

YOUR FINANCIAL FUTURE

Don't Operate in the Dark

BECOME A PROACTIVE FORCE IN YOUR COMPANY WITH STRONG FINANCIAL LEADERSHIP

BY **LESLIE LYON**

The process of developing and keeping a Financial Plan in order may seem a bit overwhelming to some, but it is the single most important component of your business - you're going to have to face it at some time! You might begin the development of your Financial Plan on Excel spreadsheets or your Accounting Software of choice. You may use it as a stand alone Plan, or part of your Business Plan. Physically charting your finances will aid in setting expectations; monitoring your progress and guiding your decisions. You will be able to see your business' projected and actual revenue, growth and profitability results, at a glance - whether you are just starting up your Spa, or you are a seasoned veteran, you need to always have a clear picture of your business's past, present and future.

The value and benefits that will come to you from developing this Plan could literally turn your future around. So, let's start at the beginning. Note: Point #2 is specifically for those of you in Start-up mode.

1. Personal Net Worth – Your personal finances should be in order first. If the business does run into financial difficulty, are you able to float? Better yet...have you covered your assets? Business start up is challenging enough - don't start a business if you are in personal financial difficulty! The formula for calculating net worth is Total Assets - Total Liabilities = Net Worth. (What you own – what you owe = what you are worth).

2. Business Start Up Projections – You will need to know your Total Capital Requirements to start your business. Your Start Up Projections will indicate exactly what you need to consider getting the business up and running; whether you need financial assistance; how much you'll need; and even when you'll need it. The 6 categories of your Start Up Plan are listed below, with 3 examples of items for each:

a) *Build Out, Expansion & Renovation* – This may include quotes for Architectural blueprints, carpentry, landscaping;

- b) *Furniture and Fixtures* for entire space – For example, seating areas, light & sound, special features;
- c) *Linens & Supplies* – Can be a tall order, including bed sheets, robes, slippers;
- d) *Professional and Retail Products* – Your skin care lines, bath and body;
- e) *Equipment* – From front desk technology, to the wet room, to the laundry room;
- f) *Studio Supplies* – All the “behind the scenes” items required to administer the services, such as your bowls, disposables and tools.

It's a good idea to chart your sales projections (or actual sales) against your projected or actual costs so that you can plainly see how this relationship is developing. I recommend this be done in a 3-step process.

1. Sales (Revenue) Projections – Projecting your service and retail sales on a weekly, monthly and annual basis, is the first step in really understanding your business. Once you know what your sales could be, you project your costs to administer those sales, and you now are beginning to see a clear picture of this delicate balance. If a profit is non-existent, or consistently low, this comparison will indicate many things, but the two most important will be that your service margins are possibly too low, or your staff are being over-paid. I like to use Tally Sheets to project Department sales and Individual sales results on an ongoing basis. Use these formulas to project:

- a) *Service Revenue* – Average Hourly Service Price per department X Hours Available (in the Day, Week, Month, Year) X #of Rooms/Stations @ Projected Utilization % = Projected Service Revenue
- b) *Retail Revenue* – Projected Service Revenue X Retail as a % of Services = Projected Retail Revenue



Leslie Lyon began her career in the Health and Beauty Industry 25 years ago and today enjoys her profession as an International Consultant, Educator, Speaker and Writer. Leslie is the Founder and President of Spas2b-Lyonshare Consulting, which is a full-service Spa Development and Training company based in Waterloo, Ontario, Canada. Leslie teaches Spas2b Certificate Courses, which range from 1 to 5 days and offer an energetic and enlightening mix of business systems and life strategies. Students travel from around the world to experience Leslie's unique style of teaching, described by some as “mind, body, soul and spirit” seminars.

Recently, Spas2b was awarded Top Honours from Day Spa Magazine as the course of choice in their “Real World Results” Business Class Survey.

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2. Staff Payroll Projections – This will be your largest expense and possibly your biggest challenge. Ideally, total payroll should land somewhere between 35-50% of gross revenue, although it can go higher, depending on your method of compensation. Comparing your projected Payroll Expenses to your Sales Projections on a weekly, monthly and annual basis will indicate not only when you may need to adjust your weekly staffing schedules, but also your entire staff complement as well as the method of compensation.

3. Cost of Goods Sold (Expense) Projections – These are primarily the *variable* costs associated to administering the services (variable costs fluctuate directly with revenue) and include: your service staff payroll (not administrative staff); professional and retail product costs; and any miscellaneous costs you choose to include. To calculate your position: Sales – COGS = Gross Profit (in other words, profit before your fixed operating costs. Net profit is discussed below under “Income Statement”).

FINANCIAL STATEMENTS

There are 3 statements you'll need to monitor:

1. Income Statement (Profit and Loss) – This financial report card tracks revenue vs. expenses and therefore your (projected) net profit or loss. If you were to set it up to do so, it can also track your costs/expenses as a % of gross revenue and your Spa's seasonal highs and lows (utilization), as a monthly % of total annual sales. This financial statement is an absolute must for Spa Owners to understand and to be able to manoeuvre through – and it's actually fun!

2. Cash Flow Requirements/Projections – This statement tracks inflows (sales/revenue) to outflows (costs/expenses). It tells you how much you need to be able to pay your bills and sustain the business, and when you'll need it. It will guide you through your marketing, hiring and purchasing decisions because it alerts you to upcoming cash shortfalls and excesses.

3. Balance Sheet – This Statement is prepared at your fiscal year end by your Accountant. The Balance Sheet provides a “snap shot” of the value of the business on that particular day. It has 3 sections: Assets – Liabilities = Owner's Equity or Net Worth of the company.

Ratios and Key Performance Indicators – These are your “critical” numbers, or the areas you need to excel at in

order to succeed in your business. Your Accountant will use the data from your Income Statement and Balance Sheet to perform your Ratio Analysis. Most industries have established “benchmarks” which allow you to compare your business results with acceptable industry standards. Knowing how you measure up to standards will tell you where you need to improve in order to secure your business' future. The most important ratios are categorized as Liquidity, Profitability and Revenue ratios.

Service Margins – Understanding where each service on your menu ranks in profitability will aid your decisions regarding promotions, room layout, staffing up, compensation strategies and much more. To calculate your Service Margins: Hourly Service Price – Total Cost per service = Gross Service Margin. You then calculate that number out to a Gross Margin %, to then arrive at the individual service ranking. To calculate each department's hourly service price if greater or less than an hour: Actual Service Price X Actual Length of Service in minutes X 60 (minutes) = Hourly service price.

Break Even Analysis – Knowing your breakeven point will provide you with a clear picture of what you need to generate in revenue to stay in business. First, be clear about what your fixed and variable costs are. Variable costs as mentioned previously, fluctuate with revenue and are generally found above the Gross Profit line on your Income Statement. Fixed costs do not fluctuate with revenue and are commonly referred to as “Operating” costs, found below the Gross Profit line. The formula for calculating your breakeven point is: Fixed costs ÷ Revenue – Variable costs = Break Even. If you have a profit goal in mind, the formula is: Fixed costs + Desired Profit ÷ Revenue – Variable Costs = Break Even.

To those of you who need to learn more, I suggest you begin to educate yourself through courses, research and reading, networking and your own number crunching. More detailed data is available through Spas2b Management Training courses, as well as through private consultation. Contact Leslie Lyon directly at 1-519-585-0626, llyon@spas2b.com, or visit the website at www.spas2b.com. But however you choose to pursue this knowledge, just remember – You've got to go out on the limb . . . that is where the fruit is!

SPAS2B IS OFFERING A
NEW 2-DAY BUSINESS PLAN COURSE
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