levels of tuition students complain less. Yes, interesting but true.

Fifth, at higher tuition levels you tend to attract higher quality students and families. They stick with you longer, achieve more, cause fewer problems.

Sixth, absent any other changes. Your school will make more money for the same level of effort. That's always a good thing.

Finally, if you feel guilty about "shutting out" lower income students you can always set up your own "scholarship" fund to provide partial funding for those truly disadvantaged. At Mile High Karate we tend to have

around 5% of the student body (sometimes more) on partial scholarships. Those are truly need based and reserved mostly for those with developmental problems, mental or emotional problems, or at risk family situations. Feel free to provide partial scholarships for those with real needs.

However, don't use that as a fall-back for those who want to negotiate price. Don't negotiate price.

You may be tempted to reject these suggestions "out of hand" or think they don't apply to your city, town, country, style, or situation. That's a self-limiting belief that will only hurt your school's development.

Anytime you reject ideas thinking that your situation is different you are almost always wrong.

If you're running a non-profit or working with a charity obviously the above doesn't apply. Otherwise think about it and make a note to revisit after any negative emotional reaction has subsided.

This is a confidential, members only special report. Copyright © 2008. Written by Stephen Oliver as a free bonus to all members. To discuss the contents of this report go to the members only discussion board. It's located at www.NAPMA.com in the member services section and log-in page. More extensive discussion on this topic will be held at the Extreme Success Academy and have been discussed in practical application with member success story interviews in the Maximum Impact package. See Eric Sbarge, Joe Borucki, Miko Peled and other member interviews.