



**wynne business**  
grow. delight. profit.

# **Found Money: Inventory Management Basics**

**By Lisa M. Starr  
Wynne Business**



# What is Inventory Management?

- The practice of planning, directing and controlling inventory so that it contributes to the success of your business
- Balancing inventory supply and demand for profitability



# Why do you need it?

- **Exceptional customer service includes providing top-quality products at reasonable prices**
- **Good inventory management:**
  - ☐ Improves customer service
  - ☐ Increases sales & profits
  - ☐ Increases working capital



# Goals for Inv Mgmt

- Maintaining stock levels that satisfy demand but don't tie up money
- Increasing inventory turns
- Obtaining best possible price
- Offering best assortment of products
- Having the right products for your clientele



# Selecting Manufacturers

- Philosophy/positioning
- Retail price point
- Packing
- Synergy through spa
- Advertising & Marketing
- Support





# Choices?



- **Fit**
- **Effectiveness**
- **Buy-in from staff**
- **You're not a drug store!**



# How Many Lines?





# How Many Lines?

## ■ Average Spa, 4-6 tx rooms

- ☐ 1 Main Skin line
- ☐ 1 Niche Skin line
- ☐ 1 Nail line
- ☐ 1 Massage
- ☐ Assorted Retail

## ■ Larger Spa, 8-14 tx rooms

- ☐ 2 Main Skin Lines
- ☐ 1 Niche Skin Line
- ☐ 1 Nail line
- ☐ 1 Massage
- ☐ Assorted Retail





# Selecting Distributors

- User-friendly terms and minimums
- Shipping
- Geographic location
- Support options
  - Education, DSC support



# P&L Rev/Cost of Goods - *before*

<b>Total Service Sales</b>	\$ 1,618,523.04	
<b>Total Retail Sales</b>	\$ 404,711.66	
<b>Total Revenues</b>	\$ 2,126,433.11	100
<b>Cost of Goods Sold</b>		
Total Tech Svc Labor	\$ 560,147.53	35%
Supplies Back Bar Total	\$ 144,070.55	9%
COGS Retail	\$ 135,881.26	34%
Product Sales Commissions	\$ 56,659.63	3%
Tech Labor Payroll Taxes	\$ 55,512.65	10%
Merchant Fees	\$ 68,888.91	3%
<b>Total Cost of Sales</b>	\$ 1,021,160.53	48%
<b>Gross Profit</b>	\$ 1,105,272.58	52%



# Chart of Accounts

- **Product categories need to match service categories**
- **Separate entry for professional and retail**
- **Should be grouped just like your POS software**



# Chart of Accounts - example

- Esthetics Prof
- Massage & Body Prof
- Nails Prof
- Makeup Prof
- Medical Prof
- Hair Prof
- Miscellaneous
- Esthetics Retail
- Massage & Body Ret
- Nails Ret
- Makeup Retail
- Medical Retail
- Hair Retail
- Spa Retail



# COGS Back Bar Detail

Supplies - Esthetics	\$ 30,573.38	21%
Supplies - Hair	\$ 32,355.95	22%
Supplies - Makeup	\$ 285.12	0.2%
Supplies - Massage	\$ 15,202.85	11%
Supplies - Medical	\$ 46,002.11	32%
Supplies - Nail	\$ 19,651.14	14%
Supplies Back Bar Total	\$ 144,070.55	100%

# Purchase Forecasting

- Determine minimum and maximum supply levels for each product
- Consider frequency of ordering
- Consider shipping time
- Allow some room for error





# Ordering Procedures

- Purchase orders/computer generated
- Ideal day to receive merchandise
- One point person per department
- Consider products that cross departments
  - Gloves, cotton, lotions
- Central location for P.O.'s



# Receiving Procedures



- **Delivery location?**
- **Check box contents against packing list**
- **Check packing list against P.O.**
- **Damages**
- **Updating software**
- **Ticketing**





# Product Storage

- Professional Supply
- Retail Supply
- Why not mix them?





# Performing Physical Inventory

- Monthly
- Last day of the month
- Separate professional and retail counts





# Measuring Inventory Turns

$$\text{Inventory Turns} = \frac{\text{Annual Retail COGS}}{\text{Average Inventory}}$$

$$\begin{array}{rcl} \text{2010 Prod purchases} & \$93,271. & \\ \text{2010 Monthly Inv Avg} & \underline{\$16,350.} & = 5.7 \end{array}$$



# Shrinkage

- What is it?
- What causes it?
  - ☐ Product obsolescence
  - ☐ Deterioration/damage
  - ☐ Theft
  - ☐ Protocols not followed





# Minimizing Shrinkage

- Insure assigned storage
- Limit access
- Carry minimum of product
- Speed of cycle
- Stocking protocols

# Controlling Waste

- Service Protocols
- Training
- Awareness
- Rewards





# Skin Department Analysis

<b>Esthetic Dept Revenue</b>	<b>\$ 547,589.29</b>	
Labor - Esthetic Department	\$ 171,920.13	31%
Supplies - Esthetics	\$ 80,199.98	
<b>Esthetic Dept Gross Profit</b>	<b>\$ 295,469.17</b>	<b>54%</b>
Service Sales - Esthetic	\$ 382,167.29	
Service Labor - Esthetic	\$ 147,106.83	
Back Bar - Esthetics	\$ 30,573.38	
<b>Service Gross Profit - Esthetics</b>	<b>\$ 204,487.07</b>	<b>54%</b>
Retail Sales - Esthetics	\$ 165,422.00	
Retail Commission - Esthetics	\$ 24,813.30	
COGS Retail - Esthetics	\$ 49,626.60	
<b>Retail Gross Profit - Esthetics</b>	<b>\$ 90,982.10</b>	<b>55%</b>



# P&L Rev/Cost of Goods - *after*

<b>Total Service Sales</b>	\$ 1,618,523.04	
<b>Total Retail Sales</b>	\$ 404,711.66	
<b>Total Revenues</b>	\$ 2,126,433.11	100
<b>Cost of Goods Sold</b>		
Total Tech Svc Labor	\$ 560,147.53	35%
Supplies Back Bar Total	\$ 97,111.38	6%
COGS Retail	\$ 135,881.26	34%
Product Sales Commissions	\$ 56,659.63	3%
Tech Labor Payroll Taxes	\$ 55,512.65	10%
Merchant Fees	\$ 68,888.91	3%
<b>Total Cost of Sales</b>	\$ 974,201.36	46%
<b>Gross Profit</b>	\$ 1,152,231.75	54%





# Partnering

- **Work with suppliers to plan inventory levels**
  - **Suppliers**
    - **New product or packaging information**
  - **Spas**
    - **Promotion calendar, historical data**



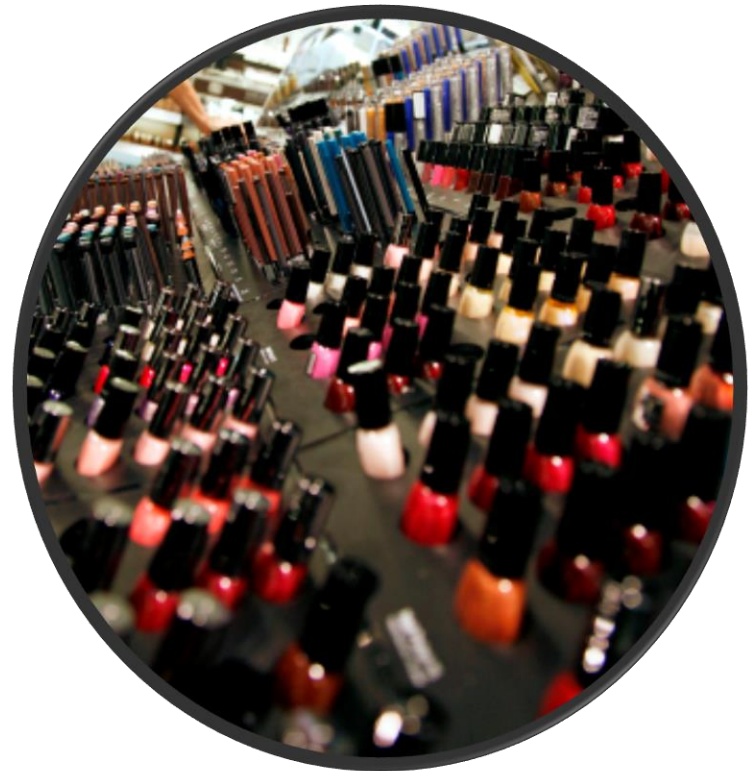
# Focal Points

- **Set up a chart of accounts and stick to it**
- **Don't let technicians plan your purchases**
- **Keep professional and retail stock separated**
- **Inculcate product awareness into training and protocols**



# Web Resources

- [Storefrontbacktalk.com](http://Storefrontbacktalk.com)
- [Retailwire.com](http://Retailwire.com)
- [Snapretail.com](http://Snapretail.com)
- [SCMR.com](http://SCMR.com)
- [Supplychainer.com](http://Supplychainer.com)





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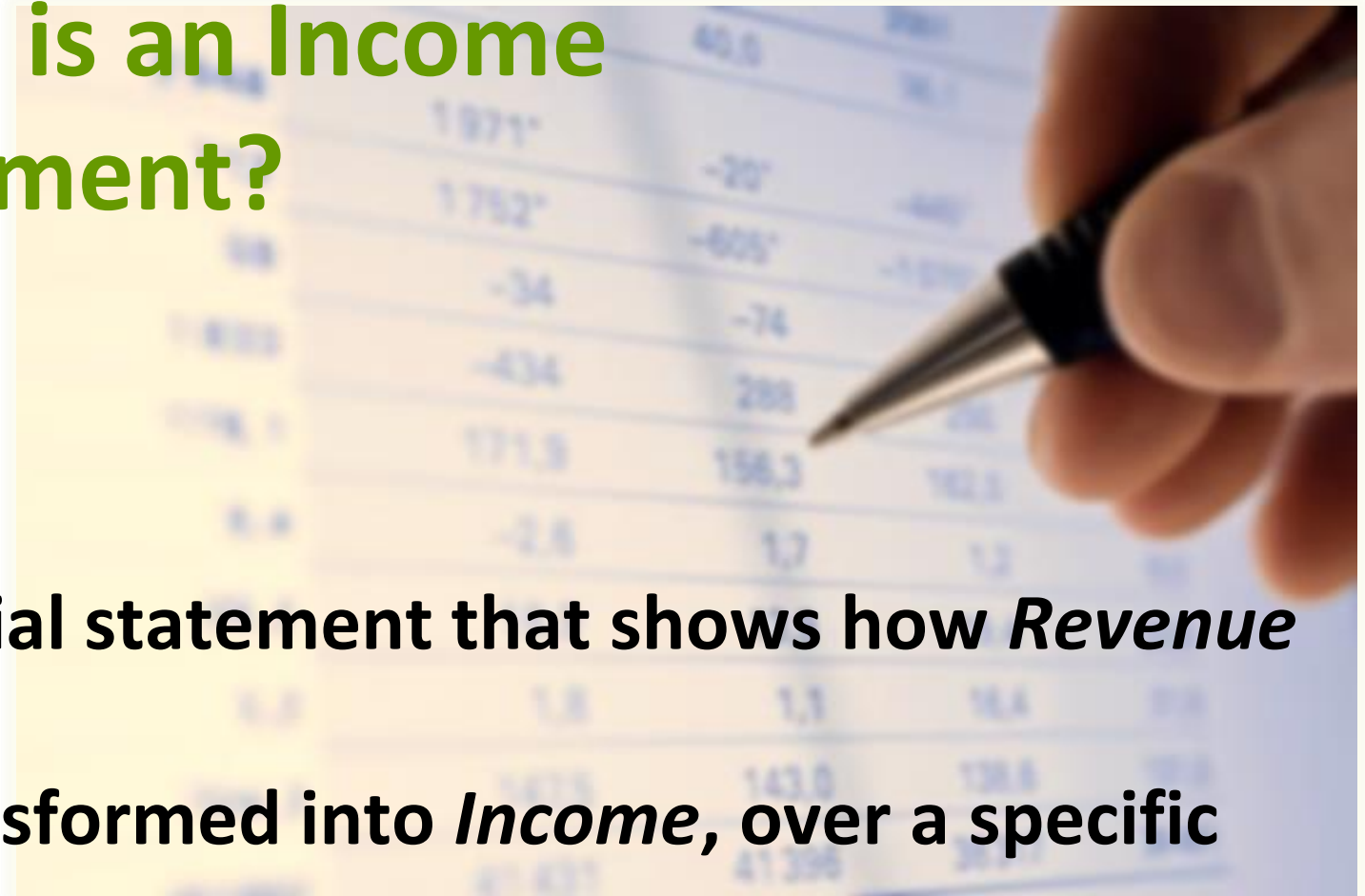
# Demystifying Your Income Statement

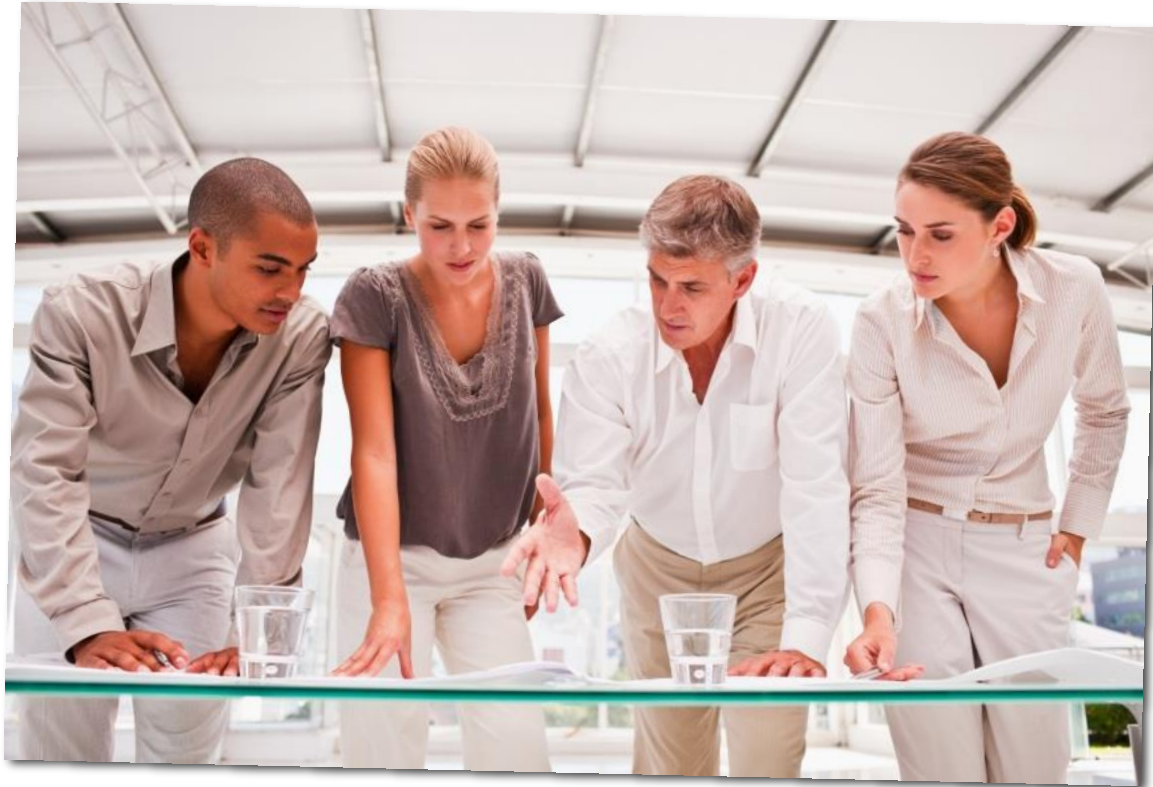
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# What is an Income Statement?

A financial statement that shows how *Revenue* is transformed into *Income*, over a specific *period of time*.





**“In preparing for battle I have always found that plans are useless, but planning is indispensable.”**

**Dwight D. Eisenhower**



# Cash vs. Accrual

- **Cash Basis** – changes are made to income statement when cash is received and expenses are paid
- **Accrual Basis** – revenues are recognized when they are earned, and expenses are matched to them



# Income Statement pattern

- Revenues – sales of service & products
- Cost of Goods – costs incurred when  
you make a sale
- Gross Profit
- Expenses – costs incurred whether  
or not you make a sale
- Net Profit or Bottom Line





## Simplified example:

<b>Total Revenues</b>	\$ 2,126,433.11	100
<b>Total Cost of Sales</b>	\$ 1,021,160.53	48%
<b>Gross Profit</b>	\$ 1,105,272.58	52%
<b>Total Expenses</b>	\$ 1,373,510.31	65%
<b>Net Income</b>	\$ (268,237.73)	-13%



# More Detail

<b>Total Service Sales</b>	\$ 1,618,523.04	
<b>Total Retail Sales</b>	\$ 404,711.66	
Sales- Gift C.	\$ 267,129.83	13%
Events Income	\$ 5,892.84	0%
Interest Income		0%
Sales - Tax Discounts	\$ -	0%
Other Income	\$ 39.91	0%
Gift Cards Redeem	\$ (169,864.17)	-7.99%
<b>Total Revenues</b>	\$ 2,126,433.11	100
<b>Cost of Goods Sold</b>		
Total Tech Svc Labor	\$ 560,147.53	35%
Supplies Back Bar Total	\$ 144,070.55	9%
COGS Retail	\$ 135,881.26	34%
Product Sales Commissions	\$ 56,659.63	3%
Tech Labor Payroll Taxes	\$ 55,512.65	10%
Merchant Fees	\$ 68,888.91	3%
<b>Total Cost of Sales</b>	\$ 1,021,160.53	48%
<b>Gross Profit</b>	\$ 1,105,272.58	52%



# Chart of Accounts - Services

- **Esthetics**
  - Waxing, Mkp, Spray Tan
- **Massage**
  - Body Tx
- **Nails**
- **Medical**
- **Hair**





# Chart of Accounts - Products

- Esthetics Prof
- Mass & Body Prof
- Nails Prof
- Makeup Prof
- Medical Prof
- Hair Prof
- Miscellaneous



- Esthetics Retail
- Mass & Body Ret
- Nails Ret
- Makeup Retail
- Medical Retail
- Hair Retail
- Spa Retail



Revenues			Cost of Goods Sold		
Sales Returns/Allowances	\$ (576.00)	0%	COS - Esthetics	\$ 147,106.83	14%
Service Sales - Dental	\$ 7,226.88	0.34%	COS - Hair	\$ 134,205.28	13%
Service Sales - Esthetic	\$ 382,167.29	18%	COS - Makeup	\$ 9,702.68	1%
Service Sales - Hair	\$ 359,510.50	17%	COS - Massage	\$ 164,003.28	16%
Service Sales - Makeup	\$ 14,256.00	1%	COS - Medical	\$ 12,507.27	1%
Service Sales - Massage	\$ 506,761.50	24%	COS - Nails	\$ 92,622.19	9%
Service Sales - Medical	\$ 64,206.27	3%	<b>Total Tech Svc Labor</b>	<b>\$ 560,147.53</b>	<b>55%</b>
Service Sales - Nail	\$ 280,730.60	13%			
Sales - Tanning	\$ 4,240.00	0%	Supplies - Esthetics	\$ 30,573.38	3%
<b>Total Service Sales</b>	<b>\$ 1,618,523.04</b>	<b>76%</b>	Supplies - Hair	\$ 32,355.95	3%
			Supplies - Makeup	\$ 285.12	0%
Retail - Boutique	\$ 120,203.66	6%	Supplies - Massage	\$ 15,202.85	1%
Retail - Esthetics	\$ 165,422.00	8%	Supplies - Medical	\$ 46,002.11	5%
Retail - Hair	\$ 47,815.00	2%	Supplies - Nail	\$ 19,651.14	2%
Retail - Makeup	\$ 24,991.00	1%	<b>Supplies Back Bar Total</b>	<b>\$ 144,070.55</b>	<b>14%</b>
Retail - Massage	\$ 18,396.00	1%			
Retail - Nail	\$ 27,884.00	1%	COGS Ret Esthetics	\$ 46,318.16	5%
<b>Total Retail Sales</b>	<b>\$ 404,711.66</b>	<b>19%</b>	COGS Ret Hair	\$ 23,907.50	2%
			COGS Ret Makeup	\$ 5,498.02	1%
Sales- Gift C.	\$ 267,129.83	13%	COGS Ret Massage	\$ 9,198.00	1%
Events Income	\$ 5,892.84	0%	COGS Ret Nail	\$ 11,153.60	1%
Interest Income			COGS Ret Boutique	\$ 39,805.98	4%
Sales - Tax Discounts	\$ -	0%	<b>COGS Retail Total</b>	<b>\$ 135,881.26</b>	<b>13%</b>
Other Income	\$ 39.91	0%			
Gift Cards Redeem	\$ (169,864.17)	-7.99%	Product Sales Commission	\$ 56,659.63	6%
<b>Total Revenues</b>	<b>\$ 2,126,433.11</b>	<b>100%</b>	Tech Labor Payroll Taxes	\$ 55,512.65	5%
			Merchant Fees	\$ 68,888.91	7%
%s of Total Revenues & Total Costs			Total Cost of Sales	\$1,021,160.53	48%
			Gross Profit	\$1,105,272.58	52%



# Skin Department Analysis

<b>Esthetic Dept Revenue</b>	<b>\$ 547,589.29</b>	
Labor - Esthetic Department	\$ 171,920.13	31%
Supplies - Esthetics	\$ 80,199.98	
<b>Esthetic Dept Gross Profit</b>	<b>\$ 295,469.17</b>	<b>54%</b>
Service Sales - Esthetic	\$ 382,167.29	
Service Labor - Esthetic	\$ 147,106.83	
Back Bar - Esthetics	\$ 30,573.38	
<b>Service Gross Profit - Esthetics</b>	<b>\$ 204,487.07</b>	<b>54%</b>
Retail Sales - Esthetics	\$ 165,422.00	
Retail Commission - Esthetics	\$ 24,813.30	
COGS Retail - Esthetics	\$ 49,626.60	
<b>Retail Gross Profit - Esthetics</b>	<b>\$ 90,982.10</b>	<b>55%</b>



# Hair Department Analysis

<b>Hair Dept Revenue</b>	<b>\$ 407,325.50</b>	
Labor - Hair	\$ 138,986.78	34%
Supplies - Hair	\$ 56,263.45	
<b>Hair Dept Gross Profit</b>	<b>\$ 212,075.28</b>	<b>52%</b>
Service Sales - Hair	\$ 359,510.50	
Service Labor - Hair	\$ 134,205.28	
Back Bar - Hair	\$ 32,355.95	
<b>Service Gross Profit - Hair</b>	<b>\$ 192,949.28</b>	<b>54%</b>
Retail Sales - Hair	\$ 47,815.00	
Retail Comm - Hair	\$ 4,781.50	
COGS Retail - Hair	\$ 23,907.50	
<b>Retail Gross Profit - Hair</b>	<b>\$ 19,126.00</b>	<b>40%</b>



# Revenue per Square Foot

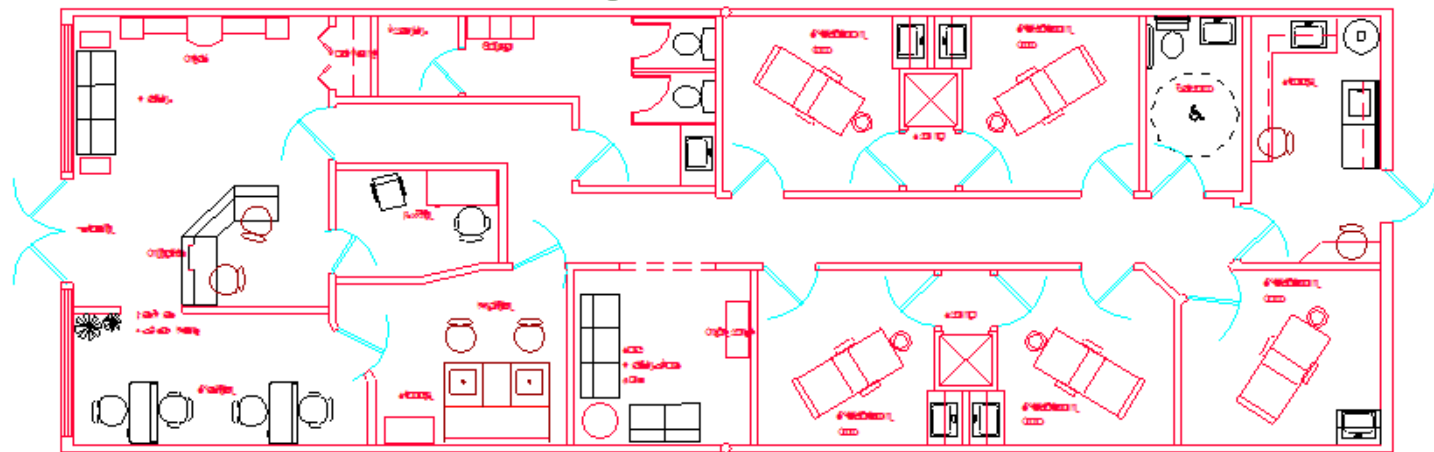
- 14k square foot facility
- 9 treatment rooms – 5 esthetics, 4 mass
- 10 pedicure, 5 manicure
- 8 hair cutting, 4 hair color
- Mens & Women's locker rooms
- Quiet lounge, transition area, retail area
- Offices, break room





## Overall Rev/Sq Foot

**\$2.2m year/14,000 sq ft =  
\$151/ square foot**





# Sq Ft Support Areas

- Grossing factor 4500 sq ft
- Retail 1500 sq ft
- Offices/break rm 1000 sq ft
- Locker rooms 800 sq ft
- Lounges 1000 sq ft

**TOTAL 8800 sq ft**





# Sq Ft Dept Breakdowns



■ Hair Dept	2000 sq ft
■ Esthetics	1100 sq ft
■ Mass & Body	900 sq ft
■ Nails	1200 sq ft



# Svc Sales/Square Foot by Department

Department	Annual Svc \$	Sq Ft	Svc \$/Sq Ft
Hair	\$ 359,510.50	2000	\$ 179.76
Esthetics	\$ 382,167.29	1100	\$ 347.42
Massage & Body	\$ 506,761.50	900	\$ 563.07
Nails	\$ 280,730.60	1200	\$ 233.94



# Total Sales/Sq Ft by Department

Department	Svc + Ret	Sq Ft	Svc \$/Sq Ft	Total \$/Sq Ft
Hair	\$ 407,325.50	2000	\$ 179.76	\$ 203.66
Esthetics	\$ 547,589.29	1100	\$ 347.42	\$ 497.81
Massage & Body	\$ 525,157.50	900	\$ 563.07	\$ 583.51
Nails	\$ 308,614.60	1200	\$ 233.94	\$ 257.18



# Support Detail

<b>Support Compensation</b>		
Payroll - Concierges	\$ 157,581.87	38%
Payroll - Fees	\$ 2,336.36	1%
Payroll - Management Salaries	\$ 123,004.18	30%
Payroll - Support Taxes	\$ 25,252.74	6%
Insurance - Employee Benefits	\$ 31,466.67	8%
Insurance - Business	\$ 50,716.77	12%
Insurance - Life	\$ 1,195.00	0%
Insurance - Workmans Comp	\$ 18,652.08	5%
	\$ 410,205.67	19.29%
	<i>of total rev</i>	



# Facility Detail

Facility		
Maintenance	\$ 18,619.70	5%
Rent or Lease	\$ 247,009.15	60%
Renovations	\$ 30,008.98	7%
Repairs	\$ 8,798.32	2%
Utilities	\$ 43,504.25	11%
Telephone	\$ 5,991.53	1%
Housekeeping Services	\$ 15,310.07	4%
Equipment Lease	\$ 462.38	0%
Furniture & Fixtures	\$ 37,073.68	9%
Supplies - Housekeeping	\$ 6,084.65	1%
	\$ 412,862.71	19.42%
		<i>of total rev</i>



# Promotional Detail

Promotional		
Advertising	\$ 143,411.45	52%
Marketing - Agent	\$ 44,268.32	16%
Marketing - Materials	\$ 27,740.64	10%
Meals & Entertainment	\$ 9,817.01	4%
Memberships	\$ 1,236.18	0%
Other Expense	\$ 2,241.00	1%
PR - Agent	\$ 30,086.72	11%
PR - Supplies	\$ 762.74	0%
Signage	\$ 760.42	0%
Web expense	\$ 15,292.04	6%
	\$ 275,616.52	13%
	<i>of total rev</i>	





# Forecasting Revenue

SERVICE	Svc \$	\$ Per Hr	Hrs/Wk	# Rms	X 4.3 WKS	25% Util	40% Util
					<b>100% Util</b>		
Facial Room	85.00	85.00	52	3	\$ 57,018.00	\$ 14,254.50	\$ 22,807.20
Massage Room					\$ -	\$ -	\$ -
Manicure Station					\$ -	\$ -	\$ -
Pedicure Station					\$ -	\$ -	\$ -
Hair Styling Station					\$ -	\$ -	\$ -
TOTAL SVC REV						\$ 14,254.50	\$ 22,807.20
+ RETAIL	15.00%					\$ 2,138.18	\$ 3,421.08
TOTAL Projected Rev/Month						\$ 16,392.68	\$ 26,228.28
Total Projected Rev annual					<i>Tu/Th/Sun 10-6, Wed 10-8, Fri/Sat 9-6</i>	\$ 196,712.10	\$ 314,739.36



# “Year at a Glance” Report

## Your critical numbers!



- Sales, labor and back bar costs, by department
- Advertising and marketing ratios
- Sales \$ per square foot
- Appointment utilization
- Client retention rates
- Hotel guest capture rate

# The Road Map



- Align staff to your goals
  - Percentages more than dollars
  - Comp plans must incent **team** behavior
  - WIIFM?
    - Achieved goals result in:



# **Demystifying your Income Statement**

**Q & A with**

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