Lawrence: Luke, welcome back.

Luke: It's an honor to be with you, Lawrence. Thanks for having me.

Lawrence: You're most welcome. So, the focus of this short episode is really to address the challenge around increasing prices. I know a lot of the High Intensity Training Studio owners certainly struggle with this. Maybe they've been at a certain price point for a very long period of time and they've realized, or learned, that they need to perhaps consider increasing that session price or package price in order to make their business cash flow far healthier and be able to support them long term and achieve their goals. So as we were talking before, there's a few members within the Corporate Warrior membership who have this challenge. It's certainly come up before within some of the listenership of the public podcast.

So, shall we just start off with talking about your perspective on this? Do you see this issue a lot with your colleagues in this industry?

Luke: Yeah. Absolutely. So, Lawrence, I think that this is an issue in all businesses. It's an issue in all service related businesses but it plagues studio owners in fitness more so than other industries from my observation. So, I definitely think it's an issue that everyone's facing. And hopefully today we can provide some of the right mindset and the tactics to overcome it. At least have the right approach to overcoming it.

Lawrence: Good. So, how do you think about ... It's clear to me that sometimes a studio owner will ... It stems from a place of a limiting belief. They may undervalue what they do, their service, compared to their competition. So, how do you think about the mindset in this context?

Luke: Yeah, well, the first thing I would say is that we have to think about pricing as a part of our overall marketing. Really, it's probably the most important marketing decision we can make. I once heard a brilliant studio owner say, we'll provide literally the least effective framework for determining prices. This person is really intelligent, has been operating for a long time. And they said, well, basically what you do is you look at the market around you, you look at what everybody else charges and you position yourself right in the middle.

I stopped that person in their tracks and I said, literally, that's the definition of exactly what you do not do. That is the worst strategy for coming up with your pricing. And what I find, in fact, that's what most people are actually doing. So, your pricing has to be a component, a function of your overall marketing. And the brand that you're trying to create. And then we need to make sure that all of our marketing decisions are aligned with how we've priced.

I'm an advocate to cut right to the chase of a premium pricing model that we are pricing ourselves so we're the top end of the market and then we just make sure that our entire service offering, our entire experience offering, is aligned with that price. We need the nuances of how to do that. But some of the things that studio owners say and complain about over time, and it's not just studio owners, it's anyone that's selling a service. Is that, hey, I'm in the business of trading time for money. And that really can become a grind.

I've heard so many studio owners talk about, well, we just don't make enough money. A personal trainer doesn't make enough money. The studio operator doesn't make enough money. And very infrequently do you hear an attorney or a physician making the same complaint. While they are doing, they are in the same business that we're in. They're trading time for money. They're selling a service. They're selling interaction with an expert. The main difference being is they're just charging appropriately.

We understand what their value is and we're willing to pay for it. And I think the High Intensity Training Studio operator has just dramatically undervalued themselves, and then, frankly, are not aligning the rest of their marketing and branding decisions around what that price should be and what that price point can be. So, really we stopped complaining about trading time for money when we're charging a heck of a lot more.

Now, it's important to mention that High Intensity Training Studio owners have this minimum of the 2X advantage over the rest of fitness in that, really, our workouts are 30 minutes or potentially 20 minutes. There's probably some models out there that are 15 minutes. But let's just say we're using 30 minutes as an option. We can provide the comprehensive workout in a 30 minute period and the rest of our competitors, the rest of the fitness industry is thinking in terms of a minimum of 45 minutes to an hour.

So, we already have a 2X advantage in terms of the amount of revenue we can generate in an hour. So you combine that with the right pricing framework or structure and, my goodness, we have a highly profitable, high revenue time for money model.

Now, you asked specifically about mindset. So first of all we have to figure out strategically, how does this work with our marketing and can we position ourselves to be a high-priced service. I think we can comment more about the value of pricing yourself that way in a second. But one of my favorite quotes comes from a mentor and a teacher to me. His name is Dr. Brian Williams. He's, I think, the thought leader, internationally, on all things customer service. He spent over 10 years with the Ritz-Carlton and was an executive. He finished his career with the Ritz-Carlton as an executive in their corporate headquarters in the US. Now he's a keynote speaker around all things customer service. He speaks all over the world.

He told me, in person, he was in my car, three years ago, he said, "There is no nobility in undervaluing yourself." And, my goodness, that quote just stopped me in my tracks. "There is no nobility in undervaluing yourself." And I think we somehow all think that the work we're doing is somehow more noble if we're barely charging enough to survive. So that, from a mindset standpoint, that's my favorite quote. That's what I always go back to. And if there was one mindset that I would encourage studio owners to adopt, it would be that quote.

Lawrence: So that's a great way to start this conversation. I think what you're saying resonates a lot with the listeners. And in that I think most of them understand the value that they're offering or providing their clients in a highly time-efficient, and hitting all of the bases in terms of stimulating premise in health and appearance and those good things.

That is then, whilst, I think we understand that, it can be difficult to convey that and to convince the client that what they're getting is better value when they're used to looking at, well, I spend X and I get this much time so I'm getting less time with you. So, have you got any thoughts on how you might communicate that effectively with a new prospect?

Luke: I think the first thing we have to think about is that in every other industry in any other category, if something is priced higher, we perceive it as more valuable. You know there's a great case study in the US, a private school on the East Coast, a private high school on the East Coast was really struggling with their enrollment. They wanted more students to enroll. So they looked at what the rest of the schools that they were competing against on the East Coast, how they were pricing their tuition. And what the school did is they raised their tuition. So they were now the most expensive private school on the entire East Coast.

Over a three year period, enrollment absolutely skyrocketed. Because the consumer, the parents of these students, said, my goodness, it's the most expensive, it must be a great school. We automatically assume that a product or a service is excellent based on its price. Now we still have to make sure that the rest of our marketing decisions are aligned with that. But I think that's the best starting point.

We walk into a Louis Vuitton store in New York or on Michigan Avenue in Chicago and we understand why the Louis Vuitton bag costs what it does. And we don't say, man, I wish that we could get a discount on those or I wish there was a sale. We understand that premium price makes sense for that premium product and service or, in that case, product. And the customer will pay for it. I think that we have to make the conviction that, hey, this needs to be priced in a premium manner and the consumer will, in fact, pay for it.

Now, if you look at fitness, for example, we're talking in the US, Equinox is a health club model. I think they just came out, I think they were like six or seven. In the top 15, I think they're in the top 10 highest revenue health club companies in the US. They might be top four. I just looked at the list. They use a premium pricing model, specifically they use a pricing strategy that's called over-pricing. They provide the same level of experience that the average health club does. They just charge two to three times more than what the average health club would. And that's been a part of their positioning, a part of their brand.

If you walk through an Equinox, I walked through one last week in Washington DC, and there's really nothing different there. Actually I went on a run in the morning and I'm looking at Equinox from a distance, I'm almost a half a mile away from it and it's a tall building and I'm looking through the windows and I'm seeing Hammer Strength Equipment. The exact same Hammer Strength Equipment that's in your low-cost gym that's charging 25 US dollars per month. But Equinox just said, no, no, no, we're going to charge close to 200 dollars a month because we're Equinox.

So, from the start, we really determine what our brand is all about just by how decide to price our product or service. I think, strategically, one of the most important things that the High Intensity Training practitioner can do is differentiate themselves by being more expensive than the competition. And in most cases dramatically more expensive than the competition.

Lawrence: Yeah. That's really interesting. There's a couple things that come to mind. I remember Ray Dalio was on the Tim Ferriss Show a few months back. Ray Dalio's a very famous investor. Often quoted as being the Steve Jobs of investing. I'm sure you've probably read Principles, I imagine, Luke, have you?

Luke: I have. Yeah.

Lawrence: Does not surprise me. He said to Tim, in answer to Tim's question about, what would you put on a billboard if you could have a billboard anywhere in the world and he said, raise your prices. Or something to that effect. There's also a great book, which I'm sure, again, you've probably read, Luke, called Influence by Robert Cialdini which talks about how value goes up when price goes up. Or if people associate high value with high pricing. So, if people want to read more about it, that's a great book for that.

Okay, so just to add to what you're saying now, Luke, so you want to have a brand that's high value and priced accordingly but I imagine you still have to have the customer experience and the services to match that in order to make that pricing work for your business and obviously generate revenue.

Luke: Lawrence, I think that's the wise thing to do. But I don't think that we have to do it in every step of the experience. For Discover Strength, that is what we're trying to do. From the education of our personal trainers, from the look of our facilities, from the build-out, from the quality of the equipment, to the attire that the personal trainer is wearing, to what the website looks like, all of those things. But I actually don't think you have to do that.

I think if you have the expertise from the personal trainer, you can actually take a non-luxury approach in so many of the other aspects of the experience and still charge a lot of money. I think you can have a bare bones gym with solid equipment that doesn't have air conditioning, has a garage door open. And if you have a trainer that's providing really great experiences and great workouts, that person can charge 2X or 3X over what the rest of the competition is. In general, I think we should align all of those elements. But I just don't think we have to.

I'm picturing, I'm picturing a guest that you've had on the show, and I'm picturing people in High Intensity Training world that I think are perfectly positioned to charge two to three times what they currently charge. And they're not doing it.

And then there's people out there that are charging what they should charge and they have most of those elements really aligned. That allow them to charge what they do. And I'm thinking about Dwayne Wimmer, for example. He's positioned almost everything in his business so that he can charge more than almost any High Intensity Training personal trainer out there charges. And he's in the Philadelphia area. Roger Schwab is in the same position. He realizes, hey, I'm one of the only people in the US that has X-Force. I've built my studio out in a certain way. I have a legacy and a story and a level of expertise that's really unparalleled. I'm going to charge for it.

So those are individuals are operators that have aligned everything that they're doing with their pricing. But I still think that we can price at a premium level even if we don't control the rest of those experiences.

Lawrence: Got it.

Luke: Or those other elements in the experience.

Lawrence: So, okay, let's ... That's great. So let's talk about the how-to side of things. So, what about if you're a studio owner who's been charging a certain price for a long period of time, it's way too low. How do you go about increasing that without losing or upsetting your existing clients, if indeed that matters?

Luke: Yeah. So I'd probably have two or three, maybe four suggestions here. The first thing is I'm an advocate of a layered pricing approach. I don't think you should have one option for the consumer. I think, and I'll give you a number of different examples. I think you could have a training focused studio or business where there's a flat membership fee. And maybe you don't do just personal training, but you'll have a flat membership fee. But then, really, you encourage your clientele to do group training with you once a week. Or, in fact, group training with you once a week and one-on-one training once a week. Or, one-on-one training twice a week. Or, one-on-one training along with your nutritional consultation.

So, I think you have to be creative and have two, three, four, five different options on your menu. So, I can become a client for anywhere between 150 dollars a month up to 500 dollars a month. So, I think a layered approach is the right approach. So long as each one of those individual services or each one of those different options is profitable for the business. So, for us, we can acquire a client that's going to come in four times in a month. And everything we do is on auto-pay. For your listeners, we should only be doing business on auto-pay. We shouldn't be selling packages of any kind. If we're selling packages, really the value of our business is very, very low. If we had a formal evaluation conducted or if we ever try to sell the business, we'd find out the business is worth very little.

So, we want to use an auto-pay or recurring revenue format. I just think that we should not be involved in business that do not have a recurring revenue component. So, we can start a client at four times a month in our group workouts. A group workout is 32 dollars. So our client's spending about 120 dollars a month with us. All the way up to a client that does one-on-one workouts at our iconic training rate which is our more experienced personal trainer. That's 63 dollars a workout, eight times in a month. So that person is paying well over 400 dollars. So, we should be able to acquire clients that are worth over 400 dollars a month. We should be able to acquire clients that are 100 to 200 dollars a month.

So that layered approach is really valuable, number one. That's the first thing I think we should move to. The second thing I think we have to do is when we raise our prices, we always have to communicate to our customer how we are re-investing in the experience or the service and how we're going to provide more value. So our last price increase, it was a few months ago, close to six months ago now, we sent out a mass email to all of our staff, we had it on our social media, that we were going to raise our prices and we told the story about why we were raising our prices.

In that particular instance, we told the story around three things. Number one, and most basic, was that we were going to add new equipment to all of our locations. And we talked about specifically what the machine was. We did a Rogers Pendulum hip press machine in one location. We did a MedX Low Back Machine in two of our locations that didn't have it, et cetera. So we talked about adding equipment.

Number two, we really got our client excited about the new application that we were developing. So we were investing in this for a year and it will launch in about two weeks here. But instead of using clipboard and pencil and paper, we'll now train our client off of an iPad or a tablet. And then the client will get to interact with their workout data immediately when the workout is over. So we just told the story a little bit about that application and how we thought it was going to provide value to our customer.

Then, lastly, we said that for the first time we were launching a comprehensive 401K program for all of our staff and, my goodness, our clients love our personal trainers. They love our staff. And they were excited about our personal trainers being treated well. I read once that if you really want to endear yourself to your customers, treat your staff better and let your customers observe you treating your staff better. And that's the most effective way you can acquire the trust of your customer, is treating your staff better. And, of course, we want to treat our staff better anyways.

So, we just told the story around those three things. And the customer understood, oh, prices are going up. In that case, a couple dollars, and this is what my return is going to be? Heck yeah. I want to be involved with a brand that is re-investing and focused on getting better. Now, you may have to manufacture some of those things. You may say, well, I wasn't really sure what we were going to do to re-invest and, frankly, my margins are slim and I need to make sure that we have margin there. I know that everyone listening to your show, Lawrence, I know that all of your subscribers are making conscious decisions to improve the service offering, so just tell stories around those. Because the customer will understand that.

I just think there are so many brands out there that are raising prices and are not telling us why the prices are increasing and how am I, as a consumer, getting more value. But just go back to WIIFM, what's in it for me? You have to be able to answer WIIFM to your customer and as soon as they read that, man, I sent out a mass email about six months ago that we were raising prices and I told the story around why. I've never got so many responses to a mass email. I had clients coming out of the woodwork responding back to me saying, I am excited to pay more money because I think these changes are valuable.

So I would encourage studio operators to tell the story around why they're raising prices. That's number one. Number two, this is controversial. I really think that we have to raise our prices for everyone. I just despise the idea that when someone starts with us we lock them in at a price and we keep that price consistent for the long haul. And we only raise prices for new clients. I think what you're doing is your having your new clients subsidize your long-term clients. Your long-term clients aren't as profitable as they should be. And, frankly, you need to become more profitable as a whole so you jack up the price for the rest of all of your new clients.

I think that makes a very small, a very minimal economic impact the entire business. Rather than increase prices for your new clients by 15 percent, why not increase your prices three to five percent across the entire board? And, frankly, I think that's what most products and services do and I think most products and services do it the right way. If we have a long standing rapport with this client and they see the value, they understand that we have to raise prices over time. And, frankly, every other business that they're interacting with is raising their prices. My accountant raises his prices, my attorney has raised his prices, the hospital group and the physician group that I work with, that I go see raise ... Every service that we interact with raises their prices.

I think that our customer is, in fact, expecting that. So, I think most of that's in our head when we get nervous about raising prices and will our current customer rebel. Now, they may say a few things to you. But the only thing that matters is do they keep coming back? Do they quit? I don't care if they complain a little bit. I care about do they actually quit?

I think the third key point is if you raise prices and you don't lose clients, that means you didn't raise your prices high enough. And that's the litmus test. If you raise prices and you don't lose a couple clients, then you know that tactically, you didn't raise your prices enough. Now, we shouldn't make a seismic change and raise our prices so much that we lose 50 percent of our clientele but all of your listeners can do the mathematical equation. If we raise our prices by eight percent or by five percent what percentage of my clients should fall off and my operation is still that much more profitable? So I think that's a key takeaway. So, those are my three that I think you really need to do.

Now, I think, and there's a number of different ways to do this, I think we have to communicate this ahead of time. So, we have to give our client at least a one month notice of when prices are going to increase. We've always done a two month notice and we let them know when they can purchase and up until before the prices go up for the conceivable future. Now, I'm not going to make a recommendation on this but I do think your listeners should consider the approach that, no matter what, you raise prices annually. So, I know a number of businesses, a number of service-based businesses that just say, hey, on the first of the year, every year, whether it's January 1st or you pick a different date, you pick February 1st every year, our prices go up three percent.

This is just a condition of doing business with us. Our prices are always going to go up three percent. I think that's a great model. We haven't used that model. We've taken the approach where every two to three years we're going to do a price increase. But I do think that when a client becomes a client, if you communicate up front, they usually expect a marginal, a small price, a marginal price increase the first of the year, every year, that that is an excellent model. I know so many service businesses that do just that.

Lawrence: Do you have the annual terms and conditions? How do you communicate that?

Luke: So I don't think it has to be in the terms and conditions. I just think it has to be something that we are telling the story around when someone becomes a client right away. That they can expect this. Then it's not a surprise when prices do go up. Sometimes what happens is we've had time periods where we've operated for four years, five years without a price increase. And then we raise prices. Well, we may have a customer that's only been with us for two months and they think, geez, is this always what happens? Should I get used to this all the time? Where our clients that have been a client for eight years are thinking, wow, we were just waiting for you to do that. It's been five years since you've raised prices. We were waiting any minute for that to happen.

Where if you give your client something to expect every year, it's going to be this very small three percent or two percent increase then they are not surprised by it. I really think the first three things that I mention there are things that we just have to do. I just wanted to share that last element as a strategic decision that we can choose to move forward on. We have not done the annual price increase but I don't think it's a bad idea. I know some other services that do it, consulting services, that do it very effectively.

Lawrence: Thank you so much for that. That's really helpful. Just one last thing from me is in looking at the example of when you announce to customers why you're increasing prices, you gave a great example there as to, and I want to underscore just the level of detail you go to explain the value change and the increase in value. But what about if you were having a conversation with a customer, maybe you're a small operator, with perhaps more of personal relationships, how would you suppose, or would you, is there any kind of advice on how you should have that conversation? Or would you avoid that and do it via email?

Luke: I wouldn't shy away from having the conversation. I don't know if my plan would be announced to every client that comes in. I would, it would be a letter. It would be an email. It would be signage. And if a client asks the question when they're in, I would not hesitate to have the conversation with them. The most important thing we can train our staff, and before we can train our staff, we have to train ourself, is to have confidence in our pricing. We have to be so proud of what we charge. The customer, when you're quoting anything, I believe this in every aspect of business, when you're quoting a price for anything, whoever you're quoting that price to, they can absolutely sense whether or not you believe you're worth that amount of money.

So if you're talking about 42 dollars for a 30 minute workout or 100 dollars for a 30 minute workout, that consumer can tell whether or not you believe you are worth that much. I think that's the key. Our staffs generally don't understand that. Frankly, most studio operators don't understand that. They lack the understanding of how much they're actually worth. It's something that we have to train our staff around and talk about. Because guess what? Most of our staff are 22, 23 year old, brand new personal trainers when they start. They could never afford our service. They've always worked out on their own before they join us.

So they think, hold on, you're telling me I'm going to charge 54 dollars for a half hour workout? That doesn't make any sense to me. That's 108 dollars an hour. They would not pay that themselves. But they don't understand our consumer. They don't understand our target market and how much money our target market makes and how our target market values time and how our target market values that level of expertise. So we have to make sure that our trainer, and frankly, we have to make sure the studio owner has confidence and conviction in the value that they're actually offering.

Because I'm telling you. You will not be able to charge a premium if you don't fundamentally believe that you're worth it. Just from being around so many High Intensity Training practitioners, we're absolutely worth it. From a philosophical standpoint, the actual methodology to the quality of equipments. Now, I'm not saying to use a High Intensity Training approach you need a certain quality equipment. It just so happens that most people are using great equipment. They're using MedX equipment, the Nautilus equipment, and ARX equipment. They are really using great equipment and there's value to that. I think that if you have MedX or if you have ARX you can increase your prices immediately by 30 percent over the rest of the competition. But we just don't story-tell around enough of it. So we don't tell stories around that enough. So the consumer doesn't see that value.

Lawrence: Good stuff, Luke. I could talk to you about this all day but I know you've got stuff to do. Thank you so much for taking the time out today to share this. And looking forward to catching up again in the future.

Luke: Lawrence, it was my pleasure. Remember, there is no nobility in undervaluing yourself.

Lawrence: Well said.

Luke: Okay. Take care. Thank you so much.

Lawrence: Thanks, Luke. Bye.

Luke: Okay. Bye, bye.