WELLNESS CAPITAL MANAGEMENT

The 6 Numbers You Need To Run Your Business

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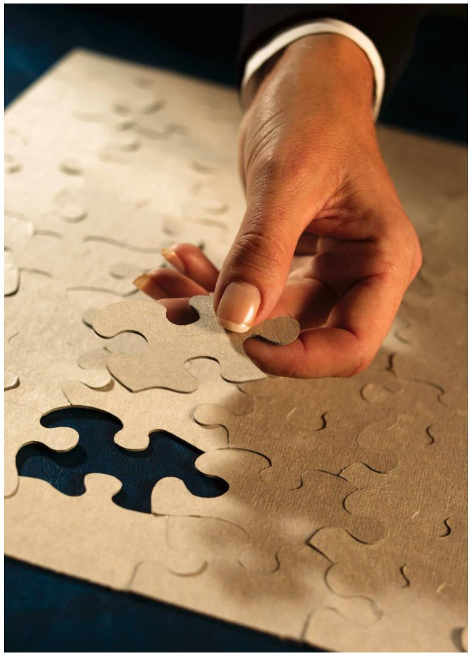
6 Numbers You Need to Know

- Labor Costs
- Cost of Sales (Gross Profit Margin)
- Overhead Expenses
- Net Profit
- Debt Service
- Breakeven Sales



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Direct Costs – Labor Costs

- 50¢ of every dollar goes toward labor
- What is your labor cost?
- Evaluate your compensation plan – it absolutely cannot exceed 42% of Service + Product Sales
- Front Desk labor needs to be less than 10% of Service + Product Sales
- Are tools in place to monitor them?
- Daily labor reports from your POS system

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Direct Costs

- Costs that directly relate to and fluctuate with sales
- Largest category of expenses on your income statement
- Rubs and scrubs </= 10%-15% of Service Sales
- Should be no more than 60-70% of Service + product Sales

Direct Costs *(cont'd)*

- 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 it under 60-70% of Service + Product Sales**

Gross Margin on Sales, 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

Gross Margin – Profit Margin

Is there at least a 30-40% margin in your business?

Overhead = Indirect Costs

- Do not fluctuate with sales
- Occur every month
- Should not be more than 35% of Service + Product Sales
- Examples
  - Rent, repairs and maintenance
  - Advertising & Promotion
  - Utilities, telephone, office supplies
  - Insurance
  - Admin salaries, payroll taxes and professional fees

Net Profit – Am I Profitable?

The Equation

Sales (money in) **-** Direct Costs (money out)
= Gross Profit

Gross Profit **-** Overhead Costs (money out)
= Net Profit

Net Profit - Debt Service (money out)
= Working Capital
(This is what you get to keep)

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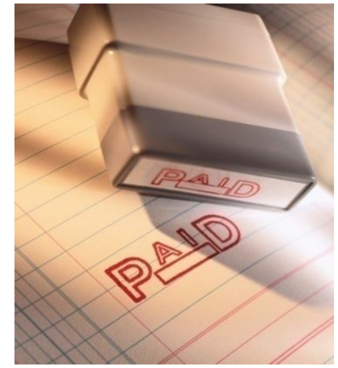
Debt Service



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

- Evaluate debt separately from business operations
  - If you can't afford it, don't buy it
  - 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 the business to breakeven, we are in business to exceed breakeven

Breakeven Sales *(cont'd)*

- The lower your breakeven the longer you can weather this climate
- **Overhead Expenses + Debt Service**

  ÷ Gross Margin = Breakeven

Example

- Overhead $10,000
- Debt $2,000
- GM 35%
- BE = $12,000 ÷ 35% or $34,286

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Breakeven Is Vital

- What does that mean in terms of services?
- For $34,286 in BE sales
  - 85% Service: $29,143
    - If average svc is $80, must do 364!
  - 15% Retail: $5,143
    - If average retail sale must be $14.13 per service
- Plan to get there – starting today!
- Gift Certificates – provide cash flow and marketing cushion

The Pieces Of The Puzzle

1. BE Sales = 100%
2. Direct Labor = 42%
3. Gross Margin
   - Total Direct Cost = 65%
   - Gross Margin = 35%
4. Overhead Expense = 30%
5. Net Profit = 5%
6. Debt Service = 2.5%

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I am available to meet with you,
to work on your business.

I am happy to provide a free introductory consultation.

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