

The Way of the Dojo

Opening and Running your own Martial Arts School

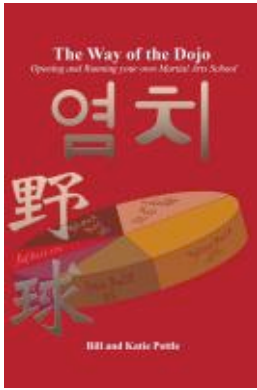
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Bill and Katie Pottle



The Way of the Dojo is a comprehensive guide for anyone looking to own or operate a martial arts school. It features both traditional as well as cutting edge information on marketing, hiring employees, martial arts school valuation, social media, lease negotiation, school design, and more.

The Way of the Dojo

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Owning and Operating Your Own Martial Arts School

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Chapter 5: Finding a place

Finding a place for your school is something that many school owners don't spend enough time on. You could be going there every day for five or ten years (or more), yet some owners may spend no more than a few hours or days looking for a spot, or worse yet, don't check out several alternatives. You can always move, but there is definitely a cost involved in doing so. You'll end up paying in your time, lost business as new leads head to the other place, and materials (that mat you cut to fit, the mirrors you glued to the walls, etc.)

The right type of place

The first question you need to ask is what type of place you should get. For most schools starting out, a commercial space **won't** be the best fit. You will be better off looking for something like a rec center until you can build up enough students to make the rent every month. It depends on your situation, though. A commercial space offers the chance to keep the school open 24/7 and offers the potential to grow your student base faster. A rec center drastically reduces your overhead and gives you the chance to get on your feet when you really need it. However, if you have savings, another job, or some other favorable factors, a commercial space does offer the fastest potential for expansion. In addition to rec centers, most elementary and middle schools will rent out their classrooms and gyms in the evening to outside groups. You will sometimes pay by the hour and sometimes pay as a percentage of revenue received. Rec centers also have the advantage of being scalable. You can usually easily add or subtract an hour or two of classes.

Consider the following example. Schools A and B both charge \$100/month for classes and both start with 0 students. School A goes out and gets a commercial space for which they pay \$3000/month. They grow by a net average of five students a month. School B starts in a rec center paying \$20/class. They hold four classes per week to start, and then go up

from there. In April they go to eight classes per week. They grow by a net average of three students/month. Here is what happens:

School A – Commercial Space

Month	Jan	Feb	Mar	Apr	May	June	July
Students	5	10	15	20	25	30	35
Profit/Loss	-2500	-2000	-1500	-1000	-500	0	500

Total = \$-7000

School B – Rec Center

Month	Jan	Feb	Mar	Apr	May	June	July
Students	3	6	9	12	15	18	21
Profit/Loss	20	280	580	560	860	1160	1460

Total = \$4920

Although school A now has more students, obviously school B has made the correct decision. Now school B can move in to a commercial space and have a net of \$12,000 more to spend on advertising, facilities, etc.

But... should school B move? Even though it is much safer to move to a commercial space now, school B should still wait until it has maxed out its potential in the rec center before moving. At 21 students, instead of making \$1460 per month, it would lose \$900 if it made the jump in July.

Another consideration with the rec center vs. commercial space decision is to consider the total overhead. The two rents above aren't even equal. In a commercial space you will have to pay for electricity, water, internet, phone service, tissue paper for the bathroom, cleaning supplies, air filters, light bulbs when they burn out, paint remover for graffiti, doorknobs, broken toilet flusher handles, snow plowing, and of course your time to do all of those things. Generally figure \$500 extra on top of the rent for the minimum facility overhead.

Demographic considerations

The demographics of any area are important. However, in our schools we have had schools in poorer areas of town doing better than schools in richer ones. The time and energy you put into running the school matters more than the demographics. First of all you need to locate your school in an area where people can afford your tuition. Of course, sometimes the people who might need the training the most are the ones who can't afford it. It's good to work something out, but you do want the school to be in an area where people will be able to pay you, and won't constantly try to haggle you out of every penny either. You can usually find this information by looking at median incomes and housing prices.

You also want to be in an area that has the type of people you are looking for. If you teach a lot of kids, you want to be where young couples are. Newer neighborhoods are great for this. Few schools thrive in 'downtown' areas, but the ones that do mostly cater to teens and adults. How do you know where there are a lot of kids? It's easy – see where there are a lot of elementary schools.

Key neighborhood features

It's great to be close to elementary schools. Any school that you might want to run an afterschool program in (see that chapter for more on school types) will be a bonus for your school. One of our schools is located by Buckley Air Force base. This is great because military families usually have disciplined kids and can afford to train, but it also sharply reduces the number of people who can live within a 3 mile radius since so much of the base is open space.

Certain rivers or highways can also act as 'psychological' barriers. It's not that people can't cross them; it's that they may see things across as farther away than they really are, or might prefer a school that is closer to where they live.

Bill Pottle

We also like to have a park close by the school for testing, flag football games, summer camp, etc.

The stronger the local neighborhood community is, the better. If they have picnics, neighborhood watch meetings, etc., then this is all great for you.

Rent or buy

In the beginning this probably won't be an issue because you won't be able to afford to purchase your own property. Also, the strip centers where most martial arts schools are located are rarely for sale for under several million dollars. But eventually this will become a decision you need to make. In general, renting is better for the short term and owning is better for the long term. Making the right decision requires making assumptions about the future. How long do you want to stay in the martial arts business? How long do you want to be in that neighborhood? What might be a good neighborhood full of young couples now might be full of senior citizens 30 years from now.

There are various online 'rent or buy' calculators that let you input some assumptions and then tell you which would be the better decision. The most important comparison will be setting the rent on one side and the mortgage on the other. This depends on what kind of rent you can negotiate, along with what kind of interest rate you can get on the mortgage. The interest rate and total purchase price are probably the two most important numbers that go into shaping the equation one way or the other.

The other thing that you will need to understand is the shape of the building and what could happen, as well as what could be covered by insurance and what that insurance would cost. What if you need a new \$100,000 roof or parking lot?

One way to purchase property is through a business condo. These are generally cheaper, since you have shared walls. In this way you pay Owners' Association dues every month, but they take care of things like

insurance, and putting away money for any large expense. Be careful, though. They may not let you do something like put up a sign, even though you own the property.

Property tax

Whether you decide to rent or buy, you will need to pay property tax, especially if you are on a triple net lease. Be sure to figure this out up front. Ask the landlord and then check online at the county's website as well. This will almost certainly seem like 'too much.' We're used to paying about 25% of the total rent bill just to property tax. This changes every other year (at least in Colorado), based on the valuation that the county assessor assigns to your building. You can protest this if you have sales information on comparable properties nearby.

If you're on a triple net lease, the majority of the expenses will be for this. While you can get a good idea of the taxes from last year's tax, it could still surprise you. This will be particularly true if you purchase the building for higher than the last year's appraised value.

We saved money on one of our schools that was a new construction by negotiating with the landlord a cap on triple net expenses for the first year that was lower than what the expenses actually turned out to be.

It is also possible to protest your building's value if you own it, or help the landlord to do this. We have been successful with this in the past as well. You will need to show why the Assessor's valuation is flawed. This isn't always easy to do, but you do have the advantage of knowing much more about the property than they do. To have a good chance of success, you should find similar types of properties in the area, figure the value per square foot, and show that the valuation they gave you is higher than it should be. You might show that other units are in a center with a major tenant which drives traffic, while you have your own building. If they valued you at \$100/sq foot and valued similar units at \$90/sq foot, you have a good case. Knowing the sales history of close by properties is critical, yet they may only accept sales from a certain date range. If you

can show that a major expense like a roof, HVAC system, parking lot, etc. is looming that could also weigh in your favor. Finally, knowing the rent that is charged by neighboring properties may also help convince the appraiser's office of a certain valuation.

Key things to check

Whether renting or buying, there are several key things that you should check out before you sign anything.

Physically Inspect the Property – It is CRITICAL to have an inspection of any property you are thinking of buying. We once looked at an old rec center that was a great deal for the size. We brought Katie's father (who used to own a commercial electrical company) in to take a look. He estimated that it would take at least \$1 million to bring the building up to code. We passed on the deal.

With every building, there are certain maintenance tasks that should be performed every year, five years, ten years, etc. Often these tasks will be delayed due to lack of funds. While this doesn't disqualify a potential building, it should definitely be factored into the price.

If you are just renting, this isn't generally a big deal as long as the lease specifically spells out that it is the landlord's responsibility to correct any defects. You will still need the inspection through. If you know that the \$10,000 furnace is on its last legs, you should put it in the lease up front that the landlord will be responsible for purchasing a new one within x number of days after the old one goes out.

Talk to Other Tenants – If you are considering going into a strip mall or multi tenant building, go into the other spaces and talk to the other managers (not just the kid working the cash register). Ask about the landlord and also ask for any specific problems. Sometimes they may be reluctant to talk to you about problems, and that might or might not be a sign something is wrong. Generally it is good to talk to small businesses, but chains are really great too. Ask them how their sales compare to other

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stores, and you will get a really great idea of the potential of the center. For instance, if the Subway and Starbucks in one center both have the top sales of all Subway and Starbucks in the city, you know it's a great center.

Go There at the Right Time – For martial arts schools, this means the evening. Is there a traffic crunch? Is there room to park? What about the lighting? I'm not saying that if there is some poor lighting, it's a reason to walk away. But it could be something you can include in the lease. When I first joined martial arts, our school was located right next to a rough sports bar. People would go there after work, the same time when we were training. One time someone broke into our school so they could go through the wall and get into the bar.

At our current school, we are next to a hookah bar. However, it's not as much of a distraction because they are mainly open when we are done for the day. The only real overlap is an hour on Friday nights. However, we have had to pick up a lot of trash in the parking lot.

Observe the Traffic Flow – Do prospective students have to make three left turns in traffic to get to the school? Does everyone going to the post office have to drive by your sign? Are you in the same center as a major anchor, but so far away that no one will drive by your shop?

Get a Good Feeling – Some business people would dismiss intuition, but as martial artists, we trust our feelings about things. Does the place have a good energy to it? Is it on top of a hill with a great view? Remember that this is a place you will spend a great deal of time in, and subtle things that affect your mood will affect your productivity. Chances are that if you have a good feeling about a place, students and prospective students will too.

Negotiating commercial leases

Negotiating your commercial lease is one of the most important things you will do. One critical area that separates successful school owners from the rest is that they know when to ask for help. If you aren't comfortable

with this, now is the time to ask for help! At the very least if you negotiate the deal yourself, have an experienced attorney review the lease and look for red flags. If you sign a five year lease at \$3500 per month, you've just made a commitment to pay \$210,000. If that doesn't make you nervous, you are either independently wealthy, have a school that's strong enough that you already know most of what's in this book, or you don't fully understand the gravity of it. If you could just get a 5% better deal, you just made \$10,500. So what kind of issues and clauses should you look for?

READ EVERYTHING – I can't stress this enough. The last thing you probably want to do is spend your time reading a 40 page commercial lease. It's some of the most boring reading out there. While you should carefully read everything that you sign, it is especially important here. Read it out loud. Give it to several friends to read. Look up words you don't know. Look for small words like 'not', 'must', 'necessary', 'option' etc. that might change the meaning of a sentence or clause.

'Boilerplate' Language – Many commercial leases will contain what the landlord claims is 'boilerplate,' or standard language that is in all his commercial leases, plus a specific section for you. Don't assume that this isn't also negotiable. EVERYTHING is negotiable as far as commercial leases go.

Lease Types – Leases are generally all inclusive or triple net (net-net-net). The three nets stand for property taxes, insurance, and common area maintenance (CAM). This basically says that the tenant will pay for all expenses associated with running the building. In an all inclusive lease, you just pay one monthly fee. Triple net monthly rent costs are generally less. Should you pay \$1000 all inclusive or \$700 triple net? Obviously you'd have to do the math and see which one would be better.

Landlord History – If you know the history of the landlord and the space, you will know how willing to make a deal he may be. You may not be able to know his personal (or company) financial details, but you should at least know how long the space has been empty. You could also look up on the county website to see if he owns other properties, and see if

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they are empty or full. This may be hard to find as smart property owners have separate companies for each property. However, a general rule of thumb is that the longer a space has been empty, the better price you can get.

Know the Market – You can bet that your landlord does. You will have a much stronger case for getting a lower rent if your conversation can go something like this:

Landlord: The best I can offer you is \$10/sq foot.

You: The place down on Main Street quoted us \$8/sq foot, and they have 1000 more cars driving by every day.

Landlord: The demographics on Main Street aren't really suited to a business like yours, plus your customers would have to parallel park on the street.

You: This place is also about 20% bigger than what we need. With that extra overhead, we'd lose money on day one here while we'd be profitable in the other location.

Landlord: Okay, I will throw in 3 months free rent.

The more specifics you can have and the more you can show what other properties are offering, the stronger your negotiating leverage is. Of course, the landlord may say something like "If Main Street is so great, you should take that one." You **HAVE** to be able to walk away in order to have any negotiating power whatsoever. Remember that there will always be space available.

Free Rent/Buildout: You should always get something up front in exchange for signing a longer term lease, whether it is a lower monthly cost or some other consideration. One of the best ones is free rent. I have heard a rule of thumb that you can get one month free for every year of a lease you sign, but I think it really depends on several factors. You may also need a buildout. You might be able to do this yourself, but remember that this will take time. If it's something major like installing a bathroom, this can cost upwards of \$15,000. Make sure that this is taken care of at negotiation time.

Escape Clauses: You would love to have a clause in there that says you can leave at any time with no penalty if things aren't working out. Landlords and their lawyers work very hard to make sure that there won't be any clauses in there for you, except in truly extenuating circumstances. For instance, the building burns down. I also know of one school owner who got out of his lease because he was called back to the military.

Similarly, you want to make sure that the landlord can't kick you out for something like paying the rent 1 day late. It's not like most landlords would do this, but maybe they got a better offer on the space and they are looking for a reason to get you out. Or maybe they want to have their own martial arts school there. In any event, make sure that there are reasonable provisions for notification and grace periods before they do anything to kick you out.

Personal Guarantees: The landlord will likely make you sign a personal guarantee unless your business has such assets that a guarantee will be unnecessary (for instance, large chains). You should do what you can to avoid this, but you will probably not be able to. This basically says that even if the business fails, you will still personally pay the lease.

Capital Improvements: You want to make sure that the landlord can't decide to go out and buy a new _____ and then make you pay for it. Especially if you are on a triple net lease, he might try to charge you for new landscaping, a new story, an additional room, etc. Make sure this is all spelled out up front.

What's the Worst that Could Happen? This is a question that you should ask yourself about every clause in the lease. You might think that you will have a great relationship with your landlord and neither of you will look at the lease for years at a time. Hopefully, this will be the case. It is the case in our main school. But a lease isn't written to help a great relationship during good times. A lease is written to say what will happen during the worst times. So with every clause, go through and ask yourself when that clause would be invoked and what it would mean. Then go through and rewrite to protect yourself.

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Signage – The lease should spell out details regarding signage. Remember though that the city will also have something to say about it. Is there a monument sign out front? Can you be on there, and is there any extra fee? What about putting a sign up on your building? This is all very important, because you don't want to have a situation where no one knows you are there.

Dojang design

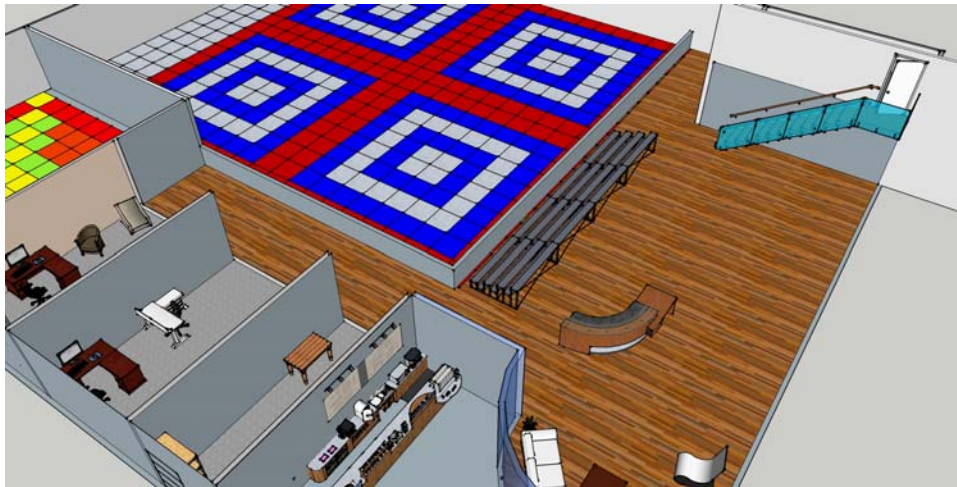
The physical layout and design of your school is very important, and shouldn't be left to chance. Remember, this is a place that will be like a second home to you and your students for many years. I've trained in schools before that had the following 'features.'

- In one school, the parents had only 1 square meter when they entered. They had to take off their shoes and walk through a class in progress in order to get to the parent's area or go to the bathroom.
- Large pillars interrupting the training area.
- A low ceiling that prohibited the use of any weapons during training.
- An area for parents that blocked their view with 6 foot high opaque display cabinets.
- An office that was at the opposite side of the building from where people entered.
- Terrible acoustics, so that you will lose your voice after just one class, especially with many kids running around and multiple instructors.

Of course, the most important time to design is when you are looking for a space. Some of the problems above would have been very difficult to prevent (i.e., load-bearing pillars) and a different space could have been chosen.

Bill Pottle

Google Sketchup – Google Sketchup is a fantastic tool to help you design your optimal space, and it is free. It's easy to put in exact dimensions, and plan out everything. You can easily change something in the software and see how it will look, rather than having to actually move that desk in real life. You can see exactly how many mats you will need and which color they will have to be. Sketchup also has the added advantage that you can export the 3d images and put them on your website. You can even export flythrough movies to help with this as well. Here is an example of a fictional dojang designed in Sketchup.



Prospect Traffic Flow – Your school has to be inviting to prospective students right off the bat. Don't make them cross a class or enter in a way that makes them feel like they are interrupting anything. Ideally, you should have a little entryway/greeting area where they can settle in to their first impression of the school. Make sure that they can get to an office easily where someone can greet them and explain to them about joining the school.

Restrooms – If at all possible, make sure that people don't have to interrupt class or take off their shoes to go to the restroom. We have only one school where we can't do this, because of our floating floor. (Also, we

did not design the initial buildout). But in this case we have a ‘warning track’ of black mats around the outside, and at least parents don’t have to interrupt class to make it to the restroom. Having two restrooms is a big plus for women, and in the inevitable case when one toilet gets clogged or two people need to use the restroom at the same time.

Make sure the toilets can handle the large volume of use that you will be subjecting them to, and make sure that they are water efficient. Saving just a small amount of water per flush over a thousand flushes a month can add up. A new product out there is a waterless urinal. This is great because not only does it save water, it also saves cleaning the regular toilet, especially after the preschoolers’ class.

Locker Rooms – Locker rooms are nice, but a recent trend has been to do away with them and only have two bathrooms for changing. This saves a lot of space as most schools would be better suited with more mat space instead of the locker rooms. Not having locker rooms also reduces the chance of theft or sexual abuse. As one master who made the change and loved it told me “I just got tired of cleaning locker rooms year after year.”

Showers – Showers are a nice amenity for adults, but the cost, maintenance, cleaning, and potential legal issues (slipping and otherwise) make them hard to justify for the majority of schools.

Out of the Way – You will undoubtedly need to keep a tremendous amount of items in the school. How do you do this without having the school appear cluttered? The key is to keep things out of the way. We found that keeping things in opaque cabinets works wonders. That way things look very neat and minimal when someone comes in, yet you can still keep all the equipment and supplies you need handy.

Parents’ Area – A parents’ area or viewing area is an important part of any school that teaches children. Ideally, you want your parents to talk with each other, and build the community of your school. You want them to see what is going on in the class, so that they can see and understand the value of your training. At the same time, you don’t want them to disrupt

the class. One time we rented out the space next to our dojang, and put glass windows inside of the walls. The other side we also turned into a coffee shop, and put nice chairs so the parents could relax while watching their kids train. We also had a microphone in the training area that broadcast the audio of the classes. It worked pretty well, but we expanded into the other area before the school was ready to support it. In the end we lost a lot of money and learned a hard lesson about renting too much commercial space before you need it.

Training Area Dangers – Make sure to review the section on training area dangers in *Teaching Martial Arts: A Practical Guide* to make sure that your training area is designed in a way that is safe.

Water Features – Some dojangs have elaborate water features such as Koi Ponds. These can be great, but are also a big liability. You can also have other water features such as waterwall signs, custom waterfalls, or simple waterfalls that you can get at Home Depot for a few hundred dollars that don't present the same drowning risk or maintenance cost.

Pro Shop - The Pro Shop is one of the most important areas of the dojang. See the section on merchandise for hints on what kind of school merchandise you should sell and the section on running the Pro Shop for the nuts and bolts of inventory and sales (or if you should even have a Pro Shop or just sell from your website) In laying out your dojang, you will need a place for gear storage and display. This should be in a high traffic area of your school. Due to limited space, many Pro Shops buy wire racks and display gear and packages on the wall. If possible, you want to avoid stepping over parents every time you need to get a new uniform out.

Intro Room – We've never had an intro room in our dojangs so far, but look forward to putting one in the next one we build or move into. The key idea of the intro room is that you can schedule private intro classes (20 minutes or so) where you can completely control the experience that each prospective student has. You can then fine tune the first class to make sure it is the best one you can possibly teach. You can do this while the other classes are going on if you have a separate room.

Children's Play Area – It is great to have a small area where children who are too small to be in class can play, watch movies, or do homework. The key is to make sure that they don't disrupt the regular classes going on.

Lighting – The building should be well lit both on the inside and outside. The more natural light the better, but if there are too many windows you may need to cover them for temperature control purposes in the summer time. Other than that a few inexpensive Asian themed lamps can go a long way. Make sure that you have energy-efficient florescent lights, as this will save a lot of money each month on electricity.

Snow Removal – Depending on your lease, you may be responsible for removing snow on your walkways and parking lot, so take this into account when selecting an area. Even if you are closed (holiday or weekend) the city can still come by and fine you for not taking care of this. South-facing sidewalks and parking lots will melt much faster than North-facing ones. You will want to have a contract in place with a snow-plowing company for them to come and plow the parking lot if the snowfall is more than a specified amount. With any luck, one of your students will have a plow or a blade they can attach to their truck.

Themes – Many successful schools are organized around a theme, most commonly the school's colors. Our schools are no different. This will help you make choices about paint colors, mat colors, and overall design. It will look much better than just throwing whatever together.

Curriculum – There should be a place in your school where you post the curriculum that students need to know for each belt. As of the writing of this book, tablet prices are plummeting, so it would be great to have a touchscreen tablet loaded with videos of all your curriculum that students could touch and watch at any time.

Bill Pottle

Announcements/Results Boards/LCD Monitors – We used to have several bulletin boards all over the place and people would just post up flyers wherever. We then transitioned to having specific boards. One is for announcements of upcoming events. One is for all results (testing, attendance, tournaments, etc.) We have another board for instructors to post flyers for private lessons. Some schools have gone to having LCD monitors which continuously stream important news and announcements to the parents. Although this uses more energy, the benefit is that you can also show highlight videos.

Multimedia System – Many dojangs have multimedia systems for playing audio and video content. Projectors have fallen in price in recent years, and speakers can be set around the area. If you know during construction, you can put wires in the walls, and companies now also sell wireless speaker systems. This media can all be controlled by a centralized computer. You will also use this for electronic scoring systems which are becoming more prevalent for Olympic Style Taekwondo.

Drinking Fountain vs. Vending Machine – There are some programs where companies will put a vending machine in your dojang for free. You pay for the electricity to run it and they will restock it and give you a percentage of the profits. No matter what we have tried, there are always numerous water bottles left around after practice. The other option is to get a drinking fountain, which costs about \$400. This can be a nice feature, but remember that you will also pay every month for water and electricity to run it (if there is also a refrigerator unit attached).

Chapter 6: Accounting

Accounting is for most people a pretty boring subject. After all, you probably didn't become a martial arts instructor because you wanted to be an accountant. However, accounting is critically important to your business for two reasons. The first is that as a business owner, you are legally required to follow certain standards and keep records of your business activity. When it comes time to pay sales tax, you better know how much gear you sold!

While the first reason is more of a burden, the second is not. You must keep good accounting in order to **make correct decisions**. You have all kinds of decisions to make on a day to day basis. How much should you charge for shin guards? When should you order new mats? Should you switch phone companies? When should you schedule the next test? Are you getting your money's worth out of your employees? Is it time to open a new location? Can you afford a new car? Of course, having good accounting doesn't *guarantee* that you will make decisions correctly. But it does mean that you will have the best available information in order to make those decisions.

Many school owners have accountants who prepare this information for them. This can be incredibly helpful. Keep in mind, though, that you know (and care!) much more about your business than your accountant does. Do you really trust him or her to make some of the decisions for you? Or will he or she just help you prepare the required tax forms? Most forms such as monthly financial statements should be prepared by the school owner, since having someone else do it requires almost the same amount of work.

Cash vs. accrual accounting

Early on you must decide whether to use cash based accounting or accrual based accounting. There are two main methods of accounting with advantages and disadvantages to each.

- **Cash Method** – Most people use the cash method for their personal accounting. You record transactions when they are paid for. For instance, someone pays \$1200 in January for a 1 year prepayment. You record that entire payment in Jan.
- **Accrual Method** – This method records revenue and expense as they occur, not when they are paid for. In the previous example, you record \$100 of payment for each month, Jan-Dec.

As seen in the previous example, the cash method will make January seem like a great month, and the other months not as much. The accrual method is therefore generally more accurate, and is required for all businesses over \$5 million in revenues. All large companies use the accrual method. The disadvantage of the accrual method is that it does not relate that well to what most school owners are more concerned about, the actual cash in the bank. The accrual method is also more complicated to use. Most schools don't extend a significant amount of credit to customers, and pay for services or goods when they are received. In other industries, it is common to pay for services or goods up to ninety days after receipt.

We use the cash method in our schools and generally recommend other schools do so as well. Keep in mind however, that there will be significant month to month variation. With a job, your income is generally similar every month. With a business (especially on the cash accounting basis) you may lose \$3000 one month, only to gain \$9000 the next. The accounting system should use averages to spread out this volatility. Using the cash based accounting system may also allow you to time major (non-inventory, non-capital expense) purchases in order to take advantage of tax savings. If you purchased new cleaning supplies on December 20th instead of January 5th, you could deduct them on the previous year's taxes. You cannot do much of this under an accrual system, but if you can prepay your expenses (advertising, rent, etc.) and defer revenue (maybe have a major sale after the new year or ask a student to pay for a year up front after the new year) you can defer your taxes. It's important to note you can't *avoid* your fair share of taxes, you just push some of them back

a year. In the next year you will have to pay more, but you will have a year to keep that money and use it to grow your business.

True cost

Often you may want to sell some items at cost, either as a favor to other instructors (say someone down the street needs just one yellow belt) or to reward students. In any event, it is important to understand the **true cost** of any item when deciding to set prices. Can't you just look on the wholesale pricing list from the vendor and see the wholesale price?

The wholesale price will be the major component of the true cost but will be less than it. You will also need to take into account any shipping or sales tax you paid. On top of that, you need to store the item somewhere until you sell it. How much rent are you paying, and how many square feet are taken up by storing inventory? Did you pay a staff member to place the order or sell it? What about receipt paper and ink? When you make a special order for t-shirts (especially limited edition ones for a camp or tournament) you won't sell 100% of them. Perhaps most importantly, what about all the money tied up in inventory? Our school generally has about \$8000 tied up in merchandise we plan to sell. The opportunity cost is at least the interest rate on your loans.

Admittedly, many of these things are minor. However, it would be safe to say that the true cost of most items is about 25% above the wholesale price. Knowing this can help you set your prices for equipment you are selling.

Opportunity cost

Opportunity cost is an often misunderstood or ignored facet of economics that is nonetheless important in proper accounting. The concept of opportunity cost means that you basically have to take into account what else you could be doing with your time and money. For instance, if you started a new program at the dojang that brought a 3% return on your investment, you might consider it a success. However, if you have loans at

6%, you are actually farther behind than if you had used the money to pay back loans.

If you spend your money to open a new school in one part of town, that money is now unavailable to open schools in any other part of town. Time you spend teaching class is time that is now not available to grow the school. Time spent growing the school is now time unavailable to teach class. Things are rarely as cut and dry as the example with the new program and the loans, and there is usually a fair amount of speculation required to calculate 'what could happen.' Just keep opportunity cost in mind whenever you are tempted to start something new. Think of what else you could be doing. Also, always review your operations and resources and see if any of them could be better used elsewhere.

Salary vs. profit and return on capital

A related concept that is important to understand is how you determine the 'profit' of the business. When there is only one owner and the business is set up as a flow through entity, the profit of the business is your salary and that's what gets reported on your schedule C form. The amount of money in the bank is never reported, that money is yours whether it's in the company bank account or your personal bank account. You will pay self employment and income tax on that money. However, when looking at the return on the money you've invested in the business, you have to use the true cost, which would include the amount you paid to yourself, or the amount you'd have to pay someone else to get the same result. For instance, say the business brought in \$100,000 and had expenses of \$60,000. The "profit" is \$40,000 and so is your salary. 40% "profit" margins seem really great. However, there's no way you could ever duplicate that because you need to account for all the work you put in to get it to that point. Maybe you could have paid someone else \$30,000 to achieve the same result. In that case your profit margin is really 10%.

Why does this matter? It doesn't in the majority of cases, i.e., when a single person owns a single school. However, it can become important to define a 'salary' when there are multiple partners or when you need to

think about how much money you will be able to make when you expand to another location where you will have to hire someone to manage the school there. This will be important when you think about what type of return you can get on your capital, or if you've structured a deal to pay back investors a certain percentage of the profits.

Debt vs. equity and sources of funds

If you do not need any funds to start your martial arts school, congratulations! However, most people who are just starting out will need starting capital, and even if you do not, it may make sense to borrow money to make a major purchase for expansion. There are generally two ways to get money.

Debt – Debt requires borrowing money, generally at a specified rate of interest per year. Interest rates are generally dependant on your personal credit score if you are just starting out. There are two main types of debt.

- **Secured Debt** – Debt can be 'secured' by offering collateral. If you cannot pay back the loan, the creditor will accept the collateral in return. Because the creditor has something to gain even if you cannot pay back the loan, this type of debt is usually easier to obtain and rates are lower. The most common type of secured debt are auto loans and mortgages.
- **Unsecured Debt** – These include personal loans, business lines of credit, credit cards, family loans, etc. Those types might be secured as well, however. It depends on the deal.

Equity – Equity requires selling part of your company as an alternative way to raise funds. It requires a valuation of your business that can be agreed on by all parties. Equity financing is a major way large companies raise money, often through an Initial Public Offering (IPO). Even large companies could raise much more debt than equity, though. Stock is a form of equity financing. The benefit of equity financing is it

seems 'free' in that money comes in and if the company fails, you do not have to pay it back. You might not have to pay the debt financing back either, but it depends on the deal. A large company that got a bank loan and then failed might be off the hook. If you borrowed \$10,000 from your grandma you still have a moral responsibility to pay it back.

Which type of funding is better for martial arts schools? The answer depends on a number of factors. We have used both in our schools in the past. The interest rate and availability of debt is important. Borrowing money at 30% on credit cards isn't generally a good idea. In general, a low interest flexible repayment debt financing deal is what you would hope for. With equity financing, the company is no longer 'your' company. Now you must come to agreement with others concerning operation, and they could even remove you from your job. It all depends on how much ownership you give up. With equity funding, it is also better if the person who wants to control part of your company can help the company on a day to day basis. Selling 20% to an accomplished instructor who will come in and teach some of the classes could be a great deal. Just remember that you will be giving him 20% of the profits each month, depending on how your operating agreement is structured. Yet this might still be a good deal as you would not generally have to pay him an hourly wage. Also, selling 10% to an accountant or business advisor who has a real interest in your school could also be a good idea.

In any event, before taking any funding, make sure to add this in to your financial model. How many months will it take to pay back at \$x per month? How much interest will you pay over the life of the loan? Remember that business interest is tax deductible, so your true cost (after taxes) will be somewhat less than the amount of interest you are paying.

Business lines of credit from a bank can be good sources of funding. It is important to have a good relationship with a bank. Know the people who work there. Say hi when you walk in. The longer you stick with one bank, the more likely they will be to give you a line of credit. Most interest rates will vary with the federal funds rate, set by the Federal Reserve. The bank should still require you to submit financial documents

and detail how you plan to use their funds. **Hint:** “*I need money to keep from going out of business*” is much less likely to get you approved than “*I want to move to a bigger space and I need money for the initial buildout.*” Remember that bankers have been described as the type of people who will loan you money only when you can prove you don't need it. My grandpa used to say, that a banker is someone who will give you an umbrella when it's sunny and demand it back when it's raining.

Family loans can be a wonderful or terrible source of money, depending on how it goes. The upside is that they will usually not require a credit check or upfront fees. The downside is that it can cause terrible tension in a family, especially if you are unable to pay them back. If possible, only take loans from people who can afford to give them to you. You don't want your mother to lose her house because you made a late payment. Also, think if you want the person who loaned you money to be sticking their nose in your business. In some cases, they will be an invaluable source of great advice. In others, a constant pain. Remember, though, that if you do pay them back, you are also doing them a great favor and giving them a return on their investment superior to that which they might have gotten elsewhere.

Key ratios and metrics

It is important to constantly keep track of several key ratios and metrics to judge the health of your school. In our school everything is in a spreadsheet which is constantly updated by staff members and automatically calculates our key metrics.

Calculating Breakeven- The first number you will be interested in is the breakeven point, which actually has two parts. The first is the number of students you will need to pay all the expenses of the school. The second is all the expenses of the school plus your living expenses. Remember, not taking into account your salary might not technically be correct accounting, but it's the number that's probably most important to you. This is a fairly straightforward calculation. In schools that haven't yet broken even, rent generally accounts for the vast majority of the expenses.

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Add in the utility bills (phone, internet, heat, trash, water), any triple net expenses, and then add 10-20% for other expenses. You should also add in the amount for how much merchandise you think you need to order. Simply divide this by the revenue per student and you will know how many students you need. Round up.

Afterwards, factor in the amount of money that you will need to pay your personal expenses. If you have taken equity financing, remember to factor this in as well. For example, if you own 50% of the school and need \$1000/month to live, the school needs a profit of \$2000/month. This will be the real number of students that you will need. If you both own 50% and do 50% of the work, it's fine. If one person does more of the work, you might need to separate compensation from doing the work from compensation from owning the equity.

Profit/Loss- At the end of every month you should have a P&L statement, or profit and loss. You will of course have only one of the two for each time period. The number is the **revenue** (all the money coming in) minus the **expenses** (all the money coming out). If the number is positive it's called a profit, negative it's called a loss.

In most cases, this will be your salary. Whatever you do, don't divide it by the number of hours you worked! If you do, then this will be your hourly salary. Getting this number usually provides an important reality check, especially with respect to opportunity cost.

The interesting thing to do with the profit/loss numbers is graph them out to see trends. You can also perform a regression analysis (or just take averages) to extrapolate out and see how the business should do in the future.

Remember that under the cash accounting basis, there will be a high level of volatility in your monthly profit/loss numbers.

Per student numbers - It's important to know your per student numbers, found by simply dividing the total revenue, expenses, and profit

by the student body count. This can be very useful in comparing two schools, or by seeing the real value you get from each new student. Generally per student expense goes down as the number of students goes up, based on the high percentage of fixed costs (i.e. rent). Is your per student revenue lower than your new student tuition rate? You probably have a high number of family discounts, people who are delinquent on their agreements, inaccurate student count, or a problem in accounting.

Cash/Debt Ratio - Cash to debt ratio is basically your ability to pay off your loans. You take the money in the bank at the end of the month and divide it by the total amount of your debts. When the number reaches 1, you can pay off all of your debts. The lower the number, the more danger you are in by taking out more debt. For numbers higher than one, you are a good risk for anyone to loan you money. Look for this number to increase over time. This number becomes meaningless when you get out of debt.

Months to Burn - The months to burn number is more useful in companies that are not expecting imminent revenue, for instance a startup company that is working hard to get its first product out to market. However, it is still useful for martial arts schools. It is found by taking the money in the bank divided by your monthly expenses.

The months to burn number tells you how long you could operate the business if you stopped receiving any more money. For most schools it doesn't matter if it's under 1, because you are constantly receiving payments for tuition and merchandise sales.

For a martial arts school starting out, an analogous useful number could be found by dividing your savings by the amount of money lost at the end of the month. This will tell you how long you can go at the current level before you exhaust your savings. Be sure to factor in your personal expenses as well.

Lifetime Student Value/Cost to Acquire - An important number for your marketing budget is the Lifetime Student Value. This is basically the

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total amount that the average student will spend at your school. It is calculated as follows

Average Student Value/month * Average longevity in months * (1+ average referrals/student)

Say your average student value is \$2000. That means that if you spent \$500 on marketing today to get one student, over time that would result in a net \$1500 return to your school. Of course, that doesn't mean that your marketing money wouldn't be better invested elsewhere. If you know your leads/students ratio, you can also calculate the amount of marketing you should spend to get one lead.

Keep in mind that this scenario assumes all profit is marginal. In the average student value there is also some cost for the equipment sold.

Student Path - You should define a path that ideally everyone who comes into contact with your school will follow. The path is also basically like a funnel. You can get more out of a funnel in two ways. You can either increase the amount going into the funnel (new leads) or widen the sides and output bin. Knowing this equation can help you successfully diagnose problems or bottlenecks. A basic funnel would look like this:

Prospective Student >> Trial Student >> Student >> Black Belt >> Instructor >> School Owner

Obviously, everyone you come in contact with is not going to become a student, let alone a school owner. But if you increase your conversion ratios even slightly, you will end up with a much better outcome. You could break it down into even more steps, such as white belt >> yellow belt >> Level 2 class, etc. The key thing here is that you will be able to tell where the bottlenecks are. If 90% of the people who are interested join but only 30% of the white belts become yellow belts, you have a problem in your beginners' class.

Students/Leads - The student to lead ratio will be one of the most important things that you track in terms of the growth of your school. From the equation above, you can calculate this by simply dividing the number of Prospective Students (leads) by the number of those leads who become students. **Warning:** Some people will tell you to calculate this by simply dividing your monthly enrollments by monthly leads. In practice, unless you're getting very large numbers of leads, this will skew things because someone who just called your school on the 30th shouldn't be counted as not signing up. It's better to use a system where each individual lead is tracked. The disadvantage here is you have a lag until you know your true statistics, but this also reflects reality because there is a lag from when people first contact you until when they become students.

The 'industry target' is to move 80% of your leads through each phase. However this number is practically meaningless because different schools define different phases. For instance, one school just signs people up on the spot. Their theoretical student to lead ratio is 80%. Another school has an initial contact, school tour, two intro lessons, and then signs students up. If they get 80% at each junction, they have a student/lead ratio of 41%. Both schools are at the 'industry target' but the first school is converting twice as many students. That is why I advocate the student/lead ratio concept.

What is a good ratio to have? It depends a lot on the type of lead. For leads such as family members of students who are currently training, you should be near 100%. Other leads are lower quality. We once had a booth at a health fair of a nearby major corporation. They gave out prizes to their employees who visited the most booths. We were initially excited to get over 60 leads in one day! Yet, not one of them joined. See more on this in the types of leads section.

If you can keep this ratio above 50%, I would consider that great. In general, the more actively you market and more leads you have, the lower the % will be. Conversion will always be higher for leads who sought you out than for those who just happened to see you.

The inverse of this number is the leads/students ratio, or the number of leads you need to get one student. If you know it takes 4 leads to get 1 student and how much a student is worth to you, you know how much you can afford to pay per lead in advertising. Of course, it doesn't mean you should pay that much!

Leads to Black Belts - The Leads to Black Belts ratio is an interesting 'big picture' number of how your school is doing. How many people walking in the door does it take to get one black belt? In a 'perfect' school, every person who you talked to would end up a black belt years down the line. Thus, the best value for this is one. Yet due to human nature, only an impossibly easy school would get this low of a number. To calculate this, first see how many leads you need to get each student. Then multiply by your yearly retention rate raised to the power of the average number of years it takes to get a black belt. This number is an estimate, but can be automatically calculated at any point in time rather than only be figured out years later.

Average Longevity - Perhaps the most important number to the school is the average longevity. Simply put, students can't become better if they're not in class. This number is usually expressed in months and it's the inverse ($1/$) of the quit percentage each month. For instance, if 4% of your students leave each month, then the average longevity is 25 months. This is also known as 'shutting the back door' or increasing retention. The reason this number is so important is that it gives the maximum size of your school. The maximum size of your school is the average longevity times the monthly enrollment. In the previous example, if you enrolled 5 students per month, the school would be around 125 students. If you enrolled 7 students per month, it would be around 175 students. Obviously, this calculation relies on averages and is true for a steady state school – not actively growing or shrinking.

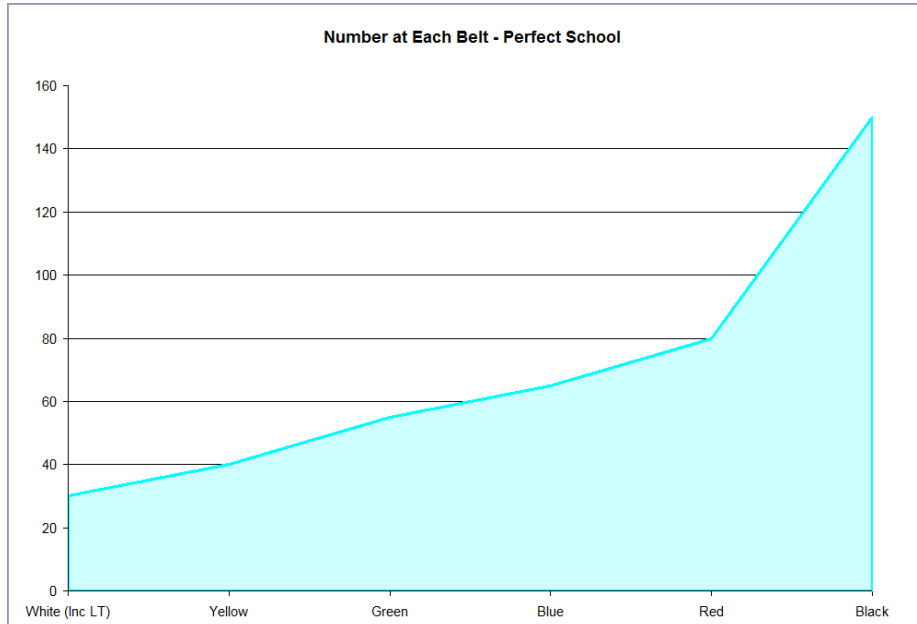
There is a general statement in the martial arts business that the vast majority of schools are 10% above or below one year's enrollment. So if you enroll 10 students per month, most schools would be between 108 and

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132 students. I think this is pretty accurate. This also assumed that the quit percentage is around 8% per month. Good schools can definitely do better.

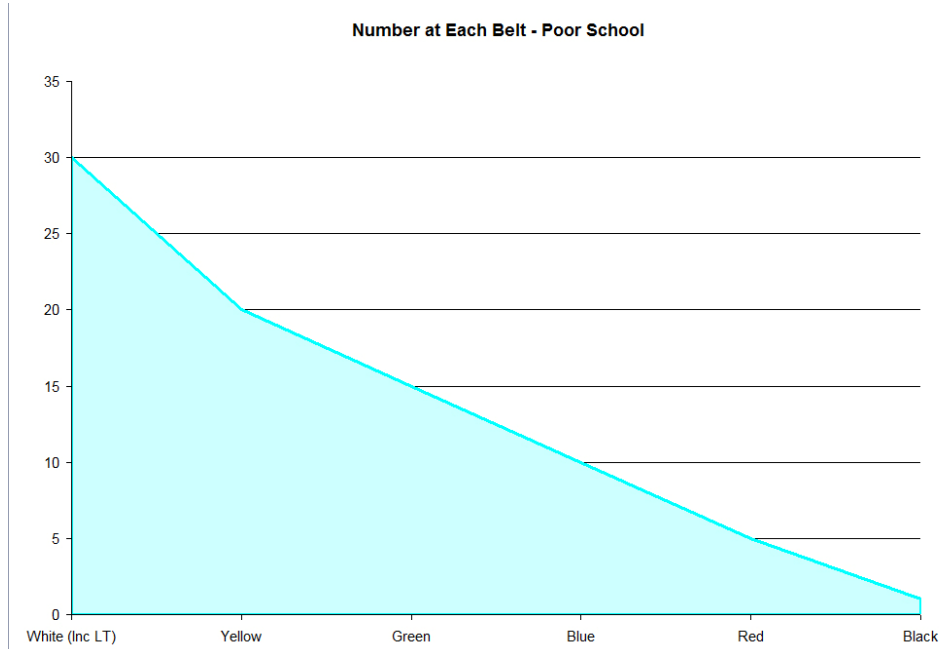
Retention Curves – If you count the number of students you have at each belt, you will be able to plot out retention curves and find some interesting information. I recommend ‘smoothing’ the curves, by lumping similar belts together. For instance, we have yellow and high yellow belts added together to get the value for yellow. This information can also be displayed in a pie chart, but I think the curve will really help you get a sense of what is going on and where you are losing students.

- **Perfect School** - Let’s see what a retention curve would look like for a perfect school. What belt would most of the students be? Depending on how long the school has been open and retaining all its students, most of the students should be black belts. This is because as groups move through, they all get ‘caught’ at black belts. There is a ramp up through blue and red belts, because students on average will spend more time in those ranks. If your curve looks like this, congratulations!



• **Poor School** – How about for a poor school? Most of the students there will be white belts. Both schools have 30 white belts, but in the poor school students drop out constantly, so very few make it to black belt. This type of curve can also happen in a rapidly growing or new school, however. If the school has been open less than the amount of time it takes to go from white to blue belt, there will be very few blue belts and above. (Probably just a few transfers) Similarly, if a 20 person school just amped up its marketing and 30 new white belts came in, the curve would be bottom heavy.

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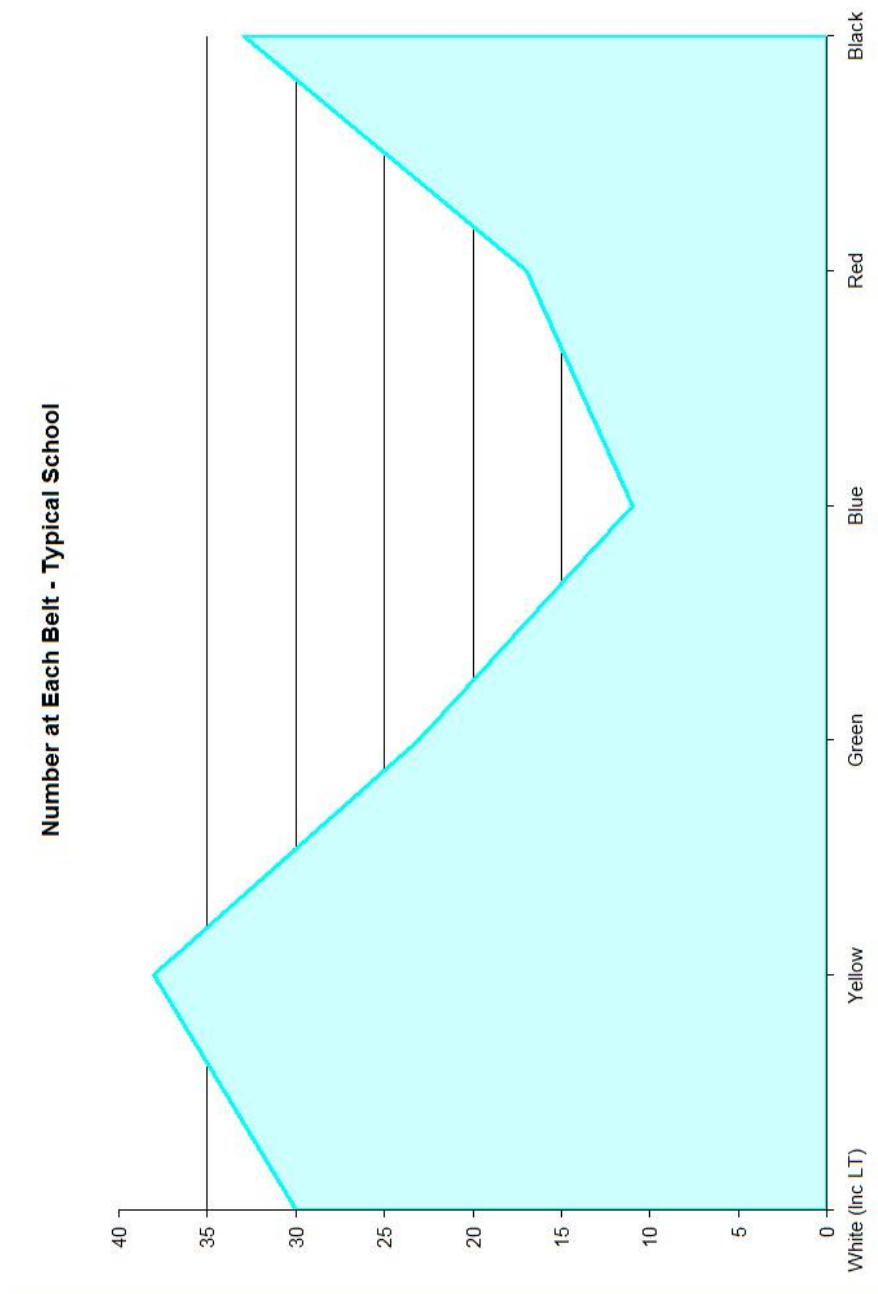


Typical School – What does the curve for a typical school look like? This school also starts out with 30 white belts. Although some drop out before they become yellow belts, there are more yellow belts because the average student spends longer as a yellow belt than a white belt (since there are two yellow belts). In our school at least it's not that much of a jump because some white belts are white belts for a long time (since we include the preschool programs that take 9 -12 months as white belts with various stripes). The number per belt drops through green and then reaches a valley for blue belts. They spend about the same time per belt as yellow belts, so there is natural attrition. The number per belt picks up again at red belt because there are three red belt ranks and also people hold up their testing before black belts. The numbers of black belts rise up again because people stay as a black belt forever.

Bill Pottle

When you plot out the curve for your own school you can see if there are any sharp drops, and then take steps to correct the problem. For instance, maybe students are quitting when they have to start sparring, or taking a different class, or pay more tuition. One thing that we noticed was that our preschoolers' class was losing a lot of students after they graduated to the regular class. Although they were ready technique-wise, they weren't ready maturity wise and the older class was too much of a shock for them. So we created a level 2 class for preschoolers to give them more time and that improved our retention of those students dramatically.

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Fixed Costs/Marginal Profit - One of the most important things to understand in the economics of martial arts schools is that we have generally fixed costs. Have you ever wondered why there are so many commercials on TV for movies but so few for books? No, it's not because movies are more popular. The *Harry Potter* books grossed more than the movies. The answer has to do with fixed costs. The cost that a movie theater has to run a movie is mostly based on using its space, heating, air conditioning, electricity, etc. The cost is similar no matter how many people are in the theater. They do have to pay a percentage of the ticket revenues, but their main costs are fixed. Yet with books, they need to pay for the cost of production of the book, shipping to the store, etc. The cost is per book sold, which is not fixed. Thus, if a movie gets one more person to come in, the whole ticket is profit. If a book gets one more person to buy it, the profit is just a percentage of the revenue. At the end of the day, movie advertising needs to get less people to take action to be profitable than book advertising, and that is why you see more of it. The same will help you understand why airlines will offer sharply discounted fares at the last minute. They're already paying to fly the plane, so an extra person adds little in the way of expenses.

In a martial arts school, providing classes has a fixed cost while selling merchandise does not. Most of our money comes from tuition, so this is good for us. The problem comes when the school cannot pay its fixed expenses. We've shown before that the fixed expenses for small schools are mostly made up of the rent. Your costs can be variable (i.e., 30% of tuition collected) if you are just renting by the hour, which I recommend for starting schools.

The good part about this comes after a school can pay its expenses. For instance, imagine a school that has revenues of \$6,000 and expenses of \$5000. If it can increase its revenues by 10%, it will increase its profits by 60%. The profit is now \$1600 instead of \$1000. When you reach this point, it is critical to understand it and realize that work done at the margin has almost 100% benefit. Of course you may have to use more trash bags, toilet paper, and electricity when you have more students, but this is negligible. This also goes into how much you should be paying for

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advertising or how much your effort in marketing will be rewarded. There will be a big step up in costs when you have to hire another staff member or increase the size of your school, but these things should need to be done only when the revenue supports it.

This is similar to graphs that try to give a false impression, used sometimes in advertising or political campaigns. For instance, if one value is 210 and the other is 225, starting the 0 point of the graphs at 205 makes one bar 4 times higher than the other one. The take away message is the same, though – at the margins, small efforts can have proportionally large rewards.

Chapter 11: Satellite Programs

We have found satellite programs to be an important part of any successful school. Done properly, these programs can provide significant revenue to the school, geographic expansion from which you can draw students, and a great training ground for your instructors. If your main school is close to 'full', they will also allow you to teach more students without putting more stress on that facility. This can all be accomplished with very little cost or risk. These programs are great for schools just starting out, and some schools even consist entirely of satellite programs. A satellite program is anywhere you decide to teach outside of your main school building. There are three main types:

- **After school Programs** – These are programs where you work with an existing academic school to teach a class right before or after (or even sometimes during) school hours. It is generally open only to students of the school and promoted by the school along with their other activities.
- **Rec Center Programs** – These programs may be anywhere (even an academic school) but are usually later in the evening. The difference here is that the location doesn't matter so much as the fact that the class is open to everyone. The location it is at may or may not help you to gain students.
- **College Programs** – These programs are generally set up a little differently, but here you are teaching at a college and it may be the official team for that college.

In any of these programs, it is possible to be an employee, an independent contractor, or simply a business that signs a deal with that location. There are advantages and disadvantages of each.

- **Employee** – When I teach at Metro State College, I am an employee. My salary is the same as any other part time faculty

member who teaches eight credit hours per semester. That means I get paid the same whether there is one or 100 people in the class. The advantage of being an employee is that the class is covered under their insurance, they take care of payroll taxes, and employees get some benefits such as a shared office, ability to collect unemployment, faculty ID, etc. Plus I don't have to do any marketing or deal with collecting tuition or setting the class list. The disadvantage is that they can replace me with a different person to run the class. The other disadvantage is that I can't insert any instructor to teach for me, since the contract is for me to teach the class. In the other relationships, contracts are usually with the martial arts school, in which case the school can provide any instructor it deems competent.

- **Independent Contractor** – This would be more common in fitness centers. It is similar to being an employee in that the location would likely take 'ownership' of the program, and simply hire you to teach it. The difference here is that you will need your own insurance. The students likely pay the facility and then they pay you, probably a flat rate per hour, but maybe a percentage.
- **Business Partner** – This is the most common and what we usually go for in most cases. In this case the business will simply sign a contract with the facility to rent their space. This is the loosest relationship between the two parties. You are completely responsible for what happens during your class (i.e., marketing, getting people to sign up, leaving the room how you found it, etc.) The facility will generally only require that it be listed as an “additional insured” on your liability insurance. There are many other beneficial terms you can negotiate into the contract.

Now we will break down the three main types of programs and give details on how to find them, how to see if they will be worthwhile, who to negotiate with, and what terms you should go for.

After school programs

Schools have had success with both temporary and permanent after school programs. In temporary programs, schools usually do something like six weeks of basic classes, after which students are invited to get their white belt in a party at the main school. At the party the school tries really hard to get the students to sign up for regular memberships. These work better when you don't have the staff for permanent programs, or you charge high tuition for your main school.

In permanent programs, you teach a full curriculum generally two times per week and students train year after year in the school. We also like to offer them the opportunity to train once per week in the main school so they get a better value for their money. The permanent programs can also give the students a sense of history and school pride representing their academic school. One of our long term goals is to get enough of these to form an elementary school TKD league. There are four types of schools that work:

- **Charter Schools** – Charter schools are public schools, so parents don't have to pay tuition to send their kids there. The parents also took their kids out of a regular school, so the fact that they care enough about their kids' education to do that means that they are more likely to sign their kids up for Taekwondo. This isn't saying that parents who are in the regular public schools are bad parents or not involved, just that you may find a high percentage of involved parents in charter schools. Many charter schools are organized around a certain learning model or mission. It could be language immersion, block scheduling, math and science based, or even based on a famous person's teachings. (i.e., Ben Franklin School). Make sure you understand this so you can show how martial arts fit in. Charter schools are also great because they generally have more control over what goes on. Therefore, you may be able to go through the school directly without having to go through the district.

- **Magnate Schools** – Magnate schools are district schools, but generally are for the brightest students in the district. They can be very difficult to get into. Like charter schools, the parents here care deeply about their children's education and often like to give them every advantage, including martial arts classes. You will generally need to go through the district here.
- **Private/Religious Schools** – These can be great as well, but the difficulty will be that the parents must pay tuition (often several thousand dollars per year) to attend the school, so they may be less able to afford martial arts training after school. However, this varies sharply with the school itself and the neighborhood that it is in. One advantage is that you can negotiate everything directly with the school, so often knowing one key person is enough. For instance, the mom of one of our black belts was a principal at a Catholic school. It was very easy for us to get a program started there and negotiate favorable terms.
- **Public Schools** – By far the majority of schools out there are traditional public schools. The disadvantage here is that you will face more red tape (and possibly more space constraints) in order to get your program off the ground. The advantage is once you receive district approval of your program in general, it will be easier to spread your program to other public schools in that district.

What to Look For – The 'perfect' school is one close to your main facility, with a high enrollment, multiple extra rooms besides the gym, and a vibrant school community. It is a HUGE plus if you have a parent of a current student who is involved in the school. This is probably the one thing that will increase your chance of success more than any other factor. It's a bonus if that person is also a teacher or staff at that school.

Once you have identified a school as a possible after school program, you need to meet with the decision maker. This is often the principal of

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the school, but it could be someone else. **The most important thing to convince them of during the meeting is that the program will benefit their school.** Zig Ziglar said *“You can get whatever you want in life if you help enough other people get what they want.”*

So what would a principal want? First of all, revenue. Schools can always use more money. At one school we started they had a huge fundraiser the year before we were there to preserve funding for teachers' aides. Our program could have provided more than 10% of their funding goal if we had been in place. They don't have any marginal costs for that room you will use so what you bring in is pure profit to them. They also want more focused and disciplined children in their classes, and martial arts can provide this benefit as well. It is also important to remember that schools are competing against each other for students (especially private and charter schools) and the ability of a student to earn a black belt before graduation could be a great selling point.

What would a principal be concerned about? The biggest thing is liability for someone getting hurt. In this case, inform them that the instructors are trained, the parents sign waivers, and the school carries insurance and can also have the academic school named as an additional insured. (Usually it is very inexpensive or free to add them) You should also consider not doing sparring training at the academic school. It would be cumbersome for the students to have to bring their gear from home anyway, especially if it can't fit in a locker or cubby. It also gives interested students a reason to come to your main school. You can usually still do grappling training, though, as long as you have a properly matted floor.

The second most common concern is that your program might take revenue away from an existing after school program. If there are children paying for aftercare five days per week currently, they may join Taekwondo and then only pay for aftercare three days per week. The school might get 100% of the aftercare revenue but only 15% of your revenue. This might seem like a problem at first but the solution is really just math. The number of kids affected will be small and you will be able

to guarantee the school won't lose any revenues by paying for the difference.

The last concern might be something related to a misunderstanding of martial arts. The decision maker could think that you will create bullies or in a religious school he might believe that practicing martial arts would be against their religion. These can usually be corrected with a bit of discussion.

Details of the Deal – You will generally pay for the room rental with either a **flat fee** or a **percentage of revenue**. The amount of the flat fee depends on the space. For district schools, these are usually set in advance by the district. For instance, any elementary school classroom might be \$20/hr while any middle school gym might be \$75/hr. The best room to use would be something like a multipurpose room which could be large enough but still not too expensive. With the flat fee, make sure to read the fine print. After school will usually be fine, but you might also need to pay a custodian's fee depending on the time.

A percentage of revenue will ensure that both parties have an interest in promoting the program. Make sure that you specify a percentage of **tuition** revenue. That way you won't have to pay a percentage of the testing fees or equipment sales. What percentage you should give up depends on whether or not the school is collecting signups, promoting the program, and taking in and accounting for revenue. Somewhere around 25%-35% would be a good amount.

A percentage of revenue has the advantage of ensuring that you can't lose money, while a flat fee is better if the program is more successful. How can you tell which one will be better? You have to make some assumptions and do the math. For instance, say you have five students who are each paying ten dollars per class. If the flat fee was \$30 per hour you make \$20, if it was 25% you would make \$40. However if the class grew to twenty students you would make \$170 with the flat fee, \$150 with the percentage.

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There may be some other considerations. For instance at one school we pay 15% of revenue, but we have to let one student come for free for each ten students we have paying. (The academic school picks who gets the scholarship). Also as the number of students increase, the percentage cost goes up. However, it is still a great deal for us.

Mats – It is important to have a matted training area if at all possible. Mats can be expensive if they are only used a few hours per week. However, if run properly, these afterschool programs should be able to pay for their own mats. Talk with the school and work with them on storage. At one school their gym floor is cement. We put out mats every day, but that added labor costs and stress. We talked to the school and offered to split the cost of matting the entire gym floor with them. Now the mats are down permanently. It saves us time and labor, and the school definitely sees us as a serious partner with them.

How to promote

Back to School Night – Having a table at a back to school night is a great way to promote your after school program. It is important to set this up well in advance, as these nights are usually held during the first or second week of school, probably before your classes begin. Remember that there will probably be many important things going on (parents meeting teachers, etc.) during this time so parents will be busy. They will probably want to talk to you for only a minute or two. If you talk to one parent for too long, you may miss out on the other ones. Here is what you should bring:

- **Intro Flyer** – Give details on the mechanics (class times, cost, schedule) and benefits (confidence, discipline, etc.) of the program.
- **Liability Waiver** – If they have time to fill it out there you will get their contact info and it will save you time during the first few hectic days.

Bill Pottle

- **Uniforms** – A few sample uniforms can help kids visualize what it will be like. It will be great if you can sell some. They will be more likely to join.
- **Automatic Payment Sheets/Contracts** – If you offer autodeposit, some parents may sign up on the spot.

Make sure you wear your uniform! This will catch people's attention. Remember that you are representing the school so be courteous, polite, and knowledgeable! It can be helpful to make a poster board sign and hang it from the table.

College Programs

Having a college program is one of the most important things you can do for your school and its future growth. There are several reasons why this can benefit your school.

- **It's Fun** – Sure, all martial arts training is fun. But you can get burnt out teaching kids all the time. With college programs, you can be around adults. You can be friends with them more easily than with your other students. You can relate to them better, and they to you. College kids have an insatiable energy that you will start to feed off of. You can give them different challenges and drills than you can give to younger students.
- **It's Flexible** – College students can train during the day time, or late at night. You can extend the number of hours that you can work during a day and thus the number of students you can teach and the income you can make by adding a college program.
- **College Kids Have Skills** – Depending on where you go, you will meet students who are plumbers, electricians, etc. You will meet waitresses who can help get their restaurant to sponsor your

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tournament. This can go a long way towards making your life easier.

- **Great Source of Employees** – College students can be great employees for the front desk. But they can also transition into being great instructors faster than your general student population. A ten year old who joins might take eight years to be a great instructor, while a college student could get there in three or four years.

How you set up the program depends on the college. There are several options:

- **Academic Class** – This is the most difficult to run and also the most difficult to set up, but by far the best type of program. The reason it is difficult to set up is that most schools do not allow activity classes for academic credit. There may also be restrictions on what type of advanced academic degree you need to be a teacher. This class is the best because many people will sign up without you having to do any marketing. It is more difficult to run because you will probably have to deal with taking attendance, grades, faculty meetings, syllabus generation, etc. The school will also hire you as the teacher, whereas your other students only hire your school to teach them. You will probably be limited on who you can have sub for you and how many times they can do it.
- **Sports Club** – In a sports club, there will generally be some funding from the school available. Sports clubs can be difficult to establish but easier to maintain. The instructor or coach might be hired directly from the school, or elected from the members of the club. The club members will pay dues, some of which would go towards your salary.
- **Club** – A regular club is generally the easiest type of program to set up, often requiring no more than three interested students.

Bill Pottle

Sometimes they will also require a faculty advisor. The difficulty here is that you must do all of the marketing to get people interested. This will be more difficult in the beginning, but might not be so bad once the club is established. The other problem is that you must continually find new officers each year, and things can fall through the cracks. At some schools, until the officers and constitution is set, you won't be able to get any practice space.

College students generally pay less to train than other students. You can still make money from testing fees, merchandise, and special events, so it is usually worthwhile even if their tuition is inexpensive. For instance, if you have a regular academic class, the students pay their normal tuition per credit hour, and you get a salary per credit hour you teach. It's the same no matter if there are two or 20 students in the class.

College is one of the best times to do martial arts. Although many of your students won't continue after they graduate, you will make many lifelong friends, students, and employees from the ones that do stay.

Collegiate officer positions

While each college team will be different, this section contains suggestions for club officers and notes on how to do each position written by outgoing Cornellians who successfully served in each position. The positions are determined through elections or consensus among the assistant instructors and people serve one year terms. The club has the following officer positions.

President- The club president is the one finally responsible for the success of the club. He makes sure all the other officers are doing their jobs. He also is in charge of corresponding with the leaders of other clubs and for submitting the budget jointly with the treasurer.

Treasurer- The treasurer has a very important job and the position requires an organized and responsible person. Working with the president, the treasurer must submit an annual budget to the Club Sports Office. The

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budget must be completed carefully. After the budget is approved, the treasurer is responsible for collecting reimbursement forms from students and turning them in to the office. The treasurer is also responsible for making sure the club pays its dues to any applicable organizations.

Away Tournament Coordinator- The ATC is responsible for organizing travel to and from away tournaments. This person is also responsible for sending a thank you gift or note to any house that hosts the team.

Webmaster/List Manager- The Webmaster is responsible for maintaining and updating the club web site and the list manager is responsible for maintaining the list and signing new people up each semester. Both of these positions can be held by one individual.

Semi-Formal/Social Chair- This chair works with the president and treasurer to organize social outings for the club including all aspects of the annual semi-formal, an awards banquet held each spring.

Alumni Chair- This person is responsible for putting out the semesterly alumni newsletter update, as well as maintaining the database of alumni contacts and information.

Archivist/Historian- The archivist is responsible for updating the club archive with material from the current year as well as filling any gaps from the past.

Here are notes on how to fill a position successfully written by some former officers.

Away Tournament Coordinator *(by Master Abhi Mathur)*

(Abhi Mathur is a fourth degree black belt and a graduate of Cornell University and NYU Law School.)

Bill Pottle

This job is for organizing the team for away tournaments. It includes organizing transportation, housing, team make-up, and any other matter that may come up. It involves dealing with the treasurer, the president, and Sabumnim. There are many difficulties that should be known before accepting this job. There is a lot of stress involved with this job. You must remember to get as many people to go to the tournament in order to increase the probability of our team doing well.

The weekend before the tournament, a list of competitors must be made. Everyone should have told you by midnight Sunday. Use this list to plan the amount of cars and drivers available. If we are short on transportation talk to the president and the treasurer to determine if a rental van is needed and the amount to charge per person for the van. Next, start assigning cars. Pay primary attention to the time that people can leave. Also, make cars where freshmen are with upperclassman to make a stronger team. Of course, always take requests and try to make the whole tournament experience a good one for everyone.

Make sure by that Tuesday, housing, car and van rental is all taken care of. Make sure everyone has a back up driver because going to a tournament often makes drivers very tired. Remember to send an email by Wednesday about what items to bring, as the freshmen always forget a cup or a mouthpiece or something. Also send emails about video cameras, and for which car will be carrying the extra pads and *hogus*.

On Thursday or Wednesday send out an email about car assignments with everyone's email so that people can talk among themselves about when to leave and from where. Also, by Wednesday let all the drivers know about the directions to the tournament/housing they are staying at. On Thursday, make sure you have someone to pick up the van on Friday and return it, and on Friday, make sure you have everyone's cell number in the cars. Then, keep in touch with all cars to make sure no one was left behind. Saturday morning, come a bit early so that weigh-ins can be done before the captains meeting. Because weigh-ins take time, recruit a lower rank to help you, and get you in case any help is needed. In addition,

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remember to buy bagels for the team in the morning, and get a receipt when you pay the tournament money to the TKD club.

During the tournament, keep track of the points accrued throughout the tournament and watch out for mistakes. Also, make sure there are coaches for everyone, there are corners, centers, etc. Often, don't do things yourself, but find people to do things. So, know people on other teams also, so that when a corner is needed you can quickly point to a black belt sitting out on the side.

At the end, pick someone with the President, who has performed exceptionally well, to receive the team trophy. Make sure the weather conditions are good, and that the drivers are not injured so that they can drive. Have back up drivers. And tell them to call you on the cell and drop you an email when they get home. Congratulations, you have just had a good positive tournament organizing experience. The next day, make sure the van is returned, that Sabumnim knows how the tournament went, and account for all the money and talk with the treasurer about everything money related.

Senior Video (by *Mike Donikian*)

(Mike Donikian has a master's degree in computer graphics from Cornell University and is a first degree black belt. He is also a communications officer in the US Air Force))

So you've been tasked to do the senior video and have no idea where to begin. Well, the following is a simple guide from start to finish on how to go about preparing the Senior Video. First of all, make sure you look through past Senior Videos to get an idea of what is expected. The senior video highlights the Taekwondo careers of the graduating seniors, but also serves as a "year-in-review." Try to include footage and photographs from all the major events of the year.

Second, you have to start early. This doesn't mean you or your staff should start putting it together starting from the first day of classes, but

ideally you do want to start making plans by that time. You should have an idea of what kinds of sequences you want to include in the video. Learn from the past. If you liked something from a previous video, then by all means you should copy that style. If you found something you would like to change, then by all means change it. The senior video should reflect the personalities of the seniors.

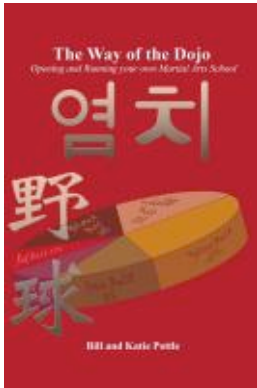
Tips for a successful Senior Video

1. Arguably, the best part of the senior video is the sparring sequences. This part is also the most time consuming as it involves looking through hours of tournament tapes. Do yourself a favor and assign someone to index the tapes as they are being watched during the “tape night” that usually happens the week after a tournament. You're going to be watching it anyway, might as well write down the order of the matches on that tape, who sparred on what team, the outcome of the match, any potential highlight or funny material, and of course the tape counter index of everything you write down.
2. Use Adobe Premiere. It is been tried and tested for two years straight and has proved to be very effective. Other programs don't measure up to the robustness of Adobe Premiere. You can download a free 30-day fully-functional trial version from adobe's website www.adobe.com, but the club also possesses a copy specifically for Senior Video editing. Courtesy of Bill Pottle and Regina Clewlow, the Class of 2001 was the first class to have a senior video that was done 100% digitally using Adobe Premiere. Mike Donikian followed up on that tradition the following year.
3. Make sure you specify a time for all the seniors to get together and introduce the senior video. It's hard to get everyone together at the same time, but well worth it if everyone is included. You could even do it at graduation
4. Try to get footage from as many sources as possible (i.e. Taekwondo class, parties, and people just chilling). You can mix this in with sparring clips, create your own montage, or maybe you might be lucky and tape some funny stuff. Be very liberal with

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tape. Maybe somebody can tape a post-practice dinner or other event that hasn't been taped before.

5. Have fun with it and don't kill yourself trying to make it perfect. It's nice if it's available before everybody leaves for the summer, but also make sure not to sacrifice your own academics or training hours in order to make the video. Release it in the summer if you have to.



The Way of the Dojo is a comprehensive guide for anyone looking to own or operate a martial arts school. It features both traditional as well as cutting edge information on marketing, hiring employees, martial arts school valuation, social media, lease negotiation, school design, and more.

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