

How to read and use a Profit and Loss statement (P&L)

(Note from Tracey : This is a large section – but it is going to be the most beneficial to you if you don't know how to use your Profit and Loss effectively. Take the time to read and do the calculations in this section and then do them on your profit and loss statement for your business. Remember I am not an Accountant – these are just my tips and how I have found this to be helpful for myself and my clients.)

Your Profit and Loss (P&L) statement is one of the most valuable tools within your business. It is the scorecard to see if your business is winning the game of business – which of course is – are you making money? Very often though, Business Owners are not sure how to effectively read or use their P&L to help them firstly, know what is happening in their business and secondly, how to improve their business.

If you don't have a P&L statement readily available for your use or you hate doing your books then I highly recommend using the services of a bookkeeper. Not only will it take the stress away from having to do it yourself, it will save time. It will save time for you and your Accountant at the end of the year when doing your tax return. It will be easier to find the information in a professional format plus you will be held accountable to getting them done. Sure, you need to pay a book keeper to do your books, but the amount of time and money it will save you will be well worth the investment to pay the bookkeeper. On that note, in Australia, I'd be spending somewhere between \$40 and \$60 per hour for a good bookkeeper. You can definitely get cheaper ones, but sometimes so is their service or knowledge. I also would recommend a bookkeeper that is qualified to also do your BAS returns and GST calculations (or other sales tax items).



So onto the P&L statement. I am going to do up a little 'example only' Profit and Loss statement (see next page) and I am going to take you through different things to look at on your statement. (I'm using a hairdressing example because they provide services and products, plus there is a wage cost so should cover most basics for whatever business you are in.) Please remember this is an **example only** and **not indicative** of where your business should be or the percentages it should have.

Profit & Loss Statement
ABC Hairdressers

1st July 2009 – 30th June 2010

Income

Services

Men's cuts only	\$ 45,034.00
Ladies cuts only	\$110,590.00
Children's cuts only	\$ 13,334.00
Colour & cuts	\$175,578.00
Special Occasion	\$ 6,150.00
Other	\$ 2,756.00

Sub-total Services \$353,442.00

Products

123 Brand	\$ 9,589.00
ABC Brand	\$ 18,500.00
Skin Care XYZ	\$ 11,332.00
Salon brand haircare	\$ 12,883.00
Other	\$ 543.00

Sub-total Products \$ 52,847.00

Total Income \$406,289.00

Cost of Goods Sold (COGS)

Products

123 Brand	\$ 6,712.00
ABC Brand	\$ 11,100.00
Skin Care XYZ	\$ 6,233.00
Salon brand haircare	\$ 6,441.00
Other	\$ 435.00

Total COGS \$ 30,921.00

Wages

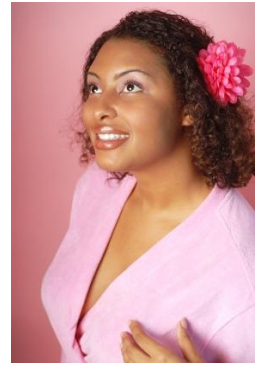
Manager/Hairdresser 1	\$ 42,000.00
Hairdresser 2	\$ 38,000.00
Part-time Hairdresser	\$ 17,000.00
Apprentice	\$ 27,000.00
Superannuation	\$ 11,000.00
Bonuses, other	\$ 3,500.00

Total Wages \$138,500.00

Expenses

Rent	\$ 30,000.00
Outgoings	\$ 6,650.00
Electricity	\$ 3,765.00
Water	\$ 1,896.00
Repairs	\$ 1,275.00
Salon Use Products	\$ 22,135.00
Phone	
Mobile (or cell)	\$ 1,560.00
Landline	\$ 1,890.00
Internet	\$ 660.00
Subscriptions	\$ 1,146.00
Marketing	\$ 7,990.00
Printing and reproductions	\$ 9,350.00
Team training	\$ 1,200.00
Sundries (tea, coffee, etc)	\$ 2,587.00
Laundry	\$ 5,200.00
Equipment and Plant	
Furniture	\$ 3,890.00
Hairdressing tools	\$ 4,500.00
Linen	\$ 895.00
Other	\$ 435.00
Bookkeeper	\$ 4,120.00
Accountant	\$ 2,200.00
Legals/Solicitor	\$ 750.00
Motor vehicle	
Lease	\$ 4,740.00
Petrol/Oil	\$ 1,550.00
Maintenance/repairs/parts	\$ 1,146.00
Bank fees/merchant facility	\$ 6,050.00
Gifts and Donations	\$ 1,100.00
Insurance	\$ 3,400.00
Postage and deliveries	\$ 1,348.00
Software/computer expenses	\$ 1,200.00
Other/Miscellaneous expenses	\$ 895.00
Total Expenses	\$135,523.00
Total Income	\$406,289.00
Total COGS	\$ 30,921.00
Total Wages	\$138,500.00
Total Expenses	\$135,523.00
Profit/Loss	\$101,345.00 +

Before we start to look at the areas of the Profit and Loss – let's go over the basic layout. Your Bookkeeper, Accountant or software package may look slightly different to this, but there will be some points that remain basically the same.



Starting from the top – make sure what time period (dates) you have set your Profit and Loss for. In this example I have used a complete financial year, but I would suggest that you should be taking some time to review your profit and loss every MONTH. I will explain how this works.

At the start of your Profit and Loss it should begin with your total sales. Now some of you may just have total sales with no break down on what the sales are from. If you haven't broken it down as I have, it would be a good time to start doing this. Choose what you would like the breakdown to be (you may use a different item code in your register to work out what the sales are – eg. Department 1 may be products, department 2 is cuts, department 3 is colour, etc. This will make more sense why I do this shortly.)

Next on your P&L should be the Cost of goods sold – this is where you put in what it actually cost to sell something. In the Hair and Beauty industry, this is usually your retail products. I like to code my 'salon use' products in the general expenses and my retail products as Cost of Goods Sold. This will help with promotions and retail sales and margins of retail products. Again, I'll explain more shortly.

Next should come your Expenses. With an industry such as the Hair and Beauty industry, I like to have my Wage expenses separate from my General expenses as it is a 'labour intensive' industry – that means that instead of selling just products, you are also selling a service which is time based. To do more services, you need more time – so that means higher wages.

Next I put in all the other expenses associated with running the business. I've listed as many of the 'normal' ones, you may have some extras or you may call them something different, but this will give you an idea.

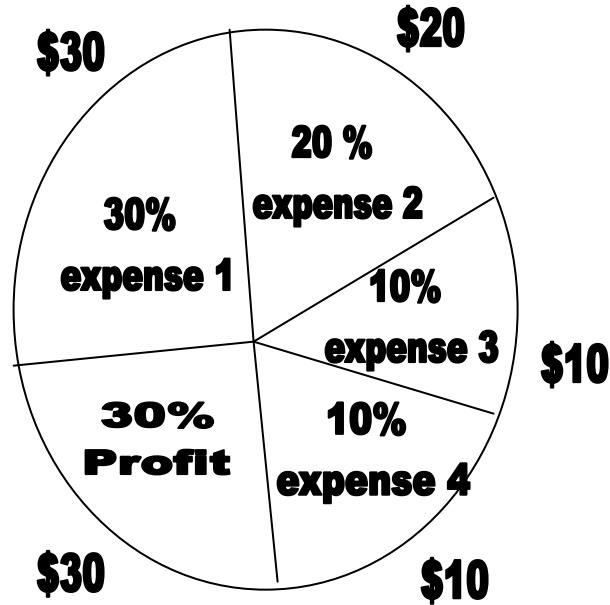
Finally at the end of the Profit and Loss should be what is termed the bottom line (because it is the last line of the Profit and Loss) and that is your Profit or Loss. If it is a loss then the number will be surrounded by arrows – such as a \$5,000 loss would look like this <\$5,000>. If it is a profit it may have a + sign as I've put in the example or it may just be the number. Not all P&L's have all the area totals reprinted at the bottom – I like it because it makes it simple for me to read the totals all at once without looking through the entire P&L, but it doesn't really matter.

So now that we know what all the different areas are, let's look at how we can gain information from the P&L to use to grow your salon.

I use percentages to analyze my P&L in the quickest and easiest way. The reason for this is that as you generate more income (through services or products) then generally the majority of your expenses will also expand. The trap we don't want to fall into is if the sales increase, but our wages decrease significantly – this could mean that we are overworking our team or even ourselves and our service is dropping. Or when sales increase that we decrease or even stop our marketing (which you shouldn't by the way). The other challenge is, if the income into our salon decreases, but our wages increase or remain the same. This will mean you are overstaffed and your profit will be significantly reduced.

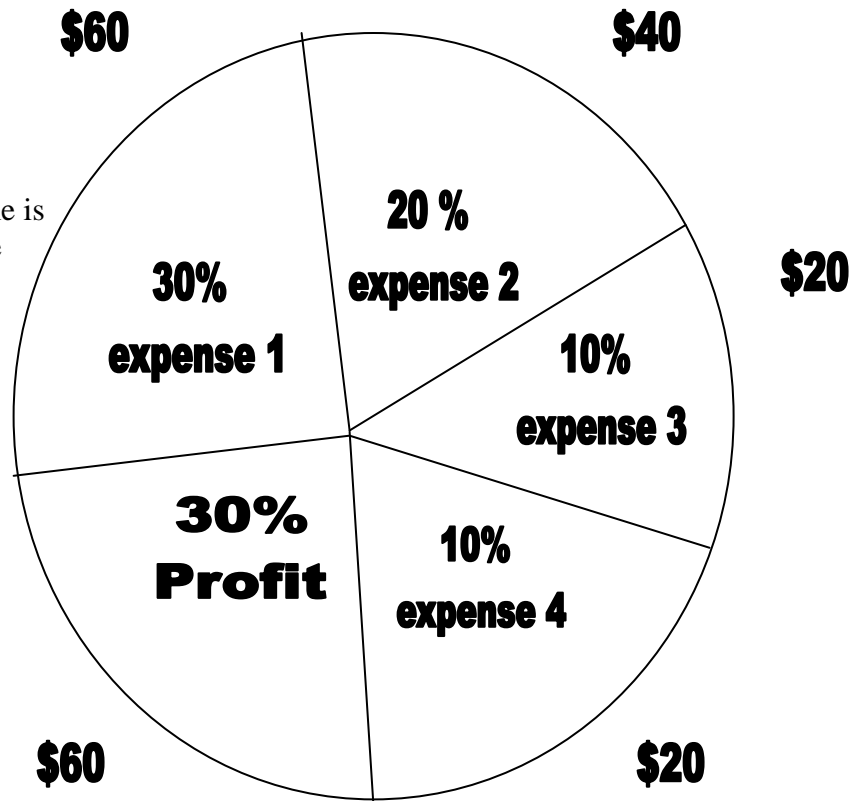
Look at this pie chart as a visual demonstration of this.

Total income is 100% of the pie chart (\$100)



If our income increases, then our percentages should remain the same (eg. The pieces of the pie will remain the same) they just grow in numbers.

Total income is 100% of the pie chart (\$200)



Firstly, I like to look at the sales. What is my highest selling service? What is the lowest selling service? To work this out is very simple. We are going to work out each service as a percentage of the total services generated. This is why I like to break the income down to services and products. Break it down to what is relevant to you and how you would like to best categorise your services and products – don't be too extreme, just the major categories.

To work out each service as a percentage of the total services:

'Service category' divided by 'Total services' multiplied by 100 = %

So from our example Profit and Loss

'Men's cuts only' divided by 'Sub-total services' multiplied by 100 = %
 $\$45,034.00 \div \$353,442 \times 100 = 12.7\%$

So from our example, of all the services we do in ABC Hairdressers, 12.7% of them are Men's cuts only services.

Here are the percentages for all of the service categories (do the calculations yourself and make sure you come to the same number to ensure you get it).

Services		
Men's cuts only	\$ 45,034.00	12.7 %
Ladies cuts only	\$110,590.00	31.3 %
Children's cuts only	\$ 13,334.00	3.8 %
Colour & cuts	\$175,578.00	49.7 %
Special Occasion	\$ 6,150.00	1.7 %
Other	\$ 2,756.00	0.8 %
Sub-total Services	\$353,442.00	(100 %)



How did you go? Did you get the same percentages? These percentages are % of total services income.

What do we do with them now we have this information.

Here is a couple of ideas:

1. Let's you know for cashflow projections (or sales targets) where your sales are coming from
2. Allows you to make sure you have enough team on (as a colour takes longer than a men's cut)

3. Where you should begin with increasing your prices or the best place to increase your prices. For example, increasing your colour and cut price will have the biggest effect in your business as they account for nearly 50% of your business but it will also mean that the majority of your customers will note a price increase immediately. So you may do a 'staged' price increase. Maybe increase your cuts only and the colour and cuts by a smaller percent first. Then you may increase your 'special occasion' services (such as weddings, etc) by a larger percentage because less people will notice the price increase. That being said, if you haven't increased your prices in a year – imagine if you just increased every colour by just 5% – in this example that would mean an extra \$8,779 in a year. If you increased ONLY your special occasion services by 5% it would mean only an extra \$307.50 a year. Which would you rather do?



4. This is also good to know as well for your marketing – what do you want to offer, what sort of clients do you want to bring in? If you know that for the average cut it takes 30 minutes and the average hair cut is \$40 – then the labour alone for the haircut might be \$20 of that sale of \$40. If a colour and cut takes about 1 hour of actual labour (because you can do other people in between) but the average colour and cut sale is \$120, then the labour alone for the service would be \$40. So that means that after labour, the colour is making \$80 in an hour, whereas you would need to do two cuts in that time (1 hour) and they only make \$20 each after labour so a total of \$40. In this example you would be better to go and get one new colour and cut client than one cut only client – this leads you to what to offer in your marketing or who to attract to your business.

5. You may decide that for the time and effort (and perhaps even headaches) it isn't worth doing some of your services – so in this example I would be reassessing the kid's cuts, men's cuts and the special occasion services. You may decide that the men's and kid's cuts are good to keep because you can do them quick and easily, especially whilst a ladies colour is processing or when a mother is having her hair done the added service of doing the kids at the same time. But you may decide it just isn't worth doing those bridal hair services because they take a long time, they are always a nightmare if the bride is a bridezilla and they are on a Saturday which is the busiest day of the week for you. The alternative is, that if someone really wants you to do them, then you charge more for the inconvenience (not that you tell them that) – put up your prices for that service. You don't mind if they go elsewhere for that service because you've already decided it isn't as profitable as your other services, or they pay more and then you are happy to do it. You are in business to make profit – don't forget that.

6. You may realise from these numbers, that only the Manager/hairdresser 1 (which could be you by the way) and your Hairdresser 2 are the only ones that can do colours. This may indicate to you that you need to get your apprentice up to speed on at least helping with colours and your part-timer being able to do them because this is nearly 50% of your business. These percentages will indicated your needs in training areas.

7. Finally, when you are projecting your future sales, marketing and doing cashflow projections, it will let you know what ‘salon use’ products you need to purchase. If you plan to increase your sales by 100%, then wouldn’t it be good to know that 49.7% of all your sales are colours – so you need to increase your order of all colour related products accordingly. It will make your ordering more accurate than just a stab in the dark method.

Finally, it is good to know that what percentage of all of your income come from sales.

So:

Sub-total services divided by Total income x 100 = % of income from services

In our example:

\$353,442.00 divided by \$406,289.00 x 100 = 87.0% of your income comes from services (rather than products).



Next – Products

Let’s do the exact same thing, but for the different products as a percentage of all product sales. I like to group products in one of two ways (you decide what is best for your business) – either by brand or by type of product. So it may be on the brand of product (or where supplied from) or by the type of product – so for our example shampoo & conditioners, styling products, treatment products, etc.

Again, the percentage is worked out as before:

‘Category of Product’ divided by ‘Total sales of all Products’ x 100 = %

See if you come up with the same percentages as I do to make sure you get how to work these.

Products		
123 Brand	\$ 9,589.00	18.1 %
ABC Brand	\$ 18,500.00	35.0 %
Skin Care XYZ	\$ 11,332.00	21.4 %
Salon brand haircare	\$ 12,883.00	24.4 %
Other	\$ 543.00	1.0 %
Sub-total Products	\$ 52,847.00	(100 %)

So from these numbers, we can see that our best selling brand is the ABC Brand with a total of 35.0 % sold. Again, these numbers can indicate a few things for us.

1. Which brands is selling the most or the least
2. To assist with ordering of retail stock (you would need more stock on hand of ABC Brand than of your other or miscellaneous brands)
3. Maybe areas of training on brands – so maybe the 123 brand in your opinion is the best but it isn't selling as much as the inferior ABC Brand and this could just be because your team doesn't realise why 123 Brand is better and the features of it.
4. Can also let you know which brands of products would be good for offers (either popular brands or brands that you need to get stock out of the salon of – less popular brands)
5. You could even go to your suppliers and get a better deal or marketing material for a brand if you know that it is a high percentage seller in your business.



This is not the full story though on your retail products. What we need to do is work out for these same products, what is the percentage of that product is profit or the margin on the product. For this we need to look at the cost of each of these products and find the average profit margin.

So let's look at the 123 Brand as an example.

We sold \$9,589.00 of that product in the last year. We had to purchase the product and we spent (wholesale) - \$6,712.00 on 123 Brand (see Cost of goods sold). That means that we made \$2,877.00 profit on that product (that is after just the cost of goods, not any overheads). That means our profit margin was 30% on 123 Brand products.

I worked that out by:

Retails sales – Wholesale cost = Profit

then take the Profit divided by retail sales x 100 = profit margin %

Eg.

$\$9,589.00 - \$6,712.00 = \$2,877.00$

Then $\$2,877.00$ divided by $\$9,589.00 \times 100 = 30\%$

If we look at all the products which makes us the most profit?

Products	Profit margin	Profit \$	% of sales
123 Brand	30 %	\$ 2,877.00	18.1 %
ABC Brand	40 %	\$ 7,400.00	35.0 %
Skin Care XYZ	45 %	\$ 5,099.00	21.4 %
Salon brand haircare	50 %	\$ 6,442.00	24.4 %
Other	20 %	\$ 108.00	1.0 %
Sub-total Products	Average – 41.5%	Total \$21,926.00	(100 %)

What can we see from these numbers?

- The ABC Brand was sold the most of as percentage of total sales at 35.0% of sales, but it made \$7,400.00 because it had a 40% profit margin. If we compare that with the Salon brand haircare which made \$6,442.00 because of a 50% margin but only had 24.4% of all the sales. If the Salon brand haircare and the ABC brand were of comparable standard (that is you don't have an integrity issue with selling one brand over the other) and you taught your team that the salon brand haircare was the better of the two to sell as it has a higher margin (think if you were selling blue and red t-shirts – they do the same thing, just different colour, but the red t-shirts made more money. Well, as long as the red t-shirt suited the client, I'd suggest the red t-shirt before the blue, every day of the week). So if the team sells the same number of Salon brand haircare as the ABC Brand – your profit will be higher.

Let me show you an example:

ABC Brand → 35.0% of sales made you \$7,400.00 profit

If the Salon Brand Haircare was 35.0% of the sales you would have made \$9,250.00 profit

So if the products are comparable – you either want to train your team on the higher margin (more profit) products so they recommend them first, or consider only stocking the higher margin products or keep less of the lower margin products on hand and more of the higher margin items on hand.

The higher the margin, the more profit you will make.

Please remember, I am saying only if the products are comparable (or close too). If a lower margin (less profit) product is far, far more beneficial for the client, then recommend that product to them. Service and quality will win out every time for having your client return to you. If you sell them a product that is useless for them, but makes you more money, it will not benefit your business in the long run. Sure you make more profit on that one sale, but the client won't come back for more if it isn't any good for them.

- From these numbers we can see what we need to stock more of or have a few extras on hand because they are more popular products.
- From these numbers we can also see which products are the best to promote or have as offers (those with higher profit margins)
- We can also work out our stock levels and how much to budget for in our cashflow projections

Last but not least you can see that as a percentage of your Total income, your product sales are 13% of your total income. This means that if your income goes up, but your percentage of product sales decreases then the team are not recommending retail products. If the percentage goes up, then the team are recommending more often or having a better conversion rate of clients that are buying products (which is great).

This helps you keep an eye on the retail sale of products which is really important in a salon or service based industry with add on product sales. You have done all the work to get the client into the business and by selling a product to them at the end of their service you are increasing your average dollar sale, plus how much profit you make per client.



Think McDonald's when they say "Would you like fries with that?" McDonald's knows that they make more profit for a bag of fries than they do on a burger, but you have come to buy a burger, so why not some fries as well and make some more money. Your retail products are your fries and a great source of 'extra profit' for your business – especially if a service based business.

In this example P&L, if you increased your retail sales by just 10% (so instead of them being 13% of your income, they were 14.3% of your income) you would have made an extra \$5,252 in income or \$2,180 in profit (on the average margin).

If these extra sales all came from the Salon brand haircare then you would have made an extra \$2,626 in profit. What would you have done with that extra money in the last year?

Maybe you need to put on your to do list to work out your margin on all your retail products and schedule some training with the team on how to recommend the highest margin products to their clients – what are the benefits of those products (they don't even have to know they are the highest margin items). Or – if we owned a hair salon as in this example - to put on your cutting stations or in your treatment rooms or on your retail shelves or in the waiting area – posters or product of the month information on a high margin product. Where could you put these promotions? It is just as easy to promote a high margin product as it is a low margin product – one just makes more money than the other, but takes the same amount of time to recommend or promote – your choice.

Let's take a look at Wages next.

You can do two major things with your wages by working out your wages as a percentage of your total income.

1. If you work out your total wages as a percentage of your total income, you can make sure that as your income increases, your wages don't 'blow out' or are 'under' what they should be to give great customer service. The percentage should remain about the same, no matter what your income is (once you have determined what the optimal percentage is – currently you may be over or under staffed).
2. The second thing you can use this for is to work out how effective your team are. Are they doing their fair share of the work? Are they 'bringing' in enough income to cover their wages? You can also set sales targets for them individually by knowing their percentages plus what you can give to them as bonuses.

Here is an example so you can see:

From our example P&L, our wages are 34.1% of the total income. (Total wages divided by total income x 100)

If we look at each hairdresser, so let's use Hairdresser 2 as an example. Hairdresser 2's wages is \$38,000 or 27.4% of the total wages. We would then assume that this Hairdresser should be 'bringing in' to the business (through services and selling products) of \$111,323 for the year (27.4% of total income). This is about \$9277 per month. So if Hairdresser 2 was not



doing at least this amount, you know that you would not be on track to cover all your expenses plus keep your profit margin (percentage) the same in your business.

It is slightly more complicated than this though. Let's also look at the fact that the apprentice probably won't be fully capable of doing all services, but can assist the qualified hairdressers to do more. This is where you need to play with your numbers a little to come up with targets for each team member. We want each team member to become their own 'profit centre' meaning that they bring in more business (or do the work to make the income) so that they cover their own cost of being there (wages) plus make you profit as you have taken on all the risk. Think of every team member as their own little business – each one should be making profit.

From our example P&L, I'll show you how I would work this:

Total Income	\$406,289.00		
Wages		% of total wages	\$ of income
Manager/Hairdresser 1	\$ 42,000.00	30.3%	\$123,106.00
Hairdresser 2	\$ 38,000.00	27.4%	\$111,323.00
Part-time Hairdresser	\$ 17,000.00	12.3%	\$ 49,973.00
Apprentice	\$ 27,000.00	19.5%	\$ 79,226.00
Superannuation	\$ 11,000.00		
Bonuses, other	\$ 3,500.00		
Total Wages	\$138,500.00		

This is where we need to 'play' with the numbers a little. To keep it simple (you can go as in depth if you want) – I'm going to add the superannuation (retirement fund in Australia – I think in the USA this would be equivalent to your 401k plans) and bonuses together and then simply divide by 4 and add to each hairdressers cost of being there.

Superannuation + Bonuses divided by 4 = \$3,625.00

Now wages are:

Manager/Hairdresser 1	\$ 45,625.00
Hairdresser 2	\$ 41,625.00
Part-time Hairdresser	\$ 20,625.00
Apprentice	\$ 30,625.00

I'm going to take it that our Apprentice is a 2nd year apprentice – so capable of doing some tasks but not all so we will say that half their time is dollar producing by them doing paying clients, the other half of the time they are assisting the rest of the team. (You can do this with any team member that does not directly bring in sales – eg. A receptionist) So again we will re-calculate the wages by taking half the apprentices wages and dividing by 3 (so each fully qualified hairdresser is using the apprentice's help/assistance).



Apprentice wages divided by 2 = \$ 15,312 then divided by 3 = \$ 5,104 to add to each qualified hairdresser.

Now wages are – including the ‘hire’ of the apprentice - to help the qualified hairdressers:
(to calculate targets and profit centers only)

		% of total sales	\$ of income
Manager/Hairdresser 1	\$ 50,416.00	36.4 %	\$147,889.00
Hairdresser 2	\$ 46,729.00	33.7 %	\$136,919.00
Part-time Hairdresser	\$ 25,729.00	18.6 %	\$ 75,570.00
Apprentice	\$ 15,312.00	11.1 %	\$ 45,098.00

From these figures I would set sales targets for each of the team to go for. Now this is the minimum – you would want these figures to be higher because next year, do you want to make more or less or the same profit? I’d suggest more.

So if the Manager/Hairdresser 1, Hairdresser 2 and the apprentice are full time – 5 days per week and the part-timer is say 3 days per week then I’d break down their sales targets to a daily figure so: (yearly target for that hairdresser divided by 52 weeks then divided by days worked)

	Yearly	Per day target	Days worked
Manager/Hairdresser 1	\$147,889.00	\$ 570.00	5
Hairdresser 2	\$136,919.00	\$ 527.00	5
Part-time Hairdresser	\$ 75,570.00	\$ 485.00	3
Apprentice	\$ 45,098.00	\$ 174.00	5

I like to also make this into number of clients – it is much easier for team to think of it as number of people they need to see a day. In this case, let’s say that the average dollar sale of every client is \$85 for the qualified hairdressers and \$50 for the apprentice (the apprentice may not be able to do colour or may not be as good at the retail sales yet).

So for each of the team:

	Per day target	Number of clients per day(average)
Manager/Hairdresser 1	\$ 570.00	6.7
Hairdresser 2	\$ 527.00	6.2
Part-time Hairdresser	\$ 485.00	5.7
Apprentice	\$ 174.00	3.5

By knowing the number of clients needed to be seen per day, it will make it much quicker and easier to see if you are ‘on target’ to reach your profit goals. I always ‘round up’ for my number of clients – so in the above example it would be 7, 7, 6, 4 clients in that order for the hairdressers to go for at an average dollar of \$85 (\$50 for apprentice). This is how easy it is to work out targets. If you want to grow your business then go for 1 client more each per day or even per week OR go for same number of clients at a higher average dollar sale each (or even do both!).

One last thing on this. Yes, some days are busier than others so you may not be able to use this average. Let's look at how to set targets for days and the week depending on the 'busy days'.

So for the week – who is working on which days:

	Mon	Tues	Wed	Thurs	Fri	Sat
Manager/Hairdresser 1		Yes	Yes	Yes	Yes	Yes
Hairdresser 2	Yes		Yes	Yes	Yes	Yes
Part-time Hairdresser	Yes			Yes		Yes
Apprentice		Yes	Yes	Yes	Yes	Yes

And then which are busier days and slower days:

Mon	Tues	Wed	Thurs	Fri	Sat
Slow	Slow	Med	Busy (open late)	Busy	Busy

So how do we work out the targets for each hairdresser – let's see here how I've worked it out.

	Mon	Tues	Wed	Thurs	Fri	Sat	Total
Manager/Hairdresser 1		5	6	9	8	7	35
Hairdresser 2	5		6	9	8	7	35
Part-time Hairdresser	4			7		7	18
Apprentice		6	6	3	3	2	20



(You will note that on the busier days, the apprentice actually does less clients – this is because on these days, other hairdressers are busier so won't be as readily available for training or help, plus the apprentice will probably be more effective to be used to do tea/tidy/reception/washbasin duties to assist the qualified hairdressers)

If the team realise that they are looking to see that number of clients at the average dollar sale each day, they will be able to stay focused each day on their small target rather than a huge monthly target. Remember, they may only see 3 clients on a day they are supposed to aim for 6, but the average dollar sale was \$180 for those 3 clients which is actually a higher daily income than their 6 at \$85 each (total \$510 – they actually serviced 3 at \$180 which is a total of \$540). It is to be used as a guide, so when giving targets you might like to give a daily total income target with an example of how that could be achieved.

So for Hairdresser 2 it would look like this:

Mon \$425 (= 5 clients at \$85 each)
Tues Day off
Wed \$510 (= 6 clients at \$85 each)
Thurs \$765 (= 9 clients at \$85 each)
Fri \$680 (= 8 clients at \$85 each)
Sat \$595 (= 7 clients at \$85 each)

This also means that if say on Wednesday they only bring in a total income of \$450, then in the next three days (Thurs, Fri, Sat) they need to bring in an extra \$60 to stay on target for the week). The more you help them understand their sales/service goals and how they can make it happen (eg. \$60 is an extra retail sale or two) then the more likely they are to actually achieve it. Train them once and then reap the benefits for months if not years to come. It is also great to set team rewards based on these numbers so they team can achieve targets together and be rewarded. What gets rewarded, gets repeated.

Review their targets every quarter to make sure they are on track and make sure you reward them accordingly for reaching their targets and also if they exceed their targets.

One extra note – make sure that when working out sales targets you always include profit in the figures – you need to make money too!



Expenses:

Just as we have done for the other sections, I like to break down my expenses into percentages, so that I can keep an eye on them to ensure my profit margin. It is like two oars in a boat – one oar is for income and the other is on expenses. We not only want to increase our income, we also want to maintain or even decrease our expenses. The other way to work out our expenses when income is

increasing (or decreasing, but we don't want that) is by percentages. You have to compare apples to apples. If you spend an extra \$2,000 on salon use products in a month, you could be alarmed and think you have allowed your spending to get out of control. But if you knew that the income had increased and this expense was actually the same as a percentage as the month prior, then there is no need to be alarmed – you are in fact right on track.

There is one thing to note that is actually exciting. When you work out percentages, you will find that some things will go down in their percentage. Think the rent of your premises. Even if your income goes up, your rent will remain the same dollar figure. This means that when you work out the percentage of rent as an expense compared to your income, the percentage goes down. These are what we called fixed expenses – so this is where it becomes fun because as your income goes up, these expenses stay the same (hence why termed fixed). This will then mean that your profit margin – percentage of your income that is yours to keep – will go up! Yippee!

So let's do some examples.

I like to keep it simple when looking at expenses. I don't work out every individual expense as a single percentage, I will group a few together so that I can see quickly where my expenses are sitting compared to my income.

So let's look at the example only Profit and Loss. (to work out the percentage all I have done is add the 'group' of expenses together then divided that number by the total income and multiplied by 100 – eg. (Rent + Outgoings + Electricity + Water + Repairs) / Total income x 100 which is \$43,586/\$406289 x 100 = 10.7 %. Do the calculation and see if you come up with the same to make sure you understand this)

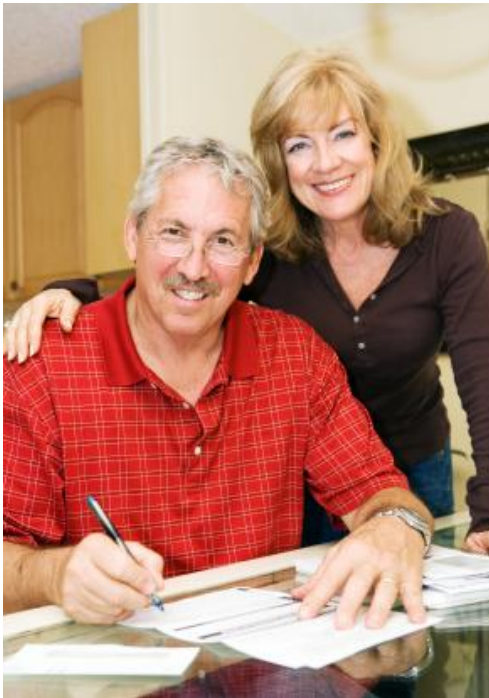
Expenses

Rent	\$ 30,000.00	}	→	\$43,586	→	10.7 %
Outgoings	\$ 6,650.00					
Electricity	\$ 3,765.00					
Water	\$ 1,896.00					
Repairs	\$ 1,275.00					
Salon Use Products	\$ 22,135.00	→				5.4 %
Phone						
Mobile (or cell)	\$ 1,560.00	}	→	\$ 4,110	→	1.0 %
Landline	\$ 1,890.00					
Internet	\$ 660.00					
Subscriptions	\$ 1,146.00	}	→	\$ 19,686	→	4.8 %
Marketing	\$ 7,990.00					
Printing and reproductions	\$ 9,350.00					
Team training	\$ 1,200.00					
Sundries (tea, coffee, etc)	\$ 2,587.00	→				0.6 %
Laundry	\$ 5,200.00	→				1.3 %
Equipment and Plant						
Furniture	\$ 3,890.00	}	→	\$ 9,720	→	2.4 %
Hairdressing tools	\$ 4,500.00					
Linen	\$ 895.00					
Other	\$ 435.00					
Bookkeeper	\$ 4,120.00	}	→	\$ 7,070	→	1.7 %
Accountant	\$ 2,200.00					
Legals/Solicitor	\$ 750.00					
Motor vehicle						
Lease	\$ 4,740.00	}	→	\$ 7,436	→	1.8 %
Petrol/Oil	\$ 1,550.00					
Maintenance/repairs/parts	\$ 1,146.00					
Bank fees/merchant facility	\$ 6,050.00	→				1.5 %
Gifts and Donations	\$ 1,100.00	→				0.3 %
Insurance	\$ 3,400.00	→				0.8 %
Postage and deliveries	\$ 1,348.00	→				0.3 %
Software/computer expenses	\$ 1,200.00	→				0.3 %
Other/Miscellaneous expenses	\$ 895.00	→				0.2 %
Total Expenses	\$135,523.00					33.4 % of total sales

So how do you now use these?

Every month you should take out your Profit and Loss and compare your expenses to the previous month. Did we spend the same as a percentage? Did we spend less as a percentage compared to the previous month? Did we spend more as a percentage compared to the previous month? The aim should be to spend the same or less where ever possible. You can then also use these figures to find out if you could be reducing your expenses (think like the phone area – if we reduced the phone use by just 0.1 % that would mean an extra \$406.29 profit)

I don't necessarily look at every single expense. In this example from the General expenses, I'd keep an eye on the rent group, the Salon use products, the marketing/subscriptions group, the equipment and plant group and the motor vehicle group. These are all areas that could have a major impact on the bottom line, plus are the bigger percentage groups. Although, saying that, it would only take an extra 5 minutes to do all of these groups every month and as the phone use example above, imagine if you could reduce everything each month by just 0.1 %.



The other reason you want to know these figures is for your cashflow projections. If you are working out budgeting for your expenses when you are also budgeting to increase your sales, then knowing the percentages, makes doing your cashflow projection really simple and takes a lot of the guess work out of it.

Knowing these percentages and reviewing your Profit and Loss every month will keep your finger on the pulse of your business. If you wait until the end of the year to look at these, then you may have spent far too much and it is then too late to fix it. Whereas if you look at them every month, if one month you spend a bit too much, then you can correct it quickly the next month. Most businesses don't fail because of lack of business, they fail because the Business Owner doesn't know what is happening in their business or they are not managing their cashflow.

So we have one last calculation to work out and that is your Overall Profit Margin. This is an essential figure to know because it will let you know approximately on any given day, how much money you made! It will also be useful to know so that you can be putting enough money aside every day or month into your tax management account. (Show your cashflow projections to your Accountant and then they will be able to tell you as a percentage of your profit, what money you should put aside for tax – this is really important so that you don't get a tax bill at the end of the year and have no money to pay it).

So to work out your Profit Margin (what percentage of the income is yours to keep before tax), simply take the Profit/Loss figure and divide it by total sales then multiply by 100.

Eg.

Profit/Loss divided by Total sales x 100 = Profit Margin %

$$\text{\$101,345} / \text{\$406,289} \times 100 = 24.9 \%$$

This means that every dollar of income – just under 25 cents of it is Profit. The aim of the game in business is to make more profit so your aim is to increase that percentage number. If you increased your profit margin by 10% (that is a 10% increase, not plus 10%) then your margin would now be 27.4 % which in this example would be a total of \$111,323 or an extra \$9,978. What would you do with nearly an extra \$10,000 a year?

What is measured will increase or improve so make sure each and every month you at least work out the following items:

1. Services as a percentage of total sales
2. Break down of each service and their percentage of total services sales
3. Products as a percentage of total sales
4. Break down of each product and their percentages of total product sales
5. Cost of Goods Sold (Products) as a percentage of total services
6. Cost of Goods Sold (Products) as a percentage of total product sales (average retail margin)
7. Wages as a percentage of total sales
8. Expenses as a percentage of total sales
9. Break down of at least the major groups of expenses as a percentage of total sales
10. Profit Margin

I'd suggest that maybe you have these figures written into a little tally sheet that you can fill in each month and then you can compare at the year end for each month. Again, this will make next year's cashflow projection much easier to work out (as some months might have more sales or more expenses).

Eg.

	Jan	Feb	March	April	May	June	July	Aug	Sept
1	20 %	22 %	21 %	20 %	25 %	21 %	23 %	22 %	22 %
2	33 %	33 %	32 %	33 %	32 %	33 %	34 %	33 %	32 %
3	10 %	10 %	14 %	13 %	12 %	10 %	9 %	10 %	10 %

If you haven't done so yet, I'd suggest you put this on your to do list for this month. Take a look at your Profit and Loss statement to date (that means all the months so far in this financial year) as well as your Profit and Loss statement for the complete last financial year to get you started. You can't increase or improve these figures if you don't know where you are starting from. Yes, it will take time, but it could also make you a lot of money plus it will put you back into control of your business.