

Your Financial Roadmap, How to Plan for Success.

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WELLNESS
CAPITAL MANAGEMENT

NUMBERS TELL A STORY.
WE JUST NEED TO KNOW HOW TO READ.



EVALUATE YOUR CURRENT FINANCIAL CONDITION

You are *completely* capable of understanding the financials.

Sales

(minus)

Direct Costs

(equals)

Gross Margin

(minus)

Overhead Expenses

(equals)

Net Profit

(minus)

Debt Service

(equals)

Working Capital



6 NUMBERS YOU NEED TO KNOW

- Labor Costs
- Direct Costs - Gross Profit Margin
- Overhead Expenses
- Net Profit
- Debt Service
- Breakeven Sales
- Medical Practices add a 7th –
 - Accounts Receivable Balance and rate of collection.



DIRECT COSTS

Costs that directly relate and fluctuate with sales

➤ Largest category of expenses on your income statement

Examples

Direct labor (40% of Service Sales)

Front desk labor (10% of Service plus Retail Sales)

Employee benefits

Back bar, professional product (10-15% of Service Sales)

Inventory purchases (50% of Retail Sales)

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.



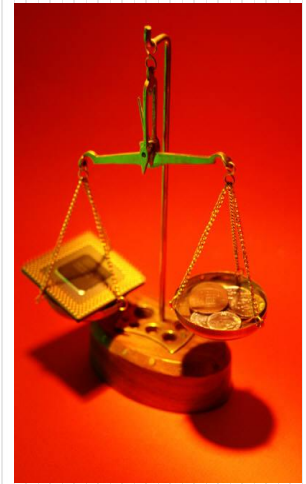
Should not be more than ½ of Net Profit

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.



BREAKEVEN SALES (CONT.)

➤ **Overhead Expenses + Debt Service
÷ Gross Margin = Breakeven**

➤ **Example**

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

	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%	-

BREAKEVEN SALES (CONT.)

- 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

THE PIECES OF THE PUZZLE

Breakeven Sales = 100%

Direct Labor = 42%

Gross Margin

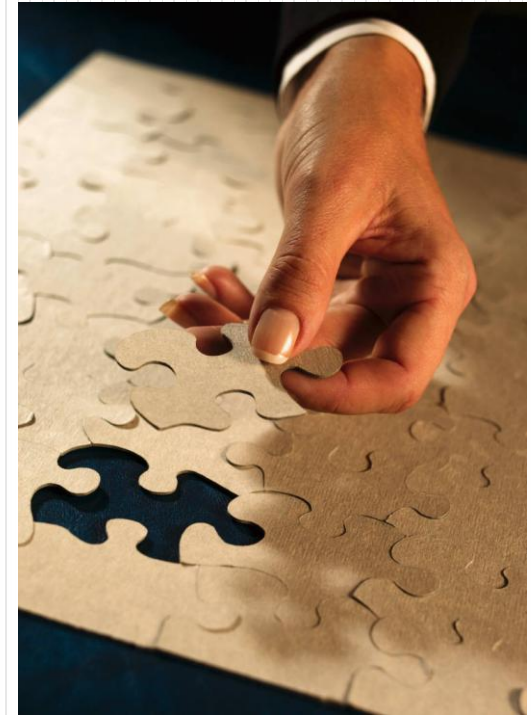
Total Direct Cost = 65%

Gross Margin = 35%

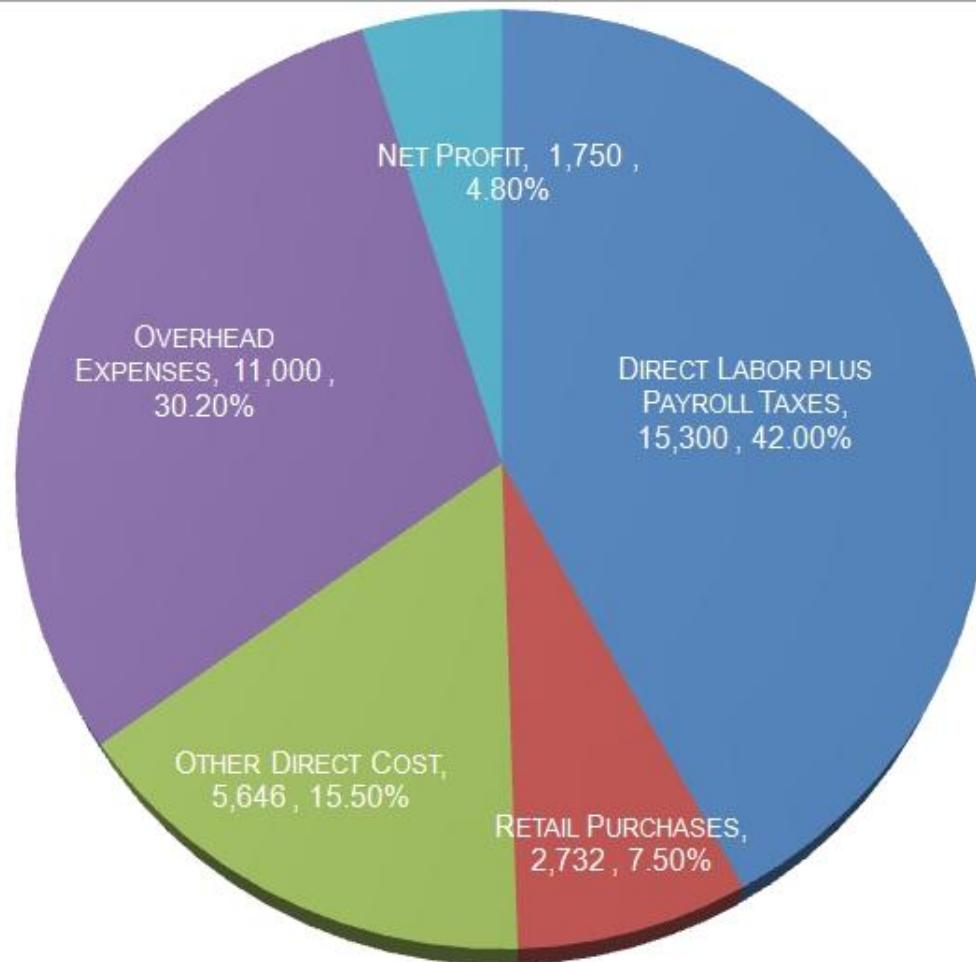
Overhead Expense = 30.2%

Net Profit = 4.8%

Debt Service = 2.4%



THE PIECES OF THE PUZZLE

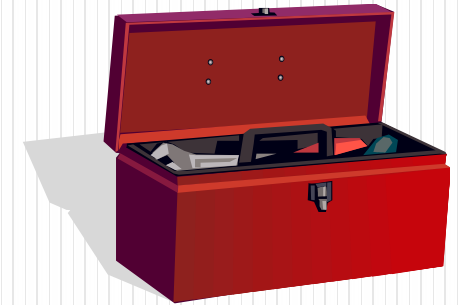


USE YOUR TOOLS

YOUR POINT OF SALE SYSTEM.....



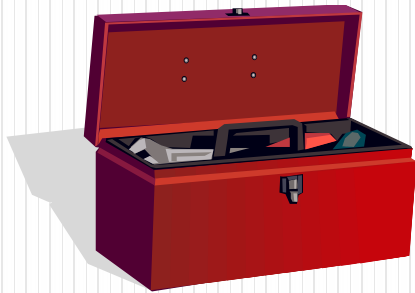
Sales Planning
Cash Control
Daily Labor Cost
Inventory Control



How you did yesterday and plan to do tomorrow, this week and for the rest of the month.

TOOLS OF CHANGE

Systems need to provide timely numbers. Have a system to bring the 6 Numbers to your attention in an accurate and timely manner



You can't wait for financial statements

Use each "Number" to paint a new scene. Work the scene

Provide a weekly means of attending to these numbers and then the process for using the numbers to ACT...NOW



PRICING YOUR SERVICES

1. Add up your Direct Costs
2. Define & Divide by your Gross Margin
3. Determine if the market will bear this price.

Direct Costs		
Labor - Service Provider	22.75	33.2%
Payroll Tax	2.73	4.0%
Professional Supplies	7.80	11.4%
Linen & Laundry	1.00	1.5%
Total Direct Costs	34.28	50.0%
Desired Gross Margin	34.28	50.0%
Estimated Selling Price	68.56	100.0%
34.28 / .50 = 68.56		

PRICING YOUR SERVICES

1. If the market will not support the \$69 price
2. What do your costs look like at \$60?
3. Use this for your budget.

Selling Price - Facial	60.00	100.0%
Direct Costs		
Labor - Service Provider	21.00	35.0%
Payroll Tax	2.52	4.2%
Professional Supplies	7.20	12.0%
Linens & Laundry	1.00	1.7%
Total Direct Costs	31.72	52.9%
Gross Margin	28.28	47.1%
28.28/.471=60.00		

BUDGET

Business is unforgiving.

You are operating without a safety net.

Going forward without a budget is not going to provide the targets you need to operate.



		Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	12 MONTH TOTAL	% GROSS	
SALES																
Service Sales																
Facials & Waxing														0.00	#DIV/0!	
Massage, Body Wraps & Treatments														0.00	#DIV/0!	
Total Service Sales		85.0%	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		15.0%												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	#DIV/0!	
Service Discounts														0.00	#DIV/0!	
1	TOTAL SALES	100%	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!	1
DIRECT COSTS																
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		35.0%												0.00	#DIV/0!	
Massage, Body Wraps & Treatments		35.0%												0.00	#DIV/0!	
Front Desk		10.0%												0.00	#DIV/0!	
2	Sales Commissions	10.0%												0.00	#DIV/0!	
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	#DIV/0!	
Payroll Taxes														0.00	#DIV/0!	
3	TOTAL DIRECT - CORE COSTS	65%	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!	3
4	GROSS MARGIN	35%	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

		Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	12 MONTH TOTAL	% GROSS	
OVERHEAD COSTS																
Advertising, Marketing & Promotion	5.0%													0.00	#DIV/0!	
Bank & Credit Card Charges	3.0%													0.00	#DIV/0!	
Dues, Subscriptions & Memberships														0.00	#DIV/0!	
Insurance														0.00	#DIV/0!	
Office Supplies & Postage														0.00	#DIV/0!	
Printing & Reproduction														0.00	#DIV/0!	
Professional Fees														0.00	#DIV/0!	
Rent	15.0%													0.00	#DIV/0!	
Repair & Maintenance & Décor, Janitorial														0.00	#DIV/0!	
Salaries - Admin														0.00	#DIV/0!	
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	0.00	#DIV/0!	
Payroll Taxes														0.00	#DIV/0!	
Utilities & Telephone	3.5%													0.00	#DIV/0!	
5 TOTAL OVERHEAD COSTS	30%	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!	5
NET PROFIT	5%	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!	
BEGINNING MONTHLY CASH			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!	
DEBT SERVICE														0.00	#DIV/0!	
														0.00	#DIV/0!	
														0.00	#DIV/0!	
6 TOTAL DEBT SERVICE	2.5%	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!	6
WORKING CAPITAL : AFTER DEBT SERVICE		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!	

WHAT WILL YOUR BUSINESS LOOK LIKE ?



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



THANK YOU.

*We are available to meet with you,
To answer any questions.*

*If you would like me to e-mail you the slides used in this
presentation, please leave a blue form with your information.*

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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