

BUDGET PLANNING

GET HEADED IN THE
RIGHT DIRECTION FOR 2011!

WHERE TO NEXT?

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If you don't know where you are, it's pretty tough to know where you're heading.



De-mystify the process of financial planning, strategy and business budgeting



You are completely capable of understanding the financials.

(minus) Sales
(equals) Direct Costs
(minus) Gross Margin
(equals) Overhead Expenses
(minus) Net Profit
(minus) Debt Service
(equals) Working Capital



Financial Statements –the basics

| Profit & Loss January - December, 2008 | | |
|---|------------|--------|
| Income | | |
| Services | | |
| Hair | 247,519.37 | 26.5% |
| Massage/Body | 15,118.00 | 1.6% |
| Nails | 47,240.00 | 5.1% |
| Skin | 374,495.88 | 40.1% |
| Total Services | 684,373.25 | 73.3% |
| Retail Products | 249,192.09 | 26.7% |
| Total Income | 933,565.34 | 100.0% |
| Cost of Goods Sold | | |
| Backbar Product | 41,908.73 | 4.5% |
| Direct Labor | 387,429.62 | 41.5% |
| Payroll Taxes - Direct | 44,554.41 | 4.8% |
| Insurance - Health | 16,347.52 | 1.8% |
| Retail Product | 119,136.00 | 12.8% |
| Guest Supplies | 5,444.88 | 0.6% |
| Laundry/Linen | 282.24 | 0.0% |
| Paper products | 3,929.99 | 0.4% |
| Shipping - Retail/Backbar | 2,607.05 | 0.3% |
| Subcontractor | 13,489.99 | 1.4% |
| Total COGS | 635,130.42 | 68.0% |
| Gross Profit | 298,434.92 | 32.0% |
| Expense | | |
| Advertising | 30,215.13 | 3.2% |
| Automobile Expense | 8,008.47 | 0.9% |
| Business Development | 30.52 | 0.0% |
| Bank Charges | 25,939.35 | 2.8% |
| Depreciation | 9,614.00 | 1.0% |
| Donations | 1,325.00 | 0.1% |
| Dues, Subscriptions | 357.07 | 0.0% |
| Equipment Leases | 7,705.93 | 0.8% |
| Equipment Repair | 184.65 | 0.0% |
| Insurance - Liability | 4,973.70 | 0.5% |
| Interest Expense | 3,942.25 | 0.4% |
| Labor - Administrative | 74,825.00 | 8.0% |
| Licenses | 1,915.64 | 0.2% |
| Meals/Travel/Entertainment | 2,365.49 | 0.3% |
| Office/Postage/Printing | 10,786.51 | 1.2% |
| Payroll Taxes - Administrative | 5,754.60 | 0.6% |
| Professional Fees | 19,379.57 | 2.1% |
| Rent | 50,119.94 | 5.4% |
| Repair/Maintenance | 13,304.52 | 1.4% |
| Telecommunications | 5,942.74 | 0.6% |
| Utilities | 9,885.11 | 1.1% |
| Total Expense | 286,575.19 | 30.7% |
| Net Income | 11,859.73 | 1.3% |

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Financial Statements –the basics

| Balance Sheet | | Final Dec 31, 08 |
|---------------------------------------|-------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Checking/Savings | | |
| Frontier Checking | | 10,948.66 |
| Total Checking/Savings | | 10,948.66 |
| Other Current Assets | | |
| Cash - Salon | 300.00 | |
| Inventory - Backbar | 4,521.85 | |
| Inventory - Retail Product | 18,481.20 | |
| Total Other Current Assets | 23,303.05 | |
| Total Current Assets | | 34,251.71 |
| Fixed Assets | | |
| Accumulated Depreciation | -111,216.00 | |
| Automobile | 16,500.00 | |
| Furniture/Fixtures/Equipment | 64,064.55 | |
| Tenant Improvement | 126,306.69 | |
| Total Fixed Assets | 85,655.24 | |
| TOTAL ASSETS | | 119,906.95 |
| LIABILITIES & EQUITY | | |
| Liabilities | | |
| Current Liabilities | | |
| Other Current Liabilities | | |
| Gift Certificates | | |
| Gift Certificate Sales | 132,324.05 | |
| Gift Certificates Redeemed | -101,400.52 | |
| Total Gift Certificates | 30,923.53 | |
| Sales Tax Payable | 2,792.30 | |
| Total Current Liabilities | 33,715.83 | |
| Long Term Liabilities | | |
| Loan from Shareholder | 198,744.22 | |
| Payable - Automobile | 8,551.39 | |
| Total Long Term Liabilities | 207,295.61 | |
| Total Liabilities | | 241,011.44 |
| Equity | | |
| Retained Earnings | -132,964.22 | |
| Net Income | 11,859.73 | |
| Total Equity | -121,104.49 | |
| TOTAL LIABILITIES & EQUITY | | 119,906.95 |

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Budget, Manage, Watch 6 Numbers

1. Labor Costs
2. Cost of Sales (Gross Profit Margin)
3. Overhead Expenses
4. Net Profit
5. Debt Service
6. Breakeven Sales



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Direct Costs



- Costs that directly relate to and fluctuate with sales
- Largest category of expenses on your income statement
- Professional Product, Back Bar, Product used in service \leq 10%-15% of Service Sales

Keep them under 60-70% of Service + Product Sales



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Direct Costs

Examples

- Direct labor
- Subcontractor labor (1099)
- Front desk labor
- Payroll taxes
- Employee benefits
- Back bar, professional product
- Inventory purchases
- Gift Certificate commissions/paper etc.

KEEP THEM UNDER 60-70% OF SERVICE + PRODUCT SALES



DIRECT COSTS – LABOR COSTS

- 50¢ of every dollar goes toward labor
- Evaluate your compensation plan – it absolutely cannot exceed 42% of Service + Product Sales
- Of this, Front Desk labor needs to be less than 10% of Service + Product Sales
- Are tools in place to monitor them?



GROSS PROFIT MARGIN



- **Service + Product Sales – Direct Costs**
- First indication of whether you are making money or not
- Expressed as a percentage of Service + Product Sales
- **Should be 30-40% of Service + Product Sales**
- Must be adequate to pay overhead and debt service

Overhead Expenses

- ❑ **Should not exceed 35% of Service + Product Sales**

- Rent
- Repairs and maintenance
- Advertising & Promotion
- Utilities, telephone
- Office supplies
- Insurance
- General Management, Bookkeeping salaries
- Payroll taxes
- Professional fees



NET PROFIT – AM I PROFITABLE?

Sales
 (minus) Direct Costs
 (equals) Gross Margin
 (minus) Overhead Expenses
 (equals) Net Profit



Debt Service



Accounts payable, notes, loans, credit cards, leases, lines of credit, money you have loaned your business



Evaluate debt separately from business operations

Any contract, lease, bank note, equipment lease and credit card payment can be re-negotiated.



Should not be more than ½ of Net Profit



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Breakeven Sales

- ❑ Minimum sales volume require (cash collected) every month to cover all direct costs, indirect costs and debt without experiencing a financial loss
- ❑ Discussed in terms of number of treatments (services) required
- ❑ **No one is in business to breakeven.**



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Breakeven Sales

- **Overhead Expenses + Debt Service**
÷ **Gross Margin = Breakeven**
- **Example**
 - Overhead \$11,000
 - Debt \$1,750
 - Gross Margin 35%
 - Breakeven = \$12,750 ÷ 35% or \$36,429



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| Perfect World | | | |
|-------------------------------------|-----|---------------|---------------|
| Breakeven Sales | | | |
| Service | | 85.0% | 30,964 |
| Retail | | 15.0% | 5,464 |
| Total | | 100.0% | 36,429 |
| Direct Costs - Cost of Sales | | | |
| Direct Labor | 42% | 42.0% | 15,300 |
| Retail Purchases | 50% | 7.5% | 2,732 |
| Other Direct Costs | | 15.5% | 5,646 |
| Total Direct Costs | | 65.0% | 23,679 |
| Gross Margin | | 35.0% | 12,750 |
| Overhead Expenses | | 30.2% | 11,000 |
| Net Profit | | 4.8% | 1,750 |
| Debt Service | | 4.8% | 1,750 |
| Ending Cash | | 0.0% | - |

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Breakeven Sales

- What does that mean in terms of services?
- For \$36,429 in Breakeven sales
 - 85% Service: \$30,964
 - If average service is \$85, must do 364
 - 15% Retail: \$5,464
 - Average retail sale must be \$15.01 per service.
- Gift Certificates – provide cash flow and marketing cushion

Breakeven

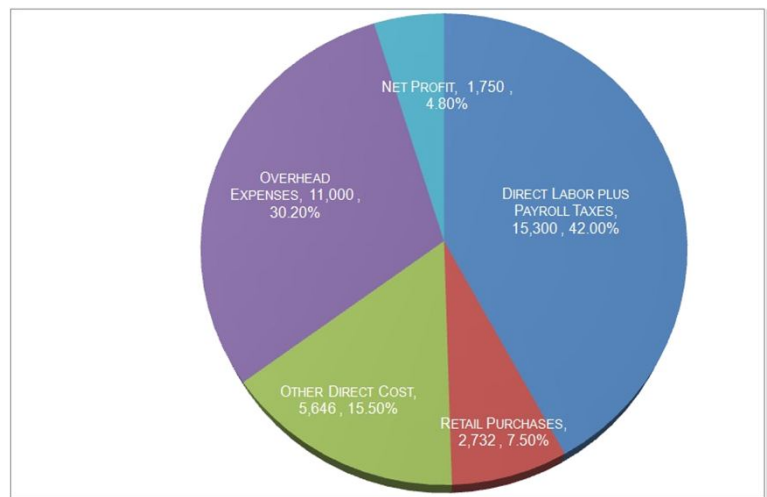
- ❑ Breakeven Sales = 100%
- ❑ Direct Labor = 42%
- ❑ Gross Margin
 - ❑ Total Direct Cost = 65%
 - ❑ Gross Margin = 35%
- ❑ Overhead Expense = 30.2%
- ❑ Net Profit = 4.8%
- ❑ Debt Service = 2.4%



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The Pieces Of The Puzzle



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Budget



Business is unforgiving.
 You are operating without a safety net.



STAY AHEAD OF THE GAME BY
 STARTING YOUR BUDGET NOW.
 PLAN FOR A SUCCESSFUL AND
 PROFITABLE 2011.



| | Jan-09 | Feb-09 | Mar-09 | Apr-09 | May-09 | Jun-09 | Jul-09 | Aug-09 | Sep-09 | Oct-09 | Nov-09 | Dec-09 | 12 MONTH TOTAL | % GROSS |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|----------------|
| SALES: MONEY IN | | | | | | | | | | | | | | |
| Service Sales | | | | | | | | | | | | | | |
| Facials & Waxing | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Massage, Body Wraps & Treatments | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Nails | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Acupuncture, Wellness | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Total Service Sales | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | #DIV/0! |
| Product Sales | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Gift Certificates | | | | | | | | | | | | | 0.00 | #DIV/0! |
| SUBTOTAL | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | #DIV/0! |
| SALES TAX | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Service Discounts | | | | | | | | | | | | | 0.00 | #DIV/0! |
| 1 TOTAL SALES | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | #DIV/0! |
| DIRECT COSTS: MONEY OUT | | | | | | | | | | | | | | |
| Supplies - Back Bar, Room, Professional | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Product for Retail | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Employee Benefits | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Laundry & Uniforms | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Direct Labor | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Facials & Waxing | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Massage, Body Wraps & Treatments | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Nails | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Acupuncture, Wellness | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Front Desk | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Sales Commissions | | | | | | | | | | | | | 0.00 | #DIV/0! |
| 2 Total Direct Labor | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | #DIV/0! |
| Payroll Taxes | | | | | | | | | | | | | 0.00 | #DIV/0! |
| Business & Sales Tax | | | | | | | | | | | | | 0.00 | #DIV/0! |
| 3 TOTAL DIRECT - CORE COSTS: MONEY OUT | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | #DIV/0! |
| 4 GROSS MARGIN | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | #DIV/0! |

| | Jan-09 | Feb-09 | Mar-09 | Apr-09 | May-09 | Jun-09 | Jul-09 | Aug-09 | Sep-09 | Oct-09 | Nov-09 | Dec-09 | 12 MONTH TOTAL | % GROSS |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------------|----------|
| OVERHEAD EXPENSES - MONEY OUT | | | | | | | | | | | | | | |
| Advertising, Marketing & Promotion | | | | | | | | | | | | | | |
| Bank Charges | | | | | | | | | | | | | | |
| Dues, Subscriptions & Memberships | | | | | | | | | | | | | | |
| Insurance | | | | | | | | | | | | | | |
| Office Supplies & Postage | | | | | | | | | | | | | | |
| Printing & Reproduction | | | | | | | | | | | | | | |
| Professional Fees | | | | | | | | | | | | | | |
| Rent | | | | | | | | | | | | | | |
| Repair & Maintenance & Décor, Janitorial | | | | | | | | | | | | | | |
| Salaries - Admin | | | | | | | | | | | | | | |
| Total Admin. Labor | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | |
| Payroll Taxes | | | | | | | | | | | | | | |
| Utilities & Telephone | | | | | | | | | | | | | | |
| 5 TOTAL MONEY OUT: OVERHEAD EXPENSES | | | | | | | | | | | | | | 5 |
| WORKING CAPITAL - NET PROFIT | | | | | | | | | | | | | | |
| BEGINNING MONTHLY CASH | | | | | | | | | | | | | | |
| NEW LOANS: MONEY IN OR MONEY OUT | | | | | | | | | | | | | | |
| MONEY OUT: DEBT SERVICE | | | | | | | | | | | | | | |
| 6 TOTAL MONEY OUT: DEBT SERVICE | | | | | | | | | | | | | | 6 |
| WORKING CAPITAL - AFTER DEBT SERVICE | | | | | | | | | | | | | | |

WORKING CAPITAL - AM I PROFITABLE?

MONEY IN: SALES (COLLECTIONS)

(Minus) MONEY OUT: DIRECT COSTS

Equals **GROSS MARGIN**

(Minus) MONEY OUT: OVERHEAD EXPENSES

Equals **WORKING CAPITAL (BEFORE DEBT SERVICE)**
(NET PROFIT, FEASIBILITY)

WORKING CAPITAL (BEFORE DEBT SERVICE)

Plus BEGINNING CASH POSITION - (TOTAL OF ALL ACCOUNTS)

(Minus) MONEY OUT: DEBT SERVICE

Equals **WORKING CAPITAL AFTER DEBT SERVICE**
(THIS IS WHAT YOU GET TO KEEP.)



INVOLVE YOUR TEAM



TIMELY REVIEWS
DAILY MEETINGS



What Will Your Business Look Like?



- VISION = CLARITY
- CLARITY = DIRECTION
- DIRECTION = PLAN
- PLAN = ACTION



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YOUR EXIT IS PART OF PLANNING



Thank You

*We are available to meet with you,
To answer any questions.
There is no charge for the initial consultation.*

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Monte Zwang is a principal of Wellness Capital Management, providing cash flow and financial strategies to businesses in the wellness industry including medical practices, wellness practitioners and spas. Monte has been a consultant for more than 25 years, teaching business planning and cash flow management. Zwang negotiates sales, acquisitions and merger transactions. He is active in the Day Spa and International Medical Spa Association and spearheads their research projects. A graduate of Denver University Daniels School of Business, Zwang has been honored by Seattle Magazine as a Five Star Best in Client Satisfaction Wealth Manager for 2009 and 2010. For more information visit: www.WellnessCapital.com