

It's ^{all} ~~None~~ of Your Business

Money Matters: Setting And Raising Tuition

An essential ingredient in a profitable business is the amount it charges for its services. In any profession, supply and demand dictates what rates are viable in a particular area. A basic business principle states that tuition should be based on what the market will bear.

Antitrust Law

All businesses, in any profession, are prohibited by federal law from engaging in certain activities that affect the market place adversely, such as price-fixing or agreeing as a group to use only certain vendors. As studio owners, we are accountable to these same antitrust laws.

There are certain topics that should not be discussed by members of a profession:

- current prices/hourly rates
- current billing policies
- what constitutes a fair profit margin
- plans to increase or decrease prices

- agreements to allocate geographic areas or deal with only with certain suppliers
- policies regarding vacation/missed lessons
- terms and conditions, such as late charges or payment discounts

A full list is available in the *Antitrust Compliance Guide* on the MTNA website, www.mtna.org.

Antitrust law does not prohibit all conversation among members related to tuition. Permissible areas of discussion include:

- data on past pricing levels
- reports on general economic trends in the profession
- discussion on how members can become more profitable by acquiring better knowledge of their costs
- discussion on improvements of services
- education on various aspects of management

Setting Tuition

It can be challenging to determine an appropriate tuition amount for your area, for your product, for your target customer. There is likely a spectrum of prevailing rates and types of studios. Identify this range through market research. Investigate other studio websites or Facebook pages. Ask neighbors and family members what they pay. A local music teachers association may have compiled a tuition survey.¹

Where should your studio fit on the spectrum? Take into account a variety of factors when choosing where to set your studio's tuition. A studio's tuition reflects more than just the offering of private lessons. Consider these factors:

- Location and parking, especially if highly convenient
- Teacher's education and expertise
- Teacher's level of experience
- Quality (or what you are known for—besides quality teaching, this might be a flexible schedule or engaging personality)
- Specialty or niche
- Premium service, such as traveling to student's home
- The need for teachers in your area
- Prevailing economic conditions and demographics

A common online discussion suggests figuring out what you need to earn to cover living expenses and then charging accordingly. This argument ignores what the market place is charging. It is quite possible that in your area you can charge more (than just enough to cover living expenses) because of demand for teachers or your location. It ignores that there is a limit to how many students one can *effectively* teach in a day. It ignores the impact that diversification of income can have on total income, especially during economic ups and downs.

A more useful strategy is to create a studio budget. Identify business expenses for the year and projected

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income for x students. Analyze if the projected business income is enough to cover business expenses *and* leave enough for your living expenses (assuming no other source of income). Depending on prevailing economics in your area, diversification of income may be necessary to reach your target income.

Raising Tuition

In most professions, annual adjustments to rates are typical and expected. Most consumers prefer small adjustments on a regular basis rather than one large adjustment after several years. Consumers do not like surprises (large price hikes without warning).

Consistency of adjustments and timing is important. Communicating when increases will happen and what the new tuition will be gives parents time to plan. Nine months in advance has worked well for me. In my January parent letter, I include a simple statement: "Effective with the fall semester, tuition will increase to ___." As with all studio policy statements, the language should be simple and direct. No explanation is needed.

A minimum adjustment based on the Consumer Price Index (CPI) ensures that you are keeping pace with inflation. The CPI is a measure of inflation and reflects the weighted average of basic goods and services, such as transportation, food and medical care. The CPI rose 2.1 percent during 2017.

Deal with individual family hardships on a case-by-case basis. Short-term challenges (temporary layoff or medical bills) might warrant a one-year-only tuition reduction. Need-based schol-

arships might be utilized for families below a certain income level. In rare cases, such as the 2008 recession, businesses might choose (and many did) to not raise prices at all.

Communicate Value

When setting or raising tuition, a priority should be to communicate *value*—all your studio is doing, all your students have accomplished, all you have done to improve your teaching. Communicate excitement, joy and other reasons why students joined your studio in the first place.

Parents buy benefits, not features. Parents do not eliminate activities that they perceive as adding value to their child's life. Help parents understand the benefits of music education by making *value* a primary theme in your studio marketing.

It is true that many parents look for the cheapest or closest teacher, valuing location and price over all else. The challenge is to identify the value that *your* studio provides. Why should a parent drive farther or pay higher tuition? Quotes from current parents are one strategy for answering this question.

A second strategy is to remind parents (often) of everything that tuition covers:

- an individualized course of study for each student
- written progress reports
- customized teaching materials for each student
- teacher training and experience
- preparation for recitals, festivals, competitions
- professional memberships

- continuing education
- lending library, listening lab or other specialized aspects of your studio

A third strategy is to remind parents (often) of the value received during the past year. Share studio accomplishments and activities through newsletters, email blasts or updates on your webpage, Facebook page and social media.

Regular communication of value and setting an appropriate tuition contribute significantly to any studio's financial health.

Notes

1. "Anti-Trust Compliance Guide for State and Local Music Teacher Associations, *Code of Ethics*," Music Teachers National Association, last modified August 11, 2017, accessed May 25, 2018, https://www.mtna.org/MTNA/Explore_MTNA/Code_of_Ethics.aspx. According to antitrust guidelines, price surveys are acceptable if they meet certain conditions:

- Data is collected and compiled by an independent third party, such as the staff of a local or state music teacher association.
- Historical data (at least three months old), rather than current data, is collected.
- The survey should include a minimum of five participants. One should not be able to identify any particular teacher by looking at the results.