Business Finance
Home Study Course

4 CE Hours

Text and Online Study Guide

Presented by the:

Center for Massage Therapy Continuing Education

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Instructions for the Business Finance home study course

Thank you for investing in the Business Finance home study course, a 4 CE hour course created to help massage therapists navigate the financial waters of business. This guide will contain all of the instructions you will need to complete this course. This is a 4 CE hour course, so that means it should take you approximately 4 hours to read the text, and complete the examination and course evaluation.

PLEASE READ THE FOLLOWING DIRECTIONS FOR COMPLETION OF THIS COURSE.

The following are steps to follow in completing this course:

1. **Read the instructions and review the text and exam.**

2. **Access the online examination in your account at www.massagetherapyceu.com.**

3. **Complete your examination and print your certificate. The exam is open book and there is no time limit for completion.**

You must pass the exam with a 70% or better to pass this home study course. You are allowed to access and take the exam up to 3 times if needed. There is no time limit when taking the exam. Feel free to review the text while taking the exam. There are no trick questions on the exam. All of the answers are clearly found in the text. The exam is also included at the end of the text for review before taking the exam.

It is advised to answer the exam questions in the study guide before testing online. That way, when you are testing you do not have go back and forth through the online exam.

Good luck as you complete this course. If you have any questions please feel free to contact us at 866-784-5940, 712-490-8245 or info@massagetherapyceu.com. Most state boards require that you keep your “certificate of achievement” for at least four years in case of audit. Thank you for taking our Business Finance home study course.

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Introduction

The lifeblood of any business is its finances. This is commonly underestimated because we are taught that as long as we work hard and are doing something we love we will be successful. While this is true depending on your definition of success, there is a different twist on this belief when you own your own business. Without a basic understanding of how business finances work or how simple policies and analysis can drastically change the way you think about and do business, the opportunity to do what you love by having your own business could be jeopardized. I have too often seen businesses collapse not because of the lack of skill or competence of the business owner, but because there exists a disconnect between working in a business and actual running the business. This course was specifically made to bridge this gap. I created this course to help massage therapists have a fighting chance in the business world. The topics covered in this course are a compilation of information I have accumulated through business school and practical consulting experience dealing with these types of situations. Topics in this course will include basic financial planning and goal setting, implementation of financial policies, how to monitor these policies, and techniques to help make these processes easier. After reading through this course your eyes will be opened to financial decisions and situations you have not yet thought of and you will have a better understanding of how business finances work.

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Section 1: Financial Planning

Section Objectives

At the end of this section, you should have the information necessary to:

- Discuss the importance and process of setting financial goals
- Identify different location options available for your practice
- List the components of a clear Financial Plan
- Describe the advantages and disadvantages of funding sources for both startup and established businesses

Introduction

This course is structured chronologically in the way that business finances should be thought about. For this reason financial planning is first. Without any type of plan, a business is bound for failure. When dealing with finances, there are so many metrics to analyze. You can spend hours crunching numbers, but without an overall financial plan, these numbers are useless. If you are thinking about starting a practice, take a step back, think about the topics in this section and prepare yourself for success by planning ahead. For those of you with established businesses, clear your mind of the current financial state of your business. In most cases, financial goals have never been created or implemented, so look at this section as if you are starting out for the first time. Once you have taken in the information, think about how you can set up the financial planning of your practice so that you can move your business in the right direction.

Financial Goals

As a successful entrepreneur, you have trait common to all other successful business owners. This trait is self-efficacy. While it is hard to establish the trait of self-efficacy and most of those who have it are born with it, the ability to step away from this trait is even more difficult. The biggest characteristic of someone who has self efficacy is the ability to create and accomplish goals. Goal making especially when dealing with business finances is extremely

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important. Your finance decisions will be based on your financial goals and your ability to monitor these goals will be discussed in this course. However, for this section we will go over the importance of and how to establish financial goals, what your goals should be about, and how to stick with them until their completion.

"If you don't know where you want to go, you will never get there". This saying encompasses everything that is important about creating goals. What many don't understand about the creation of goals is that developing a goal is only a tiny part of the battle. Goals set your priorities and these priorities need to become habits. For example, if you just opened your massage therapy business one of your goals may be to have $1000 of weekly revenue within a year. You have established where you want to be so now you have to understand how you want to get there. You need to write down the "map" of how you plan on reaching your destination. The more detailed you are in the creation of your map the easier it will be to achieve your goal. Your map includes items like attending the weekly community business luncheon, spending three days a week going to businesses to pass out business cards and flyers, strengthening your relationships with other natural healers, calling previous clients and asking how they are doing, etc. You will come to realize that establishing goals is not a simple task and it requires a lot more than saying "I want …"

The next step is to write these goals down and put them in a place you will see them every day, the more times the better. The more you see your goals and the more you read what you need to do to achieve them, the better the mental image of you achieving these goals becomes. When you start to do something that would go against these goals or that doesn't match your mental picture of the end result, a red flag will pop up in your mind. You make achieving goals a habit, and that is the key. You may get an invitation to go to lunch with some friends, but it conflicts with a health fair you planned on attending. An automatic alarm should be going off in your head reminding you that the $1000 in revenue a week goal that you habitually read when you woke up this morning is not going to be accomplished by going to lunch, but by going to the health fair.

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Like anything, practice makes perfect and this is no different in the world of goal making. The first goal you make will be the hardest to achieve, but after this achievement you will start to yearn for further success because you know how good it feels to plan and conquer a goal you have set. After this, achieving goals will become easier and easier.

When talking about financial goals, the question asked most often is "Isn't there only one financial goal? How much money I want to make." While this is one of the possible goals you can have when dealing in business finances, there are many more. This course will focus on financial goals, but there is no rule that says that these goal techniques could not be used on one's personal life and goals should definitely be made for the business as a whole. For your business finances, the easiest way to find out what you should have goals on is to answer the question of what you want to ultimately make or pay. This is the easiest question in the world because your imagination can run wild. Take the time now before you read anymore and get a piece of paper and a pen. Where do you see your business' finances one year from now? Let that pen fly and write down every detail of what you want in your practice in one year. Think about weekly and monthly profits, rent expenses, how many clients you want to see, do you want to take out more debt to expand or pay off debt, anything that comes to mind when you picture your business finances in one year. Even though these are all monetary goals, the one financial goal that is included in almost everyone's list is peace of mind. The money and numbers are all acceptable as long as you as the owner are content with that financial situation. Some may be fine with taking on debt to expand; others will fight as hard as they can to eliminate debt completely from their financial lives. There is no right or wrong answer because everyone's risk tolerances will be different and will inevitably fluctuate throughout the business' life.

Now take this list of "I wants" and turn them all into one main financial goal. For each idea you came up with while picturing your business write down how you plan to get there. How are you going to set up your practice to accomplish these new financial goals? The more detail the better. Are you going to implement more marketing? Are you going to look for a better rent location? Maybe you will look into the possibility of buying a location opposed to

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renting to cut down expenses? Now you have created a main business goal of where you want to be and all the ideas of steps you can take to get there, use the techniques and ideas in this course to help you analyze these steps and by the end of the course look again at your goal list and decide whether or not these steps will indeed help you achieve your goals. This goal making process can be completed not only for a one year time period, but also for shorter term or longer term periods such as three or five years.

The picture that you drew in your mind and that you have now described on paper will be the biggest motivation you have until that picture becomes a reality. You should do whatever it takes to make sure you are always reminded of where you want your business to be. My advice is to type up the main points of your financial goal description and carry it with you. Keep the description in your car, in your office and by your bed. There will be times, we have all gone through them, when things get tough and we step back and say why am I doing this? Luckily, you will have a piece of paper that tells you exactly why you are working so hard and why doing what you are doing will be worth it in the end. When you meet any of the goals you have established don't erase them off the list, instead put a check mark next to them. This way, whenever you look at your goals you not only see what you have yet to accomplish, but you can see the things you have already succeeded in.

Don't underestimate the power of setting and understanding your goals. These particular goals will become the key components of your Financial Plan and will be the light at the end of the tunnel when times get tough.

Finance 101

Throughout the course, we will be discussing different financial metrics. To make this as painless as possible, I will define the basic financial terms used in this course so that you can not only follow along with the course material, but also so you can start to incorporate these terms in your daily business vocabulary.

Revenue- the amount of money brought into the practice from your services, also known as sales

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Expenses- Any cost or bill you take on to run your practice

Profit- The money actual made by the practice after accounting for all expenses. Calculated as: Profit = Revenue- Expenses

Variable Costs- Expenses that directly depend on the amount of massages you give. For example, massage oil is a variable cost along with electricity because it varies on the amount of time you spend in your practice.

Fixed Costs- Expenses that are the same in both time and amount regardless of how many massages you give. A monthly rent check of $1,000 is a fixed cost.

Asset- Items that your practice actually owns. If you own your own building, your office building would be a business asset. Inventory and furniture are also assets

Liability- Debts or obligations that a business takes on. A business loan is a liability.

Financial Plan

With the idea of what your goals are and a general idea of how you want to get there, you now need to establish a concrete plan. In general, this is your business plan, but because this course focuses solely on business finances, we will zero in on one section of the business plan, the Financial Plan. A detailed Financial Plan should include all the information necessary to understand and maintain the financial workings of your practice.

Financial Plan Outline

a) Financial Policies
b) Revenues
c) Expenses
    i) Variable
    ii) Fixed
    iii) Startup Costs

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d) Profits
e) Reserve Account
f) Leasing Arrangements (if applicable)
g) Funding
h) Statistical Analysis / Financial Review Procedures

The accuracy of the numbers you use in your Financial Plan is very important. The closer you are in your estimations of expenses to the actual expenses accrued the better off you will be in the money management portion of your business. In this particular section of the course we will cover the startup costs, funding and a few ideas on how to make better location decisions for your business. The goal when you finish this course is to be able to use the information you have learned to create a detailed and informational Financial Plan.

Startup Costs

If you are taking this course in the anticipation of starting your business you will have to take into account startup costs. Startup costs include everything needed to get your business up and running until the point where the costs thereafter will be somewhat constant. These startup costs would include massage tables, any type of deposit or down payment on your location, utility turn-on fees, the original inventory levels, etc. Once you have a clear idea of what your initial startup costs are going to be you will need to establish the number of months you want to have as a running monthly margin of safety. A running monthly margin of safety will give you the numbers needed to establish an amount to put in a reserve account. To solve this you will need to use the techniques that follow.

To understand your margin of safety, you must first understand how much it costs to run your business every month. To meet this level of realization, add up all of your monthly expenses (or planned monthly expenses for startups) then multiply by 1.25, or add 25%. This 25% is a margin of safety for all those unexpected or forgotten expenses. If this plan is being used for a startup I recommend raising this margin of safety to 30-50%. The reason for this large increase in a startup’s margin of safety is simple. No matter how much you read or plan,

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there will always be surprises when you first start out. You have to understand that you are not perfect and you will undoubtedly forget or not know about some of your actual expenses. With all this information added together, can you actually earn the amount needed? Or, do you have enough money saved in the bank to cover your total expenses until you can meet your monthly expenses? You can answer this question by dividing your total expenses for the month by the average price you charge for a massage. For example, let's assume your expenses total $1,300 a month plus the established business margin of safety (.25 X $1,300) of $275 equal a total monthly budget of $1,575. Now, let's assume your average 1 hour massage is priced at $50. After the math and rounding ($1575 / $50) you will have to complete approximately 32 one hour massages in the month to break even. Keep in mind this is just an estimation of your break even mark. What this means is that even if you break even at the end of the month you still won't make any profit, but the lights in your practice will still be on. To find out how many massages you need to complete to still make a profit, add the monthly profit you would like to make (established earlier in your goals) to the $1,575 of total expenses and divide that number by your average massage rate. I like to call this the salary break even number and this is the most relevant number when considering break even points. These are the types of numbers you should be calculating on a monthly basis. Feel free to manipulate the calculations to consider different situations. How many additional massages would you have to give to: Give yourself a pay raise? Pay for a billboard? Start a website? Remodel your office?

> **<u>Example 1.1:</u>** You have owned your practice for 4 years. The average monthly expenses for your practice total $950. You have decided that you want to remodel your office space to create an additional room for another massage therapist in your practice. The remodeling is going to cost $5000. Assuming you charge $50 per massage, how many massages must you give every month to have a $1,500 in profit every month? How many additional massages do you have to give so that you can save the full cost of the remodel?
>
> <u>Answer:</u> *When taking into account your margin of safety and your profit goal, you need to give 54 massages in your practice a month. This will cover your expenses and what*

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you want to earn in profit. To have enough money saved for your remodel, you need to save the revenue from 100 individual massages. The calculations for this problem are below.

1. Calculate your regular breakeven point with a margin of safety of 25% (because this is an established business) $950 X 1.25 = $1,187.50, this is the amount you need to keep your business running.

2. Calculate your salary breakeven point by adding your profit goal to your breakeven point $1,187.50 + $1,500 =$2,687.50

3. Divide your salary breakeven point by your $50 massage fee to calculate how many massages you must give per month to meet your goal. $2,687.50 / $50 = 53.75, round up to 54 massages.

4. To find how many additional massages you must give to remodel your office:
$5000 / $50= 100 massages

<u>Funding</u>

The second section of the Financial Plan, funding, is mainly for startups, but may be useful to established massage practices if additional capital is needed for expansion or business adjustments. This was shown in the previous example when a business is looking to remodel. While established businesses may be able to apply for a bank loan, startup businesses have a very slim chance of receiving a business loan because of the risk involved for the bank. There is no track record of a startup business so there is no way for the bank to evaluate whether your business will be successful and more importantly how likely you will be successful enough to pay the loan back. Due to the importance of a good track record of financial statements, it is pertinent that no matter what stage of the business process you are in you keep clean, organized, and correct financial records. I recommend investing in a computer program such as QuickBooks that will help you to organize and input these types of records. Further information on this will be discussed in the last section of this course.

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Funding for startups is difficult. For this reason entrepreneurs are known to get creative in getting their businesses funded. The most common business funding is savings. If you understand from your analysis how much money you need before you open the doors to your new business, you can start to save from other jobs or sources of income until this number is met. The second most common funding channel includes friends and family. They know your track record and will essentially put their money where their mouth is if they believe you can successfully run your own business. While family and friend loans can be simple to acquire they are dangerous territory. My number one rule in business is to never do business with family. I understand that this is the last resort for most people, but understand that whenever you add business into any type of relationship there are added tensions and situations that could possibly lead to horrific outcomes and in many cases has led to the destruction of those relationships. For these reasons, I believe saving your startup money is the most efficient and effective way of funding your massage practice. It may take some time to save up the money you need, but keep your true goal in mind and don't cut corners. If you know you need $25,000 to start your business, don't settle for $15,000 because you will have to work harder to save the additional money instead of borrowing it. Be accurate with your numbers and what amount you will need. When you reach that number, you will have the safety and monetary capital needed to launch your practice. More importantly you will have already met your first established business goal of saving your startup costs.

Location Savings: Leasing vs. Revenue sharing

Fortunately, there are ways to cut costs when starting out which will help lower the amount of starting capital needed before the doors of the new startup business open. The biggest of these cost cutting techniques is the actual location of your practice. The advantage of massage therapy is space. You do not need a warehouse or an office building to run your practice. When starting out I recommend that massage therapists start by renting a treatment room from another type of similar business. The ideal business would be one that complements massage therapy, but is not massage therapy. It is very hard to establish your own client base when you are working in another massage therapist's office because you run the risk of your

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clients associating your massage with the actual brick and mortar massage business. However, renting a treatment room from an acupuncturist, chiropractor, or even a gym would be a great complement. The potential clients that are in direct contact with your advertisements when visiting these types of locations already understand the importance of taking care of their bodies in a natural way and would be open to massage therapy. Leasing rooms is a great cost saving alternative to opening a whole practice when starting off. Depending on the type of arrangement you work out with the owner of the room, this could also eliminate utilities costs if they are included in the lease. Usually there are two types of arrangements made when leasing a room. The first is a flat lease and the simplest to understand. You pay a flat fee every month and the room is yours for as few or as many clients as you bring in. The second is a revenue sharing plan where a percent of the revenue you collect every month is given to the owner of the room sometimes with an additional smaller flat fee. Both have their advantages and disadvantages.

The main advantage of the revenue sharing plan is that there is an incentive to the owner to advertise your services to the current clients of their business because at the end of the day he or she will be getting a percent out of the money collected for those massages. The disadvantage of the revenue sharing lease is that there is a possibility for tensions to rise if you do not bring in a lot of clients for massages as the owner could possibly see this as a lost opportunity. The advantage to the flat fee lease is also its disadvantage. In a flat fee lease the advantage is that the owner could care less how many clients you bring in for massages because whether you give one massage or a thousand, their pay at the end of the month is the same. This gives little potential for added tensions. This flat fee lease also brings very little potential or incentive for the owner to do any advertising or supporting of your business. Regardless of which structure you choose, you should still market your business as if you are in your own building. Never rely on the business you are leasing from to feed you massages.

When leasing a room, it is important to discuss with the business owner how your clients are going to be scheduled and/or how the money is going to be collected. Depending on the leasing arrangement you may have unlimited access to the room for the scheduling of

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clients or you may have to work within the owner's office hours. The money collection is a little more complicated and usually only becomes an issue when there is a revenue sharing lease. The owner may want to have a receptionist collect the money so that there is a record for both the owner and you of how many massages were given in a month. This makes the lease payment calculations easier for both parties. These are just two of the many adjustments that can be made to room leases so that the situation is better for all those involved.

Regardless of the lease structure, leasing a room from a complimentary established business not only gives you visibility to the clientele that would be open to massage, but it also gives you the opportunity to build a book of business. This type of situation provides you with a low cost strategy before you have the clientele necessary to open up your own office, if you even feel you want or need to. When you reach this point you will have to ask yourself what is going to be better for your business. Do you feel that you will be more successful opening your own office even after including the additional expenses or will continuing to lease a room and making it your "home" be a better fit for you? There is no right or wrong answer and the decision will be completely dependent upon the current leasing situation and your goals. Test out the new expenses of opening your own office in the equations we used in this section. How much of an increase would you have to have in revenue to meet the expenses of your own office opposed to leasing a room?

Conclusion

There is nothing more important in any aspect of business than planning. Especially when dealing with business finances, a lack of planning can easily lead to the complete failure of any business. Whether you lack to plan for unexpected expenses or you overestimate how much your practice can make in a given month, not planning for these types of situations or not planning for them correctly can lead your practice down a dangerous path. One of the benefits of planning is realization. To plan where you want to go with your practice you are forced to look at your practice as a whole and where it has been. The more you understand about the financial workings of your company, the more efficient your plans will be and the more stable

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your decision making will become. Take the information you have learned in this section and keep it in the back of your mind when reading the following sections. Relate different financial policies and analysis you learn in future sections to your financial planning and goals. Think about how you can take the planning you have done and turn it into a reality.

At the end of each section there will be three review questions. These questions will go over some of the concepts discussed in the corresponding section and will give you some guidance as to what the final course assessment is going to be like. Along with answering the review questions for each section, you should make sure you can complete the section objectives with the detail and organization shown in your reading.

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Review Questions

1) Which of the following traits is associated with successful small business owners?
    a. Low self esteem
    b. High self efficacy
    c. Passivity
    d. Procrastination

2) True or False. The only choice you have when leasing a room from another business owner is to share profits.

3) How is profit calculated?
    a. Revenues + Expenses
    b. Revenues – Expenses
    c. Monthly Revenues – Weekly Expenses
    d. Monthly Expenses – Weekly Revenues

*Answers to all review questions are compiled at the end of the course. Take the time to review your answers and go back into the text if you find any discrepancies between your answers and the answer key.

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Section 2: Financial Policies

Section Objectives

At the end of this section, you should have the information necessary to:

- List client specific financial policies and identify how and why these policies should be implemented in a financially stable practice
- Describe techniques of how to carry your practice through financial rough patches
- Define a reserve account and how it should be used

Introduction

The heart of business finance does not lie in calculations or pages of numbers. The true mitigation of problems dealing with finances in your practice comes from having sound financial policies. This section could be defined as your practice's Financial Commandments. These policies are concrete and should be treated that way. Once they are established, you shouldn't bend them for any person or for any reason. These policies will be the same for every client no matter who they are, what their situation, or how long they have been a client. By following these guidelines you will have more control over your practice and being in control of your own business's finances is the goal of this course and the specific purpose of this section.

Client Specific Financial Policies

In your Financial Plan you will want to include a financial policies section. This section will delve into different topics that you will want to establish policies for in your practice. There may be others, but the specific topics chosen for this section are ones that I see creating problems for entrepreneurs over and over again. For the most part, the problems do not stem from the actual policies, but from the lack of implementation of these policies.

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Cash or Check

You need to establish how you want to get paid. Will you only accept cash? Do you accept credit cards or personal checks? Credit cards are a great way to accept payment because nearly everyone has one and there is no excuse for a client not to have cash with them to pay. However, there are expenses associated with accepting credit cards. For small businesses I recommend looking into the mobile credit card readers that attach to smart phones or incorporate a system where payment can be collected online. These solutions offer simplicity along with the advantages of being able to accept credit cards in your business. The next payment policy is upfront payment. Make it a policy that services are not rendered until payment is received. NEVER give anyone any type of service or product without receiving the payment first. The hardest part about this rule is that it seems easy, but no matter what, eventually you will bend this rule once and someone will take advantage of you. Unfortunately the person who does will most likely be someone close to you or someone you knew in a non-business way. Again you may be sitting there saying this will never happen to me, I am going to follow my policies, but anyone who has been in business will tell you that it will happen and if you are smart you will only let it happen once.

For example, your Aunt Suzy wants a massage and comes to your practice, you already feel awkward about asking her to pay you for the massage, but you tell her that before you start it will be $50. Aunt Suzy looks into her purse and says, “O honey I forgot to run by the bank beforehand, I’ll just pay you next time I see you”. You give her the massage, she walks out and you realize you just spent an hour of your time giving a free massage. Now sure, Aunt Suzy may be seeing you two weekends from now, but what if she forgets the money? Now you have to wait longer to get paid and worse have to remind your aunt that she owes you money, possibly multiple times. It’s an all-around unfortunate circumstance, but it can be avoided by simply sticking to your policies and telling Aunt Suzy, “Well if you don’t have the money now, I’d be glad to reschedule you for later on today after you get a chance to run by the bank”. If she asks you why, tell her that your business policies do not allow for massages to be given

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without payment. You can even avoid the whole situation by recommending another massage therapist in the area when your aunt first expresses interest in receiving a massage.

No Show Policy

This story leads into the next point and an important policy for any service based business. A no-show policy. In your business one of the things you need to realize is that your time has a price. Most of the time it is a monetary price, but no matter what there is always a price you pay to be anywhere but your business. Let's use another example. It's Tuesday afternoon and you have only one appointment scheduled at 3:30. 3:45 comes around and still no sign of the client. 4:00 rolls in and you are starting to get upset. 4:15 then 4:30. You have waited for an hour because you have no policy to take care of this. You wanted to leave at 3:45, but what if the client showed up at 3:50. Worse, what was the cost of you sitting there? You could say it was $50 because that's what you could've earned giving another massage, but think deeper. You had to take the time to get ready and drive to your practice for this one massage, you could've spent the afternoon marketing your business, and you may have missed your son's soccer game. All because someone couldn't call and say they couldn't be there today. All of those lost opportunities seem to add up to a lot more than $50. So how do you fix this from ever happening, or ever happening again? You establish a no-show policy. You can manipulate this policy to your liking, but in general if a client does not give you 24 hours notice that they are unable to make the appointment then they are charged for the appointment regardless of them being there or not. Adding to your policies that a missed appointment is anything over 15 minutes late also helps, the last thing you want is a client to show up at 4:20 and expect you to start a one hour massage that was supposed to start at 3:30.

When using the no-show policy I recommend that you also put in your client policies that clients give you their credit card number when scheduling an appointment so that you can use it in the event of a no-show. Some clients may be reluctant to do so, but give the advantages from their point of view. Tell them that by having their credit card number on file, the process of getting a massage would be quicker because they will not have to deal with

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payment ahead of time and you will take care of that for them. Another advantage that you can share with them is that in the event they forget their credit card or wallet, the trip to get a massage wouldn't be a waste. This is due to your policies and the fact that you may have to charge them for a missed appointment even though they were there. However, if you had their credit card number on file they would never have to run into or even worry about this problem.

Refunds

From a customer relations point of view, you will need to include a refund policy. What if someone is dissatisfied with the massage? In most cases of dissatisfaction, it is almost always better to refund the money than to have your reputation smeared by a confrontation. Bad news travels faster than good news and it is always better to remedy a negative situation in a prompt and efficient manner. You never want anyone walking out of your practice with a negative attitude about their experience. The only exception to this is when dealing with your policies. If someone walks out of your practice frustrated after being shown the consequences of your policies, they are upset with themselves because they knew ahead of time what the consequences were going to be. Don't be too worried about this type of negativity; it won't travel far because the client would have to admit to others that they were wrong.

To avoid any confrontation or confusion with clients, have them all sign a copy of your policies on their first visit. Give them a copy so that both of you have a copy to be referred to if need be at a later time. If you are looking at starting a policy program in an established practice, consider all existing clients new clients when they come in for their next massage. Remember, policies cannot be argued with and are concrete. Just the presence of policies in your practice will eliminate a large amount of confrontation.

Differentiation from the Crowd

When trying to create value for any client, differentiation is the key. You must give your clients a reason to come back to you opposed to going to someone else. Everything about your practice, location, attitude, the whole experience is being evaluated by clients and this

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evaluation will be immediately compared to other massage experiences. If their experience with you ranks higher than the others, then they will come back. If not, you will have lost a client. There are many ways to differentiate yourself and make it clear to your clients that there is no better choice than you.

From a business finance point of view, many small business owners feel that pricing is the way to differentiation. This is simply not the case and is actually a mistake that causes many small businesses to fail. Your price is a statement. When you set a price for a massage you tell clients and potential clients what you think your massage is worth. People understand that you get what you pay for and by lowering your price you are saying that the quality of the massage is less than that of your competition. However, there are obviously limits and you must be realistic about what a massage is truly worth. Making each client feel like they are getting special treatment and creating a positive massage experience are vital to raising the value of your massage.

Regardless, pricing is important, but there are other techniques relating to cost that can be used for differentiation such as first massage discounts, repeat customer discounts, package deals, referral discounts, etc. These techniques lower the price of your massage to bring clients in the door. Once you show them the value of your massage is worth more than this discounted price, they will feel more comfortable paying the higher price for one of your massages in the future. If you decide to use discounted first visits whether it is through traditional marketing or Groupon make sure you have a proven rebooking system in place. You want to make sure that once the client has received their first discounted massage that you are automatically prepared to book their next massage then or set up a time to follow up so that you can book the next massage. The justification for a discounted service is that you will recoup your loss on that massage from future repeat business by that client. If you fail to rebook the client who received the discount then there is no way for you to recoup your loss.

The Truth behind Gift Certificates

Gift certificates are commonly used in massage therapy practices. The idea is simple; someone pays ahead of time for a massage. But what does this really mean to you as the seller

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of this gift certificate? These gift certificates are a liability to your practice, but not in the common definition. In finance, a liability is a debt or obligation that has not yet been fulfilled. If you sell 10 gift certificates, you owe 10 massages to different people. The situation that most business owners fail to grasp is that the money that has been paid for those 10 massages is not really theirs until the massage is given or the certificate expires. For instance you cannot sell $500 worth of gift certificates one week then shut down your practice and expect to walk away with that $500. You still either have to honor the gift certificates or refund the $500 to the buyers of the gift certificates. Unfortunately, what I see many times is that the practice owners are paid for the gift certificates and then spend the money. When you receive money for these gift certificates, you should put the money aside and only open up the ability to use this money when the massage is given or when the gift certificate expires. This saves you from any financial problems down the road. If for some reason you have to close the doors to your practice, you will not have to go borrow money to pay back all the people who have bought gift certificates from you. Because of potential problems that could arise, make sure any prepaid plan or gift certificate you sell has an expiration date. Offering prepaid services without an expiration date is only making you extremely vulnerable to future problems. You don't want someone coming to you 30 years from now asking for a massage because they have a gift certificate that doesn't expire or worse wants their money back even though you closed your practice and retired 10 years ago.

Dealing with Financial Fluctuations

Whether it is the economy or the individual cyclicality of a practice, you will always have to deal with financial fluctuations. You will never have the exact total expenses one month to the next, you will never have the same profit numbers year after year, times are constantly changing and so do your finances.

Petty Cash and Daily Reconciling

While it is sometimes overlooked, your business finances should include a petty cash amount. This is the amount of "change" you will keep in your office to use in cash transactions. Fifty to one hundred dollars in small bills is perfect to keep as petty cash. This amount should

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also be reconciled at the end of every day. To complete a reconciliation, add up the total amount of payment for all the transactions you should have received during the day without opening the cash drawer (this is easily done by adding your <u>cash</u> receipts for the day; do not include payments made by credit card or check). Once you have this number, write it down, open up the cash drawer and count the cash. The amount you have in cash should equal the number you wrote down plus your petty cash amount. If this is not equal, repeat the process and play detective until you find out why you have more or less cash than you are supposed to. The same procedure should be done with checks by making sure check receipts match the checks you physically have. When your checks and cash in the drawer match the number you should have collected that day, pull the cash and checks out of the drawer to deposit in your business account leaving in the drawer your original petty cash amount. After reconciling your cash box for the day, you should reconcile your total daily sales. Add up all the receipts from the day, this is your total daily revenue. Then add up the total amount of cash and checks you plan to deposit along with the daily credit card sales balance. The total of your sales receipts should exactly match your total payments. If not, look through the individual transactions to ensure you were not over or underpaid by a client. Keeping track of this on a daily basis will allow for easy calculations in future business planning along with the ability to make sure you are not losing track of any money.

> **<u>Example 2.1:</u>** You have decided that $75 in small bills and change is a good amount of money for petty cash in your cash drawer. At the end of the day you have completed 5 massages each for $57.65 when you include the price of your massage and tax. 2 of these massages were paid for by credit card, 2 by check and 1 by cash. When you reconcile your daily sales, how much money should you have in your cash drawer? When you total up the amount paid by credit card, cash and check, what should the total be? If this final total is off by $115.30 what is the most likely cause?
>
> <u>Answer:</u> *You should have $132.65 in your cash drawer ($75 of petty cash + $57.65 in cash sales). The total of all three payment methods should be $288.25; this is also the total sales for the day. If these numbers match then you have reconciled your daily*

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finances. If the final total is off by $115.30, you most likely forgot to account for the credit card or check sales which each total $115.30.

<u>Reserve Account</u>

The size and purpose of having a reserve account is different for every business situation. In this case we will look at the two different practices, a startup and a current operating practice. Reserve accounts are extremely important for both types of businesses and should be treated in the same way. In an established practice, a reserve account is just that, a reserve, a last resort that offers you some peace of mind. The size of this account for established practices depends entirely on the owner and their underlying risk tolerances. There needs to be a minimum of a three month reserve for any established business. To calculate this number, find your monthly salary breakeven point. Once you have this number, multiply by the number of months you want as a margin of safety, in this case three. These total monthly expenses should be the same number you used to calculate your salary breakeven point in the beginning of this section, but it is also the worst case scenario number. In the event something goes wrong whether it is business related or not you want to have the security of knowing you have at least three months of your business paid for. In a worst case scenario you could essentially lock your doors for three months and spend the three months reevaluating and acting on the situation. Now this reserve is not only for worst case scenarios. The main reason for having this account is for peace of mind. You will sleep better at night and as a result of your clear and rested mind, your business will be more successful. If you know that you are able to take a little risk and still have some sort of cushion, you will be more apt to act on your business ideas.

<u>Example 2.2:</u> Your salary breakeven point from example 1.1 is $2,687.50. You want to go beyond the minimum and have a reserve account of 5 months. How much should you have in your reserve account so that you can keep the doors open to your business and still collect a salary for 5 months even without any clients?

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<u>Answer:</u> You should have a balance of $13,437.50 in your reserve account ($2,687.50 X 5).

Like any industry, massage therapy has cycles. These cycles may change depending on location, but in general there is some cyclicality whether it is higher sales in the holiday season or seasonal clients that you only see during one part of the year. The problem with cycles is that even though you know a slow part of the year may be coming, it is always hard to predict how slow it may be. For this reason the reserve amount is very important and the length of the slow season could impact how large your reserve account is. For example, let's assume that you have a monthly salary breakeven point of 60 massages. Your average number of massages is about 70 a month. Not only does this give you your salary breakeven goal, but also gives you a little extra for a bonus and savings. However, in the slow season you are only expecting 50 a month. You don't feel that this is a big deal because you have done your preparation and have been saving from the months when you have been over your salary breakeven point. Now you can use this savings to compensate for the lag in business during the slow months. This is a great strategy and getting your business to this type of success and discipline is quite an accomplishment. The problem arises when during the slow months you only happen to see 25 or 30 clients a month. This is definitely below your salary breakeven point and may even be lower than your actual breakeven point needed to keep the lights on. This is where a reserve account kicks in. You have at least three months of reserve in the bank and pulling out enough to bring you back to your salary breakeven is no problem because you know that in a couple months the business will be back to normal and you will be able to replenish your reserve account with your regular 70 massages. This leads to a major point of the reserve account. The benefits of a reserve account only appear when a reserve account exists. For this reason make it your number one priority after pulling from the reserve account to replenish it and bring the account balance back to par.

The months you keep in reserve when you are running an established massage practice is based on the cyclicality of your business, your risk tolerance, and your monthly expenses. However, when dealing with cyclicality, if you ever find yourself with a reserve account of more

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than six months primarily due to cyclicality and not because of your risk tolerance, you may want to consider a unique business type. In these unique business types the practice is only open for the peak times and closed for the majority of the year. This would only be the case in extreme circumstances such as 80-90% of your revenue coming from a three month busy season.

Now, this course is not only for established businesses. Setting up a reserve account for a startup business is entirely different. The goal of a startup business when it comes to a reserve account is to build up to the point that the established businesses are at, a reserve account that is there for security and peace of mind. Before this point is reached, a startup reserve account needs to be quite large. The reason being, you will need time to build your client base and reach your salary breakeven point before you can think about protecting it.

Startups are all different. Some will start with a handful of clients that will keep the lights on when they start out and others will start with nothing but a stack of business cards and a smile. Regardless, both need time to grow before they are self sufficient. I recommend at least six months to a year of salary breakeven months saved in a reserve account before a startup opens (don't forget to add the higher startup margin of safety in your salary breakeven calculations as discussed in Section 1). The differentiation between six months and a year will depend entirely upon the amount of time and effort you as the business owner can put into starting the business. If you are spending all your energy and time promoting yourself and your business I see no reason why the business could not be "established" in six months. On the other hand if you are transitioning from another job or still holding a job while starting your business, a longer term reserve account may be in order. I know this may seem like a lot of money to be putting away for the starting of a business, but think of it from a different point of view. It is better to have some sort of safety net than to work your first month on a business knowing that at the end of the month you won't even have the money to keep the lights on. Do not forget that in addition to the reserve account, the startup business will have to add in the startup expenses previously discussed to the bank balance before opening the doors.

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<u>Example 2.3:</u> You have decided to start your own massage therapy practice. You believe that with the time you can spend working at your newly established practice you can be stable in 8 months. You have totaled your startup costs to be $7,500, you have estimated your monthly expenses at $900, and you feel that these numbers are extremely accurate so you want to use the bottom of the margin of safety range for startups and use 30%. You also require a salary of $1,500 per month. How much should save before you open your business?

<u>Answer:</u> The first thing you want to do is establish your monthly salary breakeven point. To do this you add your margin of safety to your estimated monthly expenses then add your salary requirement. $900 + ($900 X .30) +$1,500 = $2,670. Now that you have your monthly salary breakeven point of $2,670, multiply it by the number of months you want in reserve, in this case 8 to get your startup reserve amount. $2,670 X 8 = $21,360. Finally, add your startup costs to your startup reserve amount. $21,360 + $7,500 = $28,860. In this example, you should have at least $28,860 saved in an account before you decide to open your massage therapy practice. This will allow you to cover all of your startup expenses and more importantly allow you to keep your practice open for 8 months while you work on stabilizing your revenue stream to a point where the business is actually profitable and keeping itself afloat.

Conclusion

The financial policies you establish for your practice are completely based on your feelings and beliefs as a business owner. Client related policies should be established early and kept consistent for all clients regardless of how hard this may be to keep. When dealing with non-client related financial policies such as reserve accounts or margins of safety, be truthful with yourself. Never cut corners when it comes to the financial well-being of your practice. If you are able to honestly evaluate how much risk your personal lifestyle and business can tolerate then you will be well on your way to creating sound financial plans for your practice. Keep this honest evaluation with you not only in the introductory planning of your practice, but in the constant reevaluation of business decisions. After taking into account the information in

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this section, I hope that you understand the advantages and disadvantages of different policy structures and how they can affect the inner workings of your practice.

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Review Questions

1. True or False. Client specific financial policies can differ depending on the loyalty of the client to your practice.
2. What is the daily process of checking that your sales match the actual compensation you received?
    a. Checks and Balances
    b. Reconciliation
    c. Financial Balancing
    d. Daily Alignment
3. What is the minimum number of months an established business should have in reserve?
    a. 2
    b. 3
    c. 4
    d. 5

*Answers to all review questions are compiled at the end of the course. Take the time to review your answers and go back into the text if you find any discrepancies between your answers and the answer key.

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Section 3: Auditing Financial Decisions

Section Objectives

At the end of this section, you should have the information necessary to:

- Explain how to incorporate your Financial Plan into the day to day operations of your practice
- Identify the steps needed to conduct regular statistical analysis on your business including business metrics such as revenues, expenses, and profit
- Use business statistics to make business decisions
- List the benefits of utilizing technology when working with business finances and the components of safe online banking

Introduction

Now that you have an idea of what your financial policies are going to be and the basics of establishing a Financial Plan all that is left is implementation and revision. While it is easy to say that this is all that remains, this is undoubtedly the hardest part of any type of financial planning. Anyone can plan, establish goals, and write a policy manual. The difficulty comes from having to put what you have established into practice. Even more difficult is having to change any decision you make after the implementation. Some business owners come up with a great financial strategy, implement it and watch it work, but what happens if this plan starts to falter? This is where the revision and statistical analysis of your business decisions come into play. Using the statistical analysis techniques taught in this section, you will have the information necessary to make an emotionless business decision. The power of this section comes not from the information in it, but in how it brings all the business finance information you have learned together for you to utilize in your practice.

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Implementing the Financial Plan

Now that we have put together all of the components of a successful Financial Plan, it is time to understand what to do with this collection of planning details. A Financial Plan can only be successful if it is used. While a large amount of benefit comes from the actual writing and collecting of data for the plan, the real magic happens when it is implemented.

When implementing your Financial Plan, don't second guess yourself. Many people have great ideas and excellent data, but when it comes to the actual execution of the plan they are more risk averse and don't want to take the risks that are outlined in the plan. If you have taken the time to build your Financial Plan with quality information, you should have no fear in following your plan like a recipe for a cake. If ever you run into problems in your business or have questions always look back into the plan you have created. Your plan should have the information that you need to overcome the situation whether it is how much the credit card company is charging you to run a card, your lease for the office, or what amount of money you should have in your reserve account. Because of its importance in the day to day activities of your practice, the business plan should be located in a place that is not only easy to access, but visible. The reason for the visibility aspect of the business plan location is the saying "out of sight out of mind". The last thing you want is to not be reminded that you have an entire plan for your business, specifically business finances, sitting right in front of you.

Expenses

Every month you should record all of your practice's finances. This should be easy to compile because you have been reconciling your finances every day. I recommend putting together a spreadsheet budget with the expenses down the side and months across the top. Fill this budget sheet in every month when you are paying bills. Doing this will show you your average normal expenses. These new averages will allow you to make more accurate forecasting decisions for your practice.

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Since you are just starting to implement a Financial Plan, these average expenses should be the amounts used to calculate your break even points and reserve accounts. If you are just starting a practice, you have no numbers to compile into averages. Once you have been working in your practice, you will realize that assumptions you made before the business actually opened were incorrect and now you have actual numbers to work with. For instance you may have assumed that your electricity bill would be $70 a month when in reality it is $120 or the landlord may have given you a discounted price on the lease because you are leasing the location for a year opposed to 6 months. These are common occurrences amongst many other changes that will deviate from the original amounts and ideas that were created in the Financial Plan. These changes need to be shown and updated in the plan, but not immediately.

In the first month you are bound to see large deviations in the actual expenses and revenues from the predicted amount. This is because your first month will entail first month expenses such as utility activation fees, deposits, initial marketing materials, etc. While these should be no surprise because you accounted for them in the startup costs of your practice, they should not be used to change what you would consider an average monthly utility bill. For this reason, your second month expenses should start trending back to what your assumptions for your expenses should be. If for some reason your expenses do not meet your assumptions wait for a few more months. I recommend making revisions to the Financial Plan every three months (quarterly) starting with the 2nd month. Having three months of normal business practices will give you an idea of how things are truly going.

Unless you were right on the money with your original assumptions, revising your Financial Plan to include these numbers will change your total monthly expenses, breakeven point, etc. Once you have included these numbers you should feel a big sigh of relief because you have eliminated the risk of guessing expenses. You no longer have to worry about whether or not your expenses are going to be completely different than what you imagined. Regardless of whether or not you are just starting your practice or have an established practice, there will still be changes from your average, but they should be slight and overall should average back to your estimation used in the Financial Plan.

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Revenue

The second part of your evaluation is revenue. Like expenses, if you are just starting your practice, it is best to stay consistent and evaluate your revenue metrics from the second active month forward. The only difference between your measurements of expenses and revenues is while you will have monthly revenue numbers to match with your monthly expenses, it is a good idea to track revenues on a weekly basis. Weekly monitoring is hard to do with expenses because your big expenses such as utilities and your lease will be in monthly statements.

The biggest component of the revenue evaluation section is gross revenue. Gross revenue is the total amount of money you pulled into the business. You should calculate this number at the end of the week every week. Calculating this number is very simple since you should have a revenue number written down for every day of business when reconciling your daily sales. To calculate gross revenue, add up all the receipts from the week (include everything regardless of how it was paid, credit card, check, or cash). Calculating this number on a weekly basis and putting it into a spreadsheet format will allow you to see the trend of your practice's revenues. If for some reason you start to see your revenues trending down instead of up, you will need to step back and analyze why you are not collecting as much as you used to. Have you made major changes in your business? Are you marketing as much as you used to? Has competition moved into the area?

Another predictor of how your practice is doing is your weekly number of client visits. This is not only an easy indicator to look at, but also very useful in massage therapy. Using this metric along with the gross revenue will allow you to see what general direction your business is heading. You want to see the amount of massages you give per week increase every week. You have already calculated a rough estimate of how many clients you need to see a week to meet your goals at the beginning of the course, so calculating how many massages you are actually giving in a week will help you to see if you are on the right track to reaching your goal.

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Profit

The last measure of monthly evaluation of your practice is net profit. This number holds the most information about your business because it combines both your revenues and expenses. At the end of the month you have a total monthly expense number and a gross revenue number. Subtracting your total monthly expenses from your gross revenue will give you how much money in profit you made that month. This is the money you get as your salary. You can use this on personal expenditures or to invest back in your business. If choosing to reinvest in the business, you could use this extra business investment to pay down business loans (over and above the regular monthly payment), increase your marketing, or give yourself an extra bonus. Profit reveals a lot to a business owner. Understanding the components that go into calculating profit as we have discussed in this section will allow you to do your own analysis so you can understand why your profits are going up or down. More importantly, profit calculations help you decide what you should do to change or continue the trend.

Statistical Analysis

Now that you have all your numbers, the next step is to analyze what is going wrong or right. Much like when you reconcile your cash drawer at the end of the day, if the numbers you have do not meet your expectations, you need to do the proper investigation and find out why. This is a difficult task and one that is done by everyday small business owners to the largest corporation CEOs. If your profits are falling, why? Profits are only based on two main components, expenses and revenues, so which is causing the problem? Are you not collecting enough money like you used to? Or have your expenses increased? Having accurate numbers for your business make these types of questions easy to answer. You should have all your expenses and revenues already written down, hopefully in a spreadsheet. With these numbers you should see trends in your monthly expenses or revenues. If your expenses are increasing, why? Look further into your expenses, maybe your utility bill has been steadily increasing or your rent was increased.

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When you establish why your profits are trending down, the next step is to decide how to deal with the situation. Think of this step much like that of dealing with competition. You know the problem, now it is time to eliminate it, work with it, or leave it. If the reason for a down trending profit is a decrease in revenue because you are giving fewer massages on a weekly basis then in the case of dealing with the problem you only have two choices, eliminate the problem or work with it. To eliminate the problem you increase the number of massages you give. This means heightening your marketing efforts, maybe even reevaluating your marketing plan to see if your marketing budget can be allocated in a more efficient way. Another technique that is always an option is to do more personal marketing, more networking with businesses and potential clients.

Working with the problem means to leave the situation as is and lowering your expenses to meet this new revenue level. I must note that you should never choose to work with a downward profit trend. In the event of a downward trend in any revenue or profit measure the first step is stabilization. You need to stop the down trend and at least keep the number constant before you start to cause the trend to go up. In the example we just used about decreasing profits because of a decreasing amount of massages given in a week, you should not continue to deal with the problem and just continue to lower your expenses every month. This makes no sense and without a doubt will lead to business failure. First, stop the trend by stabilizing the amount of massages you are giving a week by using marketing, networking, etc. Then once you have stabilized decide whether or not you should deal with the stabilized level or fight for the uptrend. If you truly have the entrepreneurial spirit inside of you this is an easy question. You will not settle for less and you will continue to fight until you reach the level you are looking for.

For businesses that are just starting to implement a Financial Plan whether it is a startup or an established business I recommend analyzing your business plan every three months then after a year of using the plan, analyze and make changes to the plan semiannually. As for the business statistics discussed, revenue should be tracked on a weekly basis, amount of massages given on a weekly basis, expenses on a monthly basis, and profit on a monthly basis.

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Throughout this section we did a lot of work with numbers and trending business statistics. This area is a very important part of your business and needs careful evaluation. At the end of the day, if the numbers don't add up, no matter how much you love your business you will have no choice but to shut your doors. If you are not already comfortable using computer spreadsheets such as Microsoft Excel, I would highly recommend looking into either a class or book that will give you the basic skills needed to operate these programs. It is possible to do all the analysis by hand, but the simplicity that a computer based spreadsheet provides will allow you to spend more time analyzing your business and less time trying to average your electric bill for the past year.

Cost Benefit Analysis of Business Strategies

When you implement any type of new project or strategy, it will be very hard to decide whether or not the money you are spending on a particular project is less than the money you are collecting because of it. This is most widely used in small businesses for marketing projects. In this section we will look at the financial side of how to quantify the benefits of your marketing channels. This is difficult when looking only at profits or revenues because you are never going to use only one type of marketing strategy and you will never be able to quantify word of mouth marketing. The use of multiple marketing channels doesn't give you the ability to identify what marketing channel led to the increase in revenues or number of massages given. To solve this problem, we must be able to quantify or semi quantify what the individual marketing channels are producing. To quantify the amount of business each channel is bringing into the practice a simple question will do wonders, "How did you hear about Main Street Massage?" The answers you receive to this question will give you the quantification you need to analyze your marketing practices. When you talk to someone on the phone this should be the first question you ask after their name and phone number. If you have an initial questionnaire (highly recommended for contact information) or client policies that incoming clients need to sign, you should have this question somewhere in the papers. This guarantees that you will know how every client that you give a massage to heard about your practice.

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Keeping track of these numbers will serve as the main predictor of which of your marketing channels are worth keeping and will allow you to create “data” to perform your analysis on.

To differentiate profitable from unprofitable marketing strategies you must do a cost benefit analysis. The cost of the marketing strategy is either the cost of the actual campaign or the cost of the time you spent marketing. If one of your marketing strategies costs you time away from your business then you need to consider the cost of you not being at your office. Because there is no way to calculate the costs of other lost opportunities such as potential marketing, the easiest way to calculate this is find out how much you would have made giving massages the entire time you are gone. For example, you spend two hours a week at a local business luncheon. If you charge $70 for a one hour massage, the cost of that business luncheon is at least $140. This means that you need to have the equivalent of at least two one hour massages scheduled from each business luncheon. These can either come directly from the luncheon or from a referral of someone that you met at the business luncheon. If you find that after three months of going to these meetings that the benefits are less than the costs of your attendance at these luncheons, you should stop going to the luncheons and consider another marketing channel to spend your time on. The same type of analysis should be used in all other marketing channels and any project or campaign you implement in your practice.

Example 3.1: You have decided to implement a marketing strategy where an ad for your practice will be printed in the local weekly newspaper. After three months you decide to evaluate whether or not you should continue to advertise in the newspaper. The weekly ad costs you $150 per month. In the first month you had two massages scheduled due to the ad, the next month three massages and the third month four massages. The price of a one hour massage is $50. Should you continue the newspaper marketing strategy? What if you were to evaluate this at month one or month two opposed to month three? Why is it important to wait until three months have passed to do an evaluation?

Answer: a) Yes, you should continue the newspaper marketing strategy, there has been an increase in clients who have scheduled because of your ad in the newspaper and the

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revenue from newspaper campaign in the last month ($200) has exceeded its costs. If after the next three months the monthly revenue drops below $150 then the marketing strategy should be abandoned.

b) If you were to evaluate this strategy after the first month you would have abandoned the project because your revenue of $100 is less than the cost of the strategy ($150). If you evaluated this project after the second month you would have continued the marketing strategy because your cost of $150 was equal to the benefit of $150.

c) When you are first starting a marketing strategy it is important to wait three months for evaluation because you want to see if a trend develops, as in this example. If this example was changed and you were only able to schedule two massages per month for the three months, the cost of the strategy would outweigh the benefits and the project would be abandoned. The very beginning stages of any project or strategy are going to have their issues and there is going to have to be an adjustment period before you can really trust the numbers you are calculating. In most cases three months is a good evaluation point.

Financial Reputation

All businesses have a reputation. You may have a reputation as a great massage therapist and your practice has just as good of a reputation within the community. However, there is another reputation that clients do not see. This is your financial reputation. Personally your financial reputation is quantified through your credit score. Banks can look at this number and understand what type of person you are. Do you pay your bills on time? Do you have a lot of debt? Your business is evaluated in the same way. Sometime in your business's life you may decide that you want to expand your practice or make some changes that require you to borrow money from a bank. They may know about your practice, but they want to know what your business's financial reputation is. They want to know if your practice has the ability to pay back a loan they were to give you. So how do they find this information? You supply them with it.

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When operating your business, you have two choices when dealing with your business finances. You can outsource the tasks to an accountant or bookkeeper or you can do them yourself. Doing your own business finances has been made easier with business accounting programs such as Quickbooks, however, like any technology there is a learning curve. If you decide to incorporate an accounting program into your business, I highly recommend taking a course on the functions and uses of that specific program. These types of courses are usually offered by community colleges, local business associations, or online. Regardless of which method of dealing with business finances you choose, both should create the same result; financial statements. Every quarter or every year you will have access to your business's financial statements. These statements give you all the financial information you ever wanted to know about your business, how much money you have made, how much you've spent, where you have spent money, what is the total amount of your business's assets, how much does your business owe in loans. You should be familiar with and know how to calculate these numbers through the topics in this course. The only difference is that these accounting programs or your accountant will compile all this information for you in an easy to read and organized format. Since you now understand the calculations that go into those numbers, you can look at these financial statements and make informed business decisions using techniques such as cost benefit analysis.

Technology and Finances

The constant changes in technology may seem overwhelming especially when dealing with software that has to be updated or programs that quickly become obsolete, but all these changes just may be worth the hassle. To fully take advantage of your business's full potential, you should start to look at technology as a friend not an enemy. Embrace the constant evolution of technology in your practice and learn to utilize it. I have met many business owners that swear by the old, "simpler" ways. They still do their business finances by hand, write out their monthly checks, and deal only in cash or checks. While this may be simpler because it is what you are used to, the goal of technology is to simplify. There may be a learning curve, but once it is crossed, the fruits of your labor will be ready for sowing.

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Not only does technology make menial tasks easier, but also more efficient. Instead of collecting all your bills from the mail, sorting them and writing checks, you can simply have your bills delivered electronically through email and you can pay them online through online banking. The advantages this process gives definitely outweigh the learning process of online banking. You now don't have to wait for bills to come in the mail or worry about anything happening during delivery. You will receive automatic confirmation and scheduling when you pay your bills online. This allows you real time information of when your check was received by the utility company and you now have documentation to prove it.

Security is always the first issue that arises when I discuss the benefits of online banking and it should be. With the right precautionary measures, you can create a safer environment for your online banking. The first tip is to do your banking with a reputable bank. This may seem obvious, but for the most part when banking, the bigger banks deal with big accounts that demand a high level of security. Therefore using the online banking services of these banks should build a little peace of mind. The next tip is your password. Especially when it comes to business finances, do not use the same password for all accounts or make the password something simple. Use numbers, symbols, and capital letters in your password to deter anyone from compromising your banking information. Many people tend to use one password for their email, banking, shopping, etc. when online. When banking online you want to make your password completely unique to anything else you have used. While your bank's online security may be tight, you don't know about the other websites where you have used the same password. If you use the same password for everything, your online banking security is only going to be as secure as the least secure website in which you used the same password. The last safety tips deal with your own personal computer. To minimize the chances of any security problems, only do your banking from one personal or business computer. Opening up your banking information when on the server of another business or location could make your internet banking security more vulnerable. The final bit of advice on banking security is to have security software installed on the computer you use for your banking. You can find this type of software at your local office supply store and after a little research you should be able to determine which specific software best meets the needs of your specific business.

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The trend to move banking online is becoming more and more prevalent in today's businesses. Even large corporations have moved to direct depositing paychecks into individual bank accounts opposed to handing out paychecks. This brings in the last and I feel the most important benefit of technology. If you truly take the time to understand how you can use technology in your practice whether it is through an online scheduling system, accounting programs, or spreadsheet software, you put your business on a whole new level. Your business is growing to the level of these larger corporations that use technology at every opportunity they can to increase efficiency. The advantage for you as a small business owner is that you don't have to have 5 different committees agree on a specific type of technology you wish to incorporate in your business. You are your own boss. If you have done your consumer research and you think a certain computer program would make life as a practice owner easier, you can make the decision and you can control the future of your practice.

Reviewing and Revising the Financial Plan

After your plan is completed it is always a good idea to have someone that knows nothing about your field read over your plan. After reading your Financial Plan they should be able to completely understand the policies and projections of your practice. More importantly they will offer outside advice on any changes they would make. Don't be offended by their advice, you have to remember that you have been working on this plan for a long time. To you all your ideas are completely ironed out; however it never hurts to have someone confirm your beliefs.

I think this area deserves a warning because so many new and existing entrepreneurs take what others say to be gospel and it ends up not being the right path. You have to remember that there is a fine line when asking for advice from others between what you should listen to and what to tune out. Has this person every owned a business? Are they potential competition? For example, I would be hard pressed to accept advice on my whether or not I should accept credit cards in my practice or the price of my massages from someone who doesn't own a credit card or has never experienced a massage. You are the entrepreneur and at the end of the day whose reputation and well-being is on the line? Take the initiative

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and look beyond the advice and make sure it is truly in your best interest before you make the change.

The initial plan is only the first step. Whether you are writing your first Financial Plan after being in business for five years or you are writing a plan to start your first year, the plan is in no way a “write and file” document. The business plan as a whole especially the financial component should be a living, working, usable roadmap to fulfilling your planned goals. Set a schedule of when to review and revise your entire plan. You will be evaluating your financial metrics on a weekly and monthly basis, but set up a time at the least once a year more preferably every quarter to completely reevaluate the entire Financial Plan. Use your weekly and monthly numbers and be open minded and honest with your plan, if something needs to be changed change it. Use the following questions to help organize your revision. Have you reached your goals? If not, why? Are there changes you want to make about how to run your practice? What is and is not working? What could you change to put you back on track? What could you change so that you can establish new loftier goals? These are great questions to ask yourself when reviewing your Financial Plan and they will lead you in the correct direction to keep your business on track.

Conclusion

Being able to audit your business decisions using numbers will be a useful tactic in the management of your practice. Numbers eliminate the emotion that is present in so many decisions. They also allow you to see the cut and dry of whether or not the choices you have made were correct. You will undoubtedly make choices in your business that do not work out. The key is to recognize and acknowledge the mistake and change the situation. There is no shame in making mistakes as they usually become the strongest stepping stones on your way to success. However, refusing to acknowledge that you made a mistake and allowing this mistake to eat away at your business is a sure path to failure.

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Review Questions

1. What is not a way to increase your online banking safety?
    a. Create a complicated and unique password
    b. Use only one computer for banking
    c. Choose a bank with a reputable and tested online banking setup
    d. Do not worry about protecting the individual computer you use because you have the internet protection of the bank
2. What is the first strategy to implement when your revenues are on a downtrend?
    a. Stabilize the revenues
    b. Decrease your expenses to meet the new revenue level
    c. Try to increase revenue to create an uptrend
    d. None of the Above
3. True or False. Whenever you run into problems or have questions about your financial practices you should consult the financial section of your business plan.

*Answers to all review questions are compiled at the end of the course. Take the time to review your answers and go back into the text if you find any discrepancies between your answers and the answer key.

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Answers to Review Questions

Section 1

1. B
2. FALSE
3. B

Section 2

1. FALSE
2. B
3. B

Section 3

1. D
2. A
3. TRUE

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Business Finance Exam

1. What are variable monthly costs?
    a. Monthly expenses that occur every month at different times
    b. Monthly expenses that occur every month with a fixed amount
    c. Monthly expenses that do depend on how many massages you give
    d. Monthly expenses that do not depend on how many massages you give

2. If a massage therapist gives 40 massages at $50 a piece in one month and has $500 in monthly expenses, how much profit was earned in that month?
    a. $1000
    b. $1500
    c. $2000
    d. $2500

3. Which would not be a valid topic to cover in your financial plan?
    a. Your running expenses and break even points
    b. Past profit calculations and projections for the future
    c. The current marketing channels you have in place
    d. Your financial goals and current progress toward them

4. What should be the range of a margin of safety for a startup massage practice when computing monthly expenses?
    a. 25%-45%
    b. 30%-50%
    c. 25%-55%
    d. 15%-25%

5. What is not a benefit of keeping clean, organized and correct financial records?
    a. You will need them if you ever plan on applying for a business loan
    b. It is easier to review and analyze your business
    c. You don't have to worry about business statistics or trends
    d. None of the above

6. What is the best source of funding for massage practices whether it is to start a practice or to expand?
    a. Family and friends
    b. Savings
    c. Business loans
    d. All of the above

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7. When implementing your client specific policies what clients are exempt from your policies?
    a. Family and close friends
    b. Frequent clients
    c. Higher paying clients
    d. None of the above

8. What is the policy that requires clients to give you 24 hours notice if they are going to miss an appointment or be charged for the massage?
    a. Credit policy
    b. No show policy
    c. Prepayment policy
    d. Loyalty policy

9. Which is the best way to differentiate your practice from your competition?
    a. Pricing of massages
    b. Quality of the massage experience
    c. How often your practice is open
    d. Marketing promotions

10. What is not an example of a business liability?
    a. Cash
    b. Gift certificates
    c. Prepaid massage packages
    d. Business loan

11. The amount of cash you keep in your cash drawer every day to use for change is called _____.
    a. Variable cash
    b. Reserve cash
    c. Petty cash
    d. Pocket cash

12. How often should you be reconciling your sales?
    a. Daily
    b. Weekly
    c. Monthly
    d. Bi weekly

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13. What should you do if the amount of cash in your cash box at the end of the day does not match the total of your cash receipts?
    a. Redo the reconciliation to check for errors
    b. Nothing, take the cash currently in the box, the error will come up later
    c. Doesn't matter because you should only reconcile once a week
    d. Nothing, you must have just miscounted because you always collect the correct daily amount

14. How large should your reserve account be (in months)?
    a. 12
    b. 6
    c. 3
    d. Depends on the individual practice

15. A massage therapist charges $50 a massage. She expects her expenses to be $200 and her salary to be $500. How many massages does she need to give to meet her salary breakeven point?
    a. 4
    b. 10
    c. 12
    d. 14

16. Along with revenues, what other business metric should you track on a weekly basis?
    a. Inventory
    b. Prices
    c. Client visits
    d. Liabilities

17. What should you do in the event of down trending profits?
    a. Stabilize the situation
    b. Immediately cut expenses
    c. Both A & B
    d. None of the above

18. When should you discontinue any type of revenue producing strategy?
    a. When the costs are high
    b. When the costs outweigh the benefits
    c. After one year
    d. After two years

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19. What is not one of the preferred methods to create your business's financial statements?
    a. Hire a bookkeeper
    b. Hire an accountant
    c. Use a business accounting computer program
    d. Do the calculations by hand

20. How can you protect yourself when banking online?
    a. Use a reputable bank
    b. Create complicated passwords
    c. Use only one computer for banking
    d. All of the above

This completes the Business Finance exam.

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