



Power Moves for Expense Control

The best thing about having a benchmarked profit & loss statement (P&L) is that you can see very quickly where you have opportunity for improvement and the actual dollar value of the improvement. This is great news because it allows you to do two things fast:

- 1 Look for low-hanging opportunities—the easy things that you can work on now.
- 2 Plan for course correction on the expense areas that may take longer to affect.

Both are power moves for helping you unpack the potential in your business now and achieving financial freedom.

Let's take a look at some of the larger expenses in your P&L, the associated benchmark and areas for opportunity.

Service Provider Payroll

benchmark:

45%

Service provider payroll is the commission, hourly pay and other wages paid to your technical team, including new artists and assistants. Tips are **not** included in service provider payroll and should not be included as an expense in your P&L.

There are separate benchmarks for retail commission, payroll taxes and employee benefits, so these items should be separately categorized on your P&L.

Service provider payroll is typically the largest expense on your P&L. Referencing your clean, benchmarked P&L, if total service provider payroll is above 45%, it is a “big rock” opportunity for improving the financial performance of your salon.

Like rent, it can be one of the more difficult expense areas to affect.

The great news is that there are some things you can “quick check” and begin to affect now to bring service provider payroll into benchmark alignment. There are also some moves that, if you choose to implement them, will take a longer period of time.

✓ Service Provider Payroll Quick Check:

How many of your service providers are falling back on an hourly guarantee (often minimum wage) and not generating enough service revenue to earn commission? Coach these team members to:

- Hand out three referral cards to every guest.
- Pre-book every guest who sits in their chair, every day.
- Set a goal for add-on services and treatments. Track and coach results.
- Part ways with service providers who are unable to demonstrate the ability to build a sustainable book of business within the timeframe you have established.

How many new artists and/or non-revenue-generating service providers are on your payroll? What can you do to help them generate enough revenue to cover their payroll costs? Coach these team members to:

- Book entry-level services as soon as they have demonstrated competency in that service.
- Assist established service providers in generating more revenue.
- Help reduce other expense areas in the salon, i.e., non-technical payroll costs by helping at the front desk as scheduling allows.

What can you do to generate additional revenue to cover the cost of service providers who are in training and/or not covering commission? Consider the following:

- Make attracting and retaining guests your number 1 priority
- Focus on add-on and treatment services as a salon
- Leverage Aveda retail and Aveda Plus Rewards opportunities

✓ Overall Service Provider Payroll System Check:

Especially in today's staffing environment, we don't want to give any team member the sense of going backward. When service provider payroll is above 45%, we can view it as an opportunity to assess or reassess our current payroll and review systems. This is a longer-term strategy and requires thought, consideration and systems modeling before making any moves.

Consider playing the "Start from Scratch" game:

- **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?
- **We recommend referencing the Hopes and Dreams System in the Aveda Business Academy and contacting your SDP for more information.** While there are many compensation system options available, whichever system you choose, be sure that it reflects the components below.

— **For the team member:**

- Outlines a clear path for growth, from entry level to the highest levels of performance. Team members can see where they start and how they can grow from day one.
- Clearly describes what is required for growth using both objective performance measurement and subjective feedback. That means team members know exactly what they need to do to get to their next level of compensation.

— **For the guest:**

- Contains pricing to attract every level of guest, from moderate to luxury.
- Provides price increases that are palatable.

— **For the owner:**

- Defines the total payroll cost at every level of performance.
- Includes a review system that measures against clearly defined performance metrics.

- With a new system in place, determine where existing team members fit into the new system (or not). Grandfather existing team members into the system at their current level to ensure no team member "goes backward" in compensation.
- Start all new team members in the new system.
- Over time, through hiring and attrition, service provider payroll will move into benchmark territory.

Non-Service Payroll

benchmark:

11%
of Total Revenue

Non-service payroll includes the salaries, wages and bonuses paid to your manager and guest care team. There are separate benchmarks for payroll taxes and employee benefits, so these items should be separately categorized on your P&L.

Use the Non-Service Payroll Tool to:

- Calculate how many guest care team hours you can afford at your current level of revenue.
- Consider the number of hours your manager (if you have one) needs to work at the front desk to adequately service guests and manage the guest care team.

If you are over the benchmark for your current salon revenue level, consider making the following moves:

- Without compromising service levels, reduce front desk hours as much as possible to bring non-service payroll closer to the benchmark.
- Compress salon hours of operation (if possible) to ensure that your salon is open only during periods of highest guest demand.
- Reduce front desk staffing to cover only high-demand hours of operation.
- Have new artists or existing team members support off-peak desk coverage times.
- Use technology to automate time-consuming front-of-house operations and reduce staffing hours. Online booking and two-way texting functions, for example, can allow the front desk team to work more efficiently and potentially reduce the number of hours required to complete those functions.

Professional Product Cost

benchmark:

7%

Professional product cost includes all Aveda backbar, color and treatment products, as well as anything else necessary to perform hair, skin and massage services (for example, foils, gloves, wax, etc.).

If your professional product cost is above 7%:

- Do you have a regular system for taking and monitoring professional product inventory?
- Review the recommended inventory procedures at the end of this handout.
- Perform the following review weekly: Take all usage and divide it by total services; this should be less than 7%. **NOTE:** This review can be done on a day-by-day basis if you are trying to isolate particular issues (supplies are only high on certain days or with certain team members).
- Does your salon pricing system adequately cover the cost of the product used in delivering the service?
- Are all add-on services being charged to guests (for example, Botanical Repair™ treatments, blowouts, etc.)?
- Is color usage properly charged (for example, a service provider charged for one bowl but used two bowls)?
- Is there a system for controlling professional product usage and waste?
- Consider measuring color waste each day by combining all color waste in one container and weighing it.
- Consider using a scale that is attached to your point of sale (POS) system.

Retail Cost of Goods

benchmark:

52%

Retail cost of goods is the cost of retail products you are selling in your salon, including hair extensions.

If your retail cost of goods is above 52%:

- Do you have a regular system for taking and monitoring retail product inventory?
- Review the recommended inventory procedures at the end of this handout.
- Do you have an issue with product theft or shrinkage?
- Are you selling Aveda products for personal use to your staff at discounted prices? What types of product discounts are you offering and how frequently?
- How often do you have guest appreciation or other events where products are discounted?

Advertising and Promotion

benchmark:

2%

Advertising and promotion includes:

- Employee promotions (for example, contest incentives)
- Customer promotion (for example, supplies for guest appreciation event, testers, promo credits not recorded as discounts)
- Aveda Plus Rewards income and expense
- Social media, website and advertising
- Other guest recruitment expenses such as printed referral cards and Meet my Aveda Artist

This is an interesting benchmark because sometimes, in an effort to control expenses, salons cut too deeply in this area and compromise their ability to attract more guests and new team members. Looking at your benchmarked P&L: Are you over or under in advertising and promotion?

- If over-spending, are you investing in attracting more guests and more team members? Are your efforts hitting the mark? Can you measure the impact of adding more guests and attracting more team members as a result of the money you are spending? If you cannot measure the impact of your investment, consider rethinking your approach.
 - Attracting more guests and more team members are the two areas every salon must invest in today. Work to make sure that the precious investment you are making is producing the maximum result.
- Conversely, if you are under-spending in this area and not attracting your target number of new guests and team members, consider increasing your spending in a way that affects both of these critical growth drivers.

Rent
benchmark:
7%

Like service provider payroll, this can be a tough expense benchmark to affect based on your existing lease terms and landlord profile.

If you are over the 7% benchmark for rent and you are not nearing the end of your lease, you have **one** primary focus: drive revenue, drive revenue, drive revenue.

If you are nearing the end of your lease term or are in a position to negotiate with your landlord, use the 7% benchmark as the guideline for determining what your rent needs to be for your current revenue levels. Ask for the rent you need in order to come as close to the benchmark as possible.

EXAMPLE:

If you are looking for a new location, you can use the 7% benchmark to determine the revenue level you will need to afford the rent:

Rent = \$70,000

$\$70,000 \div 7\% + \$1,000,000$

You will need \$1,000,000 in revenue for rent to be at 7%.

Education and
Staff Events
benchmark:
1.25%

This is the cost of providing education to your team, whether through online video training, in-salon training or outside classes. It also includes the cost of staff events, as well as travel and entertainment expenses.

If your education and staff events cost is above 1.25%, consider:

- Realigning expenses to focus on high-impact training for your team
- Revisiting staff events—what kind of event can be impactful at a low cost?
- Minimizing travel and entertainment costs

Communications,
IT, Software
benchmark:
varies

The benchmark for communications, IT and software varies by salon revenue size. It includes the following expense categories and estimated monthly costs:

	Salon revenue under \$1M	Salon revenue over \$1M
Internet and phone	\$250	\$250
Point of sale (POS) system	\$250	\$300
Cellphone	\$150	\$250
Texting apps, other IT help	\$100	\$200
	\$750	\$1,000

Recommended Inventory Procedures

Inventory counts must be done on a regular basis.

Why? Unless you actually count what's in your salon, you might not be aware of missing, damaged or outdated inventory.

Missing inventory is common and can happen for several reasons:

- Employees may not be properly trained on scanning inventory in and out of your system.
- Maybe someone opened a product to use as a tester and it's no longer available for sale.
- Although unpleasant to think about, employee theft is also more likely if inventory counts are never done.

You can either count everything on your shelves and closets (usually done monthly or quarterly) or do what is called a "cycle count" (usually done weekly). With cycle counts, you count just a section of your inventory each time: maybe shampoos this week and backbar next week. This can be an effective and less disruptive way to count inventory, since it's done in small doses.

If you do cycle counts, develop a schedule to make sure everything gets counted at least every month. As soon as you finish the count, compare the quantity of each product on the shelf to the quantity in your point of sale (POS) system. Does your POS system say 12 Be Curly™ shampoos, but there are only nine on your shelf? What happened? Your POS system needs to be adjusted to show only nine items. Say you spent \$50 on these three items and now they're gone. That means inventory decreases by \$50 and you now have an extra \$30 of expense on your P&L. Not to mention the fact that you can't sell those items to help generate more profit.

Here are some recommendations for handling inventory:

Operations

- When Aveda product is received, enter ALL products (both retail and professional) into the POS.
- The cost of items should match the invoice (do not include tax or shipping).
- On a daily basis, adjust for the usage of professional product in the POS.
- Consider putting all pulled color tabs and empty backbar bottles in a bin and using this to adjust inventory each day.

Accounting

When Aveda product is received, record the invoice as follows:

- Total of all products = inventory
- Freight amount = shipping In
- Sales tax = sales tax paid
- At the end of the month, reports should be pulled from the POS to record inventory:
 - Cost of retail products sold
 - Adjustment report to record professional supply usage and inventory adjustments due to shrinkage
 - Total inventory valuation report
 - Invoices received into the POS, in order to ensure the accounting system (generally QuickBooks) matches the POS

Inventory Controls

- Ensure inventory in closets or storage is locked and secure and only certain team members have access/key/code.
- Install security cameras in your salon to cover retail area, color bar and inventory closet/storage.
- Regularly count inventory and adjust.
 - Cycle counts work best, but ensure all inventory is touched at least monthly.
 - Review the POS inventory on-hand report at least monthly to ensure there aren't any negative balances or SKUs with a quantity but that you don't actually have on hand.
- Regularly change POS passwords/codes to prevent unauthorized inventory adjustments and theft.