



Annual Forecasting Tool

practice guide

Instructions

1

Download the **Annual Forecasting Tool**.

2

Enter the **data for “My Salon”** into the Annual Forecasting Tool.

3

To see if you entered the data correctly, check the numbers below, which are located in the **“Summary P&L Forecast”** and **“Projected Cash Flow (Deficit)”** section of the Annual Forecasting Tool:

- Does annual projected revenue=\$1,013,713?
- Does annual forecasted net operating profit=\$67,251?
- Does annual benchmarked P&L net operating profit=\$107,861?
- Does estimated annual cash flow=\$4,688?

If all of these numbers agree, well done! If not, compare the numbers in each **green box** on the Annual Forecasting Tool with the numbers on the **Answer Key** (see page 4).

4

Select the **“Detailed Forecast”** tab, answer the following questions about your forecast and then check your answers using the **Answer Key** (see page 6).

- **Find Professional Product cost:**
 - How much is your annual forecasted cost?
 - How much would your annual cost be if you met benchmark?
 - Are you overspending or underspending as compared to benchmark? By how much?
- **Find Service Provider Payroll cost:**
 - How much is your annual forecasted cost?
 - How much would your annual cost be if you met benchmark?
 - Are you overspending or underspending as compared to benchmark? By how much?

- **Find Advertising and Promotion cost:**
 - How much is your annual forecasted cost?
 - How much would your annual cost be if you met benchmark?
 - Are you overspending or underspending as compared to benchmark? By how much?
- **Find Net Operating Profit (Loss):**
 - How much is your annual forecasted net operating profit?
 - How much would your annual net operating profit be if you met benchmark?
 - How much additional profit could you make if all expense categories were at benchmark?
- **Find the NOP%:**
 - What is your projected NOP %?
 - What would your NOP % be if all expense categories were at benchmark?
- **Find Cash Flow (Deficit):**
 - What is your projected cash flow for the year?
 - Are there any months where cash flow is negative? Which months?

5

Analyze the results of your forecast, and then check your answers using the **Answer Key** (see page 6).

- What changes could you make **now** to improve profitability and cash flow?
- What changes could you make **over time** to improve profitability and cash flow?
- If nothing changes in your forecast, how are you going to handle months with tight or negative cash flow?

Data for “My Salon” section

Get Started

Start your forecast in **January 2024**.

Revenue Section

- Select the following methods of **revenue forecasting**:
 - For **Jan 24, Feb 24** and **Mar 24**, select “**Metrics**.”
 - For **all other months**, select “**Last Year**.”
- Enter the following **revenue data** for **Jan 24, Feb 24** and **Mar 24**:

	Jan 24	Feb 24	Mar 24
Number of stylists	10	11	12
Average # guests per stylist each week	16	17	18
Average Service per Service Ticket (SPST)	\$100	\$100	\$100
Average Retail per Client Ticket (RPCT)	\$14	\$15	\$16

- Enter the following **revenue data** for **April 24–Dec 24**:

	Apr 24	May 24	Jun 24	Jul 24	Aug 24	Sep 24	Oct 24	Nov 24	Dec 24
Service revenue—Last year	\$60,000	\$65,000	\$60,000	\$55,000	\$50,000	\$60,000	\$65,000	\$70,000	\$75,000
Retail revenue—Last year	\$12,000	\$13,000	\$12,000	\$11,000	\$10,000	\$12,000	\$13,000	\$14,000	\$15,000
Service revenue—Planned % incr (decr)	5%	5%	5%	8%	8%	8%	8%	8%	8%
Retail revenue—Planned % incr (decr)	10%	10%	10%	10%	10%	10%	12%	12%	12%

- Your **average monthly online commissions from Aveda** are \$1,000.

Expense Section

- Your **monthly rent** is \$7,000.
- Your salon contributes toward **health insurance for employees**.
- Make the following adjustments to expenses:
 - **Professional Product Cost**: 8%
 - **Service Provider Payroll**: 47%
 - **Advertising and Promotion**: \$15,000
 - **Guest Care Team Payroll**: \$120,000
 - **Office Supplies and Postage**: \$6,000

Cash Flow Section


Enter the following information:

- **Principle & Interest Payments on Debt**: \$18,000
- **Owner Compensation & Payroll Taxes**: \$58,000
- **Estimated Personal Income Tax Rate**: 25%

Answer Keys

Revenue Answer Key

The completed Revenue Section should look like this:

ANNUAL FORECASTING TOOL													
Instructions: 1. Select the method of revenue forecasting EACH month using the dropdown box. 2. You must enter revenue data for ALL 12 MONTHS to get an accurate forecast. 3. Complete all boxes highlighted in green.								Select the first month and year of your forecast		Jan	2024		
REVENUE SECTION		Jan 24	Feb 24	Mar 24	Apr 24	May 24	Jun 24	Jul 24	Aug 24	Sep 24	Oct 24	Nov 24	Dec 24
Select method of revenue forecasting 		Metrics	Metrics	Metrics	Last Year	Last Year	Last Year	Last Year	Last Year	Last Year	Last Year	Last Year	Last Year
Method 1: Start with last year's numbers													
Service revenue - Same month of last year					\$60,000	\$65,000	\$60,000	\$55,000	\$50,000	\$60,000	\$65,000	\$70,000	\$75,000
Retail revenue - Same month of last year					\$12,000	\$13,000	\$12,000	\$11,000	\$10,000	\$12,000	\$13,000	\$14,000	\$15,000
Service revenue - Planned % incr (decr)					5%	5%	5%	8%	8%	8%	8%	8%	8%
Retail revenue - Planned % incr (decr)					10%	10%	10%	10%	10%	10%	12%	12%	12%
Method 2: Based on salon metrics													
Number of stylists		10	11	12									
Average # guests per stylist each week		16	17	18									
Average Service per Service Ticket (SPST)		\$100.00	\$100.00	\$102.00									
Average Retail per Client Ticket (RPCT)		\$14.00	\$15.00	\$16.00									
Question: How much is your average <u>monthly</u> online commission from Aveda?					\$1,000								

Expense, Summary P&L Forecast and Projected Chash Flow (Deficit) Answer Key

The completed Expense Section, Summary P&L Forecast and Projected Cash Flow (Deficit) sections should look like this:

EXPENSE SECTION

- [1] How much is your **monthly rent**, including any amounts you pay for common area maintenance (CAM) and property taxes?

\$7,000

- [2] Do you contribute toward health insurance for your employees?

Yes

- [3] Below are standard benchmarks for certain expenses. Do you need to make adjustments to any of these benchmarks based on your knowledge of your salon?

Expense Line Item	Standard Benchmark	Adjustment Needed?	If yes, enter adjusted %
Retail Cost of Goods	52.0%	No	
Professional Product	7.0%	Yes	8.0%
Service Provider Payroll	45.0%	Yes	47.0%

- [4] Below are the estimated **annual** expenses of certain categories, based upon standard benchmarks. Are you aware of any adjustments needed?

Expense Line Item	Benchmark Annual Expense	Adjustment Needed?	If yes, enter adjusted annual \$
Advertising and Promotion	\$ 20,274	Yes	\$ 15,000
Guest Care Team (including manager)	\$ 111,508	Yes	\$ 120,000
Education and Staff Events	\$ 12,671	No	
Utilities	\$ 8,110	No	
Communications, IT and Software	\$ 12,000	No	
Office Supplies and Postage	\$ 10,137	Yes	\$ 6,000
Cleaning and Laundry	\$ 5,069	No	
Repairs and Maintenance	\$ 5,069	No	
Business Insurance	\$ 10,137	No	
Accounting, HR and Legal	\$ 9,600	No	
Payroll Service	\$ 3,041	No	

SUMMARY P&L FORECAST

	Your Annual Forecast	Benchmark Numbers	Better (Worse) than Benchmark
Total Revenue	\$1,013,713	\$1,013,713	\$0
Total Expenses	\$946,463	\$905,852	\$ (40,610)
Net Operating Profit (NOP)	\$67,251	\$107,861	\$ (40,610)
Net Operating Profit %	6.6%	10.6%	-4.0%

PROJECTED CASH FLOW (DEFECIT)

Net Operating Profit	\$67,251
Other Uses and Sources of Cash:	Enter Annual Amount
Principle and Interest Payments on Debt	\$12,000
Owner Compensation and Payroll Taxes	\$45,000
Other Expenses	\$0
Other Income	\$0
Estimated Personal Income Tax Rate	25% \$5,563
Estimated Cash Flow (Deficit)	\$4,688

Detailed Forecast Answer Key

The “Detailed Forecast” section should look like this:

Your Salon Forecast	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Your Annual Forecast	Benchmark P&L Total	Better (Worse) than Benchmark
Revenue															
Service Revenue, Net	\$ 70,400	\$ 74,800	\$ 96,941	\$ 63,000	\$ 68,250	\$ 63,000	\$ 59,400	\$ 54,000	\$ 64,800	\$ 70,200	\$ 75,600	\$ 81,000	\$ 841,391	\$ 841,391	\$ -
Retail Revenue, Net	\$ 9,856	\$ 11,220	\$ 15,206	\$ 13,200	\$ 14,300	\$ 13,200	\$ 12,100	\$ 11,000	\$ 13,200	\$ 14,560	\$ 15,680	\$ 16,800	\$ 160,322	\$ 160,322	\$ -
Online Commissions	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 12,000	\$ 12,000	\$ -
Total Revenue	\$ 81,256	\$ 87,020	\$ 113,147	\$ 77,200	\$ 83,550	\$ 77,200	\$ 72,500	\$ 66,000	\$ 79,000	\$ 85,760	\$ 92,280	\$ 98,800	\$ 1,013,713	\$ 1,013,713	\$ -
Cost of Goods															
Retail Product	\$ 5,125	\$ 5,834	\$ 7,907	\$ 6,864	\$ 7,436	\$ 6,864	\$ 6,292	\$ 5,720	\$ 6,864	\$ 7,571	\$ 8,154	\$ 8,736	\$ 83,368	\$ 83,368	\$ -
Professional Product	\$ 5,632	\$ 5,984	\$ 7,755	\$ 5,040	\$ 5,460	\$ 5,040	\$ 4,752	\$ 4,320	\$ 5,184	\$ 5,616	\$ 6,048	\$ 6,480	\$ 67,311	\$ 58,897	\$ (8,414)
Payroll Costs:															
Service Providers	\$ 33,088	\$ 35,156	\$ 45,562	\$ 29,610	\$ 32,078	\$ 29,610	\$ 27,918	\$ 25,380	\$ 30,456	\$ 32,994	\$ 35,532	\$ 38,070	\$ 395,454	\$ 378,626	\$ (16,828)
Retail Commission	\$ 493	\$ 561	\$ 760	\$ 660	\$ 715	\$ 660	\$ 605	\$ 550	\$ 660	\$ 728	\$ 784	\$ 840	\$ 8,016	\$ 8,016	\$ -
Payroll Taxes	\$ 3,358	\$ 3,572	\$ 4,632	\$ 3,027	\$ 3,279	\$ 3,027	\$ 2,852	\$ 2,593	\$ 3,112	\$ 3,372	\$ 3,632	\$ 3,891	\$ 40,347	\$ 38,664	\$ (1,683)
Shipping	\$ 118	\$ 135	\$ 182	\$ 158	\$ 172	\$ 158	\$ 145	\$ 132	\$ 158	\$ 175	\$ 188	\$ 202	\$ 1,924	\$ 1,924	\$ -
Merchant and Bank Fees	\$ 2,275	\$ 2,437	\$ 3,168	\$ 2,162	\$ 2,339	\$ 2,162	\$ 2,030	\$ 1,848	\$ 2,212	\$ 2,401	\$ 2,584	\$ 2,766	\$ 28,384	\$ 28,384	\$ -
Total Cost of Goods	\$ 50,089	\$ 53,678	\$ 69,968	\$ 47,521	\$ 51,479	\$ 47,521	\$ 44,595	\$ 40,543	\$ 48,646	\$ 52,857	\$ 56,921	\$ 60,985	\$ 624,804	\$ 597,879	\$ (26,925)
Gross Profit	\$ 31,167	\$ 33,342	\$ 43,179	\$ 29,679	\$ 32,071	\$ 29,679	\$ 27,906	\$ 25,457	\$ 30,354	\$ 32,903	\$ 35,359	\$ 37,815	\$ 388,910	\$ 415,834	\$ (26,925)
Operating Expenses															
Advertising and Promotion	\$ 1,202	\$ 1,288	\$ 1,674	\$ 1,142	\$ 1,236	\$ 1,142	\$ 1,073	\$ 977	\$ 1,169	\$ 1,269	\$ 1,365	\$ 1,462	\$ 15,000	\$ 20,274	\$ 5,274
Non-Service Payroll:															
Manager and Guest Care	\$ 9,619	\$ 10,301	\$ 13,394	\$ 9,139	\$ 9,890	\$ 9,139	\$ 8,582	\$ 7,813	\$ 9,352	\$ 10,152	\$ 10,924	\$ 11,696	\$ 120,000	\$ 111,508	\$ (8,492)
Payroll Taxes	\$ 770	\$ 824	\$ 1,072	\$ 731	\$ 791	\$ 731	\$ 687	\$ 625	\$ 748	\$ 812	\$ 874	\$ 936	\$ 9,600	\$ 8,921	\$ (679)
Employee Benefits	\$ 1,512	\$ 1,611	\$ 2,090	\$ 1,379	\$ 1,494	\$ 1,379	\$ 1,299	\$ 1,181	\$ 1,416	\$ 1,536	\$ 1,653	\$ 1,771	\$ 18,321	\$ 17,435	\$ (886)
Education and Staff Eevnts	\$ 1,016	\$ 1,088	\$ 1,414	\$ 965	\$ 1,044	\$ 965	\$ 906	\$ 825	\$ 988	\$ 1,072	\$ 1,154	\$ 1,235	\$ 12,671	\$ 12,671	\$ -
Rent and CAM	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 84,000	\$ 70,960	\$ (13,040)
Utilities	\$ 650	\$ 696	\$ 905	\$ 618	\$ 668	\$ 618	\$ 580	\$ 528	\$ 632	\$ 686	\$ 738	\$ 790	\$ 8,110	\$ 8,110	\$ -
Communications, IT and Software	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 12,000	\$ 12,000	\$ -
Office Supplies and Postage	\$ 481	\$ 515	\$ 670	\$ 457	\$ 495	\$ 457	\$ 429	\$ 391	\$ 468	\$ 508	\$ 546	\$ 585	\$ 6,000	\$ 10,137	\$ 4,137
Cleaning and Laundry	\$ 406	\$ 435	\$ 566	\$ 386	\$ 418	\$ 386	\$ 363	\$ 330	\$ 395	\$ 429	\$ 461	\$ 494	\$ 5,069	\$ 5,069	\$ -
Repairs and Maintenance	\$ 406	\$ 435	\$ 566	\$ 386	\$ 418	\$ 386	\$ 363	\$ 330	\$ 395	\$ 429	\$ 461	\$ 494	\$ 5,069	\$ 5,069	\$ -
Business Insurance	\$ 813	\$ 870	\$ 1,131	\$ 772	\$ 836	\$ 772	\$ 725	\$ 660	\$ 790	\$ 858	\$ 923	\$ 988	\$ 10,137	\$ 10,137	\$ -
Accounting, HR and Legal	\$ 800	\$ 800	\$ 800	\$ 800	\$ 800	\$ 800	\$ 800	\$ 800	\$ 800	\$ 800	\$ 800	\$ 800	\$ 9,600	\$ 9,600	\$ -
Payroll Service	\$ 244	\$ 261	\$ 339	\$ 232	\$ 251	\$ 232	\$ 218	\$ 198	\$ 237	\$ 257	\$ 277	\$ 296	\$ 3,041	\$ 3,041	\$ -
Licenses, Taxes and Dues	\$ 163	\$ 174	\$ 226	\$ 154	\$ 167	\$ 154	\$ 145	\$ 132	\$ 158	\$ 172	\$ 185	\$ 198	\$ 2,027	\$ 2,027	\$ -
Misc Business Expense	\$ 81	\$ 87	\$ 113	\$ 77	\$ 84	\$ 77	\$ 73	\$ 66	\$ 79	\$ 86	\$ 92	\$ 99	\$ 1,014	\$ 1,014	\$ -
Total Operating Expenses	\$ 26,162	\$ 27,385	\$ 32,961	\$ 25,238	\$ 26,591	\$ 25,238	\$ 24,241	\$ 22,855	\$ 25,626	\$ 27,064	\$ 28,454	\$ 29,843	\$ 321,659	\$ 307,973	\$ (13,686)
Net Operating Profit (Loss)	\$ 5,005	\$ 5,957	\$ 10,218	\$ 4,441	\$ 5,480	\$ 4,441	\$ 3,665	\$ 2,602	\$ 4,728	\$ 5,838	\$ 6,905	\$ 7,972	\$ 67,251	\$ 107,861	\$ (40,610)
NOP %	6.2%	6.8%	9.0%	5.8%	6.6%	5.8%	5.1%	3.9%	6.0%	6.8%	7.5%	8.1%	6.6%	10.6%	
Other Uses and Sources of Cash															
Principle and Interest Payments	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 12,000		
Owner Compensation and Taxes	\$ 3,750	\$ 3,750	\$ 3,750	\$ 3,750	\$ 3,750	\$ 3,750	\$ 3,750	\$ 3,750	\$ 3,750	\$ 3,750	\$ 3,750	\$ 3,750	\$ 45,000		
Income Taxes	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 5,563		
Total Other Cash Uses	\$ 5,214	\$ 5,214	\$ 5,214	\$ 5,214	\$ 5,214	\$ 5,214	\$ 5,214	\$ 5,214	\$ 5,214	\$ 5,214	\$ 5,214	\$ 5,214	\$ 62,563		
Cash Flow (Deficit)	\$ (209)	\$ 743	\$ 5,005	\$ (773)	\$ 266	\$ (773)	\$ (1,549)	\$ (2,612)	\$ (486)	\$ 625	\$ 1,691	\$ 2,758	\$ 4,688		

Step 4 Answer Key

1. Professional Product Cost

- Annual forecasted cost: \$67,311
- Annual cost at benchmark: \$58,897
- Overspending by \$8,414 as compared to benchmark

2. Service Provider Payroll Cost

- Annual forecasted cost: \$395,626
- Annual cost at benchmark: \$378,626
- Overspending by \$16,828 as compared to benchmark

3. Advertising and Promotion Cost

- Annual forecasted cost: \$15,000
- Annual cost at benchmark: \$20,274
- Overspending by \$5,274 as compared to benchmark

4. Net Operating Profit (Loss)

- Annual forecasted net operating profit: \$67,251
- Annual net operating profit at benchmark: \$107,861
- Could make additional profit of \$40,610 if all expense categories were at benchmark

5. NOP%

- Projected NOP % is 6.6%
- NOP% would be 10.6% if all expense categories were at benchmark

6. Cash Flow (Deficit)

- Projected cash flow for the year is pretty low at \$4,688
- Cash flow is negative in 6 months: Jan, Apr, Jun, Jul, Aug and Sep

Step 5 Answer Key

1. What changes could you make now to improve profitability and cash flow?

- Review and analyze your revenue projections:
 - What changes and actions can you make during the year to increase revenue?
 - Focus on gaining more guests for the salon, which is the fastest way to impact revenue.
 - Can you bring more experienced artists into the salon? They will grow your business faster than new artists.
 - How many new artists can you afford to bring in this year? How fast can you get them trained and serving guests?
- Review and analyze Professional Product expenses:
 - Do you have a regular system for taking and monitoring professional product inventory?
 - Does your salon pricing system adequately cover the cost of the product used in performing the service?
 - Is there a system in place for controlling professional product usage and waste?
- Review and analyze Non-Service Payroll expenses:
 - Can you reduce front desk hours without compromising service levels?
 - Can you shorten salon hours of operation to ensure your salon is only open during periods of highest guest demand?
 - Can you leverage new artists or existing team members to support off-peak desk coverage times?
 - Can you use technology (e.g., online booking, two-way texting functions, etc.) to automate time consuming front of house operation and reduce staffing hours?

2. What changes could you make over time to improve profitability and cash flow?

- If Service Provider Payroll is above 45%, this requires thought and a longer-term strategy before making any significant changes:
 - View it as an opportunity to reevaluate your current payroll and review systems.
 - Imagine you are starting the business from scratch. If you could wipe the slate clean and change your compensation system to better reflect the values of your business and keep your service provider payroll at or below the 45% benchmark, what would you change?

3. If nothing changes in your forecast, how are you going to handle months with tight or negative cash flow?

- Consider reducing owner compensation.
- Review/analyze all discretionary expenses (e.g., advertising and promotion, education and staff events, office supplies and postage, etc.). Can any of these expenses be reduced or delayed?
- Prioritize the timing of cash outlays. What expenses must be paid, and which are flexible?
- Do you have any available spend on your credit cards or on a line of credit?