



# The CPI; The Insidious Nature of Inflation; Fall '05 Pricing Decisions

I have been criticized on occasion (justifiably) for writing about a subject at a time of year when that particular subject is not on readers' minds. (I suppose I do this because I see myself as one who offers knowledge and wisdom which, to me, has no calendar.) That said, this article is a timely one.

Although the CPI (Consumer Price Index) is this article's primary topic, do not make the mistake of interpreting it to say that the CPI should be the determinant of a business's pricing decisions—the CPI is a determinant, one piece of a puzzle. I have chosen to use bulleted points to weave my argument about the insidious nature of inflation. Please take the time to grasp each argument before going to the next (otherwise the 'punchline' will be lost on you).

- The CPI is a tracking of the cost of a basket of goods. It is measured monthly and is published by the Bureau of Labor Statistics at <http://data.bls.gov/cgi-bin/surveymost?bls>
- The CPI is often referred to 'the inflation index' or 'cost of living index' (but be careful of believing it...read on).
- The actual CPI for the most recent 12 months was 3.5%.
- The CPI for April alone was a hair raising 0.6%! At that pace, we would face a 7.2% annualized CPI over the next 12 months!
- A business that makes an upward price change equal to the CPI has NOT made a price increase, it has merely made a price 'adjustment'.

But, the news gets worse...

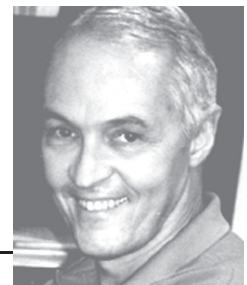
- It is my belief as well as the belief of many experts that the government drastically UNDERSTATES the CPI (it has reason to do so because the CPI is an index to increases in Social Security and other programs). Do a web search on "CPI understated" and read what you find. Here is one of many articles: [http://www.trendsimwatching.com/2005/05/the\\_cpi\\_dont\\_be.html](http://www.trendsimwatching.com/2005/05/the_cpi_dont_be.html)
- If, as the above article argues, the CPI is understated by 2.7% the true cost of living increase for you and me over the last 12 months was 6.2% (3.5%+2.7%), a number on par with the entire profit margin of most businesses, regardless of industry!
- If a GymClub makes a decision to move its price upward by, say, 5% come September, 2005, that GymClub would, in effect, be achieving a price DECREASE of 1.2%!
- If a GymClub would like to increase its buying power by 3.8% it must be ready to list prices 10% higher than current prices.

By now, you should be paying attention. Let's reduce this mumbo jumbo to future dollar terms. Based on April 05's CPI, today's \$14 gymnastics class will need to fetch \$20 in 2009! Add in a 2.7% actor for understating and that class will be \$22.50! Now, pretend you get lazy and do a poor job pricing for the next two years and you fail to stay even with the CPI; do you really think you will be able to 'catch up?' Answer: not likely! Bottom line: PAY ATTENTION TO THE CPI!

Make it a great summer,  
**Jeff Metzger**  
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President, GymClub Owners Boot Camp  
President, Kids First Sports Center



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