

By Elizabeth Millard

Budget Conscious

Knowing where to skimp and where to spend can streamline budgeting and save money in the long run.

MUCH LIKE MANY SALON OWNERS, BRENDA ESCALANTE used to find any excuse to not sit down and plan her budget. The task just seemed lower on the to-do list than thinking of new sales strategies, ordering products and supervising independent contractors. But once she got the hang of putting together a budget, she found it made a big difference for her St. Paul, Minnesota-based spa, Perfect Little Spa & Salon (plspa.com).

"It's still a challenge, but I've learned to become organized and stick to the budget I've laid out in advance," she says. "I put every cost in there, from software and pedicure baths to Kleenex."

This focus on keeping track of staffing, equipment, products and other expenditures on a pre-fixed budget has helped Escalante feel confident

enough to consider opening another location. "With my budget projections going a year out, I can think about growth," she says. "I feel like I have more control and can think 'big picture' now."

But how can you plan when you're not sure how you're allotting your money? The following tips will help you determine the most important products and services you should budget for—and the items you can overlook.

Budget Basics

Every spa has different budget levels and needs, but there are several major areas that affect every business, regardless of size, region or product line. There are also budget mistakes common to every business. Says Bryan Durocher, owner of Durocher Enterprises (durocherenterprises.com), a company that consults with both spas and manufacturers, "The top three things that throw off profitability are: 1) the wrong compensation plan, 2) the wrong inventory control, and 3) not watching product costs during retail ordering."

Durocher believes that within those major categories are areas where owners should spend more and areas where they should skimp. Creating a solid compensation structure is critical, he notes. Spas have some of the highest payroll expenses of any type of business, so there's little room for mistakes when it comes to budgeting compensation. Many owners' compensation plans aren't profitable for business. Some owners aren't holding employees accountable for meeting performance targets. The days of paying a straight 50% commission are coming to an end, Durocher says, leading some owners to offer a straight salary.

Although it may initially cost more to switch to a straight-salary compensation structure, the tactic has been gaining popularity at spas in the last few years as owners find that the strategy can offer more stability in their employee base, which creates a more professional environment. However, paying by salary comes with such additional expenses as bonuses, insurance and healthcare. Still, Durocher believes that these



investments potentially lead to a better-managed spa.

"With salaried positions, it's not uncommon to see compensation tied into how the entire team fares in performance," he says. "This means if the group meets its performance goals, there would be an additional bonus in pay for successful collaboration."

Durocher also advises investing in a top-notch inventory-monitoring system for back-bar products. "Appoint an individual to be responsible for inventory control and ordering," he says. This person would count inventory each week, note shrinkage and create a master order form to track purchases. Although this measure may result in higher salary costs initially, the creation of a better system will provide a return on investment over time. "Also, don't let your sales reps decide what to order for you," Durocher says. "They're going to be thinking about their wallets, not yours."

Finally, the top expenditure that often can be cut back is advertising, Durocher says. He believes that



many spa owners overspend on advertising rather than work on targeted marketing, which takes more time to research but is cheaper in the long run.

Anticipating Change

Although it would be helpful if businesses stayed consistent from year to year, many spa owners find that their number of clients changes over time,

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A spa owner might forget that with more employees comes more worker's compensation insurance, bonuses and salary increases.

sometimes as a result of new construction in the area or residential growth. Owners usually anticipate different traffic levels based on internal efforts like new marketing strate-

gies or promotions, but they should also look beyond their spa's doors at what's happening in their immediate area, since it could significantly change traffic for better or worse.

Mitch Jucha, partner and vice president of Spa Operations at Creative Spa Concepts (creativespaconcepts.com), points to something seemingly mundane—such as a new spotlight on the street—to a more major transition, like a new fitness club opening on the same block or close by. Such developments can have a major impact on a spa business. A neighboring business that complements a spa—like a gym—could mean the owner should anticipate growth, and that should be noted in the budget. Such growth may mean hiring more employees, expanding existing space, and making sure product and equipment levels can handle more clients. Conversely, if planned new construction actually re-routes vehicle traffic away from the spa, be realistic in adjusting numbers for a potential drop in client visits.

One anticipatory growth factor that spa owners tend to overlook concerns payroll, Jucha notes. A spa owner might budget more money for salaries but forget that with more employees comes more

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Booth Rental Cautions

According to Bryan Durocher, owner of the spa consultant company Durocher Enterprises, spa owners could also stand to cut back on their booth-rental budgets. The appeal of renting booths is economic viability, since owners believe it's easier, and cheaper, to simply take on renters rather than hire employees. But experts warn that there are strict parameters to how the IRS views these renters. If renters don't have their own phone lines as well as their own credit-card processing systems, insurance and supplies, the IRS may think the owner is trying to avoid paying payroll taxes.

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"Whether dealing with day spas or salons, business is extremely predictable if you have the right bits of information."

worker's compensation insurance, bonuses and annual salary increases for existing employees.

Another suggestion: Before hiring more employees, make

sure that existing employees are performing at an optimal level, says Mark Donovan of Broderick Consulting (broderickconsulting.com). "If current personnel are not

operating above 80% usage, you're not ready to expand," he advises.

Another budgetary pitfall that owners fail to anticipate is increased prices from product vendors and for maintenance on equipment. As machines get older, they require more care, and last year's costs might not be the same as next year's costs, particularly if an influx of new clients means the equipment gets used more often.

Getting Help

Jucha advises owners to take some accounting classes to learn basics and maintain a good grasp of general financial-planning techniques. Even if you took a course when you first started out, tools and methods tend to change, so brushing up on skills never goes to waste. "It's imperative to be able to see how a change is going to affect you," he says. "This isn't guesswork, but it takes analysis and understanding and revisiting projections often to see if they match with reality." If classes don't seem feasible for your schedule, another way to tackle finances is to hire a bookkeeper and regularly keep in contact with him or her—and not just at tax time.

"What we focus on with our clients is accurately projecting sales, not just picking a number out of the sky," Donovan says. "Whether you're dealing with day spas or salons, business is extremely predictable if you have the right bits of information. And a good local bookkeeper can be very useful in analyzing that data." ●

Elizabeth Millard is a Minneapolis-based freelance writer who has been published in the *Boston Globe*, *Ms. Magazine*, *PC Magazine* and *Entrepreneur Magazine*. She can be reached at emillard@hotmail.com.



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