



by Dori Soukup

business | achieve financial health

for your business

WHEN SPA AND SALON OWNERS first go into business, they are often excited and can't wait to get started. Later, reality sets in as the bills start piling up, followed by pressure, tension and anxiety. To avoid those pitfalls, look for ways to cut expenses and generate more revenue so it is worthwhile to be in business.

The main reason entrepreneurs go into business for themselves is to be

Your budget should include a monthly breakdown of all your finances, such as:

- Number of clients you expect to see
- Forecasted service revenue
- Forecasted retail revenue
- Product cost
- Compensation cost
- Operating cost
- Marketing expenses
- Budgeted profit

tion ratio is too high. To be profitable, your compensation ratio cannot exceed 40 percent of your overall budget. For example, you can afford to pay 40 cents toward compensation for each dollar that comes into your business. If your compensation cost is more than that, then you are at risk of having an unhealthy business.

3. Managing your inventory

Inventory is a big expense if it is not managed properly. Your inventory includes retail, professional products, guest supplies, team supplies, etc. Use your software system to track your inventory, retail and professional turnover rate. This will help you find out if your staff is overusing professional products or giving guests treatment upgrades without charging them. That causes treatment costs to go up and diminishes your profits. To prevent this from happening, have a dispensary, and pre-measure product use to monitor waste so you can exercise better cost control.

As for retail, you must have self-discipline to not overspend. Calculate your "open to buy" rate to avoid doing so.

4. Expense management tips Guest supplies

- Avoid using paper goods such as cups and plates. Use glass or washable, durable, high-end plastic instead. This will bring about big savings over time.

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their own boss, have more freedom and make more money. But the sad fact is that in most cases, the owners don't pay themselves. They end up working harder than everyone else while making less money. According to the U.S. Census statistics, an average business makes a net profit of about seven percent. Where do you stand? Are your overhead expenses diminishing your bottom line?

1. Have a budget

Most owners do not. Without a budget, you are allowing your business to manage you instead of you managing it. Whether your business is large, medium or small in size—or even if you are a solopreneur, you must have a budget.

The key is to make the budget as detailed as possible so your revenue goals are clear, and to be disciplined enough to not overspend.

2. Your profit and loss statement

The profit and loss statement is your monthly report card. This allows you to see your financial ratios and ensure they are aligned. There are four important financial ratios to measure.

- a. Operating expenses
- b. Product cost
- c. Compensation cost
- d. Profits

Operating expenses and compensation are the two biggest expenses for a business. In most cases, the compensa-

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- To save on laundry, only offer robes to guests who are having multiple treatments.
- Use paper for waxing clients. This will save on laundry and the wear and tear of your linens.
- Don't go overboard with providing refreshments. It can get very expensive if you are constantly supplying the team with snacks and gourmet drinks.

Bartering to cut cost

You can barter many services to cut costs. For example, your bookkeeping and accounting costs can be bartered. From your fresh flowers, refreshments, bookkeeping, graphic designing and website updates, almost everything can be bartered. That automatically reduces your costs. Building bartering relationships can help you become more profitable.



Paper copies

Place PDF files of all your clients online, and recommend they go to your website to download forms, print and complete and bring with them or send via email. This saves a large amount of paper, ink and time as well.

Supplier contributions

Your suppliers can contribute to your events, samples and training. Make sure you set up a meeting to discuss how they can help you cut expenses. Sampling can be very costly without the vendor's contribution. To sell, you must allow guests to sample products.

Gratuity processing fees

This is a cost that many spa owners do not take into account. When a guest pays their gratuity on a credit card, the spa owner pays a credit card processing fee on that transaction, thereby increasing their cost. This is why some spas are now enforcing cash only tips. Another option is to charge your team a processing fee out of the gratuity prior to paying them to avoid the additional printing cost.

The spa industry is filled with right-brained professionals who are more artistic and don't enjoy working with numbers. However, if you want to be a prosperous businessperson, you need to fall in love with numbers, and look at them often to measure your success. That is your path to owning a financially healthy business! ■

Dori Soukup is an executive coach, author, professional speaker and the founder of *InSPAration Management*. She speaks at conventions all over the world and hosts public and private seminars. Her *Spa BizTools and strategies* have helped thousands of spa professionals experience exponential growth and profits. She can be reached at info@inspationmanagement.com.

