

GMSB 227

[00:00:00] **Antony Whitaker:** Welcome to the Grow My Salon Business podcast, where we focus on the business side of hairdressing. I'm your host, Antony Whitaker, and I'll be talking to thought leaders in the hairdressing industry, discussing insightful, provocative, and inspiring ideas that matter. So get ready to learn, get ready to be challenged, get ready to be inspired, and most importantly, get ready to grow your salon business.

[00:00:26] **Antony Whitaker:** Hello and welcome to today's episode of the Grow My Salon Business Podcast. I'm your host, Antony Whitaker, and it's great to have you here with us today. Today, I'm going to be talking about the P word. And in case you're in any doubt about what the P word is, the P stands for profit. And as simple as it sounds, I can confidently say that it is one of the most misunderstood words when talking to salon owners and hairdressers everywhere.

[00:00:54] **Antony Whitaker:** But more of that in a minute. Let's just back up a bit first and we'll talk about why profit is important, and then we'll define what profit is, and importantly, the key to making more of it. When I do these podcasts, I don't just sit in front of the microphone and push the record button and start talking in the hope that something good comes out.

[00:01:15] **Antony Whitaker:** What I do is ask myself the questions, I then make a few notes and then I try and answer them. So today I started with the question, why is profit important? Or why do you need to make a profit? And I came up with six points. Now, the first reason as to why you need to make a profit is because you need to make a return.

[00:01:41] **Antony Whitaker:** What do I mean by that? Well, what I mean by that is that before the doors got opened on day one of your business, there was a lot of money spent by someone to make it happen. Whether that was for the architect or designers fee, the fixtures and fittings, meaning the chairs, the shampoo stations, the mirrors and the workstations.

[00:02:01] **Antony Whitaker:** Then there was the licenses you had to pay, the rent and the bonds that you had to put up as security, the build out for the plumbing and the electrics, the painting and decorating, the insurances, lighting, the flooring, the graphic design, the sign writing, the opening order, the inventory, the point of sale system, the professional fees for accountants and lawyers.

[00:02:24] **Antony Whitaker:** I'm sure you're getting the idea. It's ka ching, ka ching, ka ching all the way. And whether it was 50,000 or 500,000. Someone had to tip a lot of money in, order to get the business open on day one. And whether that someone was you, or your family, or the bank, or an angel investor, or wherever that initial investment came from, someone needs to be paid back.

[00:02:51] **Antony Whitaker:** And that is what is meant by the phrase, a return on investment. And that is only going to happen if the business makes a profit. So the first

reason why a business needs to make a profit is that there needs to be a return on the initial investment, meaning that it needs to be paid back.

[00:03:10] **Antony Whitaker:** And usually, it needs to be paid back with interest. Now, the second reason that the business needs to make a profit is so that it can reward the owners. Now, reward isn't the same thing as being paid back, and it definitely isn't the same thing as what you are paid for the work that you'll be doing in the business every day.

[00:03:32] **Antony Whitaker:** The reward is for the risk that was taken to get the business open. The reward is for the hundreds, if not thousands, of unpaid hours that you put into the business. The sleepless nights, the stress, the missed family time, and the sacrifices that every business owner has had to make. The reward is the profit that is left over in the business after everyone and everything else has been paid.

[00:03:58] **Antony Whitaker:** But more about that later. The third reason that the business needs to make a profit. So that it can grow and expand, meaning that after the initial setup costs have been paid back, then you may want to grow and expand the business. But in order for that to happen, the business has to be profitable so that it can finance that growth and expansion. Remember that growth and expansion does not just mean opening more salons. It may mean that, but it may also mean expanding within the space you have or relocating to another space, or it may mean the refit.

[00:04:39] **Antony Whitaker:** At some point of your existing premises, but regardless of what growth and expansion means to you, ideally, it needs to be financed by the profits of the business. Otherwise, you're back to the beginning and looking for investors or loans to finance that growth and expansion. And remember, that needs to be paid back and with interest.

[00:05:01] **Antony Whitaker:** The fourth reason that the business needs to make a profit is to enable you to give back. Now, giving back is good to do, whether that means giving back to the industry in the form of money or in the form of time, Or giving back to the wider community that you're located in.

[00:05:21] **Antony Whitaker:** Or giving back to any causes that you and your family or your team Feel passionate about. The point is that if you don't have it, you can't give it. So in order to be able to give back in any context, it means that you have to be profitable. Now, the fifth reason that a business needs to be profitable is so that it is saleable, meaning that ideally one day you will want to sell your business, and in order for it to be saleable, it needs to be profitable.

[00:05:54] **Antony Whitaker:** Otherwise, who do you think is going to buy a business that doesn't make a profit? And the sixth reason that a business needs to be profitable is so that you, as the owner, can create other income streams. The reason that's important is because as the owner, if all your wealth is tied up in the business, you are financially vulnerable.

[00:06:16] **Antony Whitaker:** So you should always look for ways to create other income streams through investments, whether that's in property, or investing in other businesses, or in the stock market, or any other form of investment that's away from your salon. Ultimately, the point is that the goal is that you need to create financial security so that one day you can retire.

[00:06:38] **Antony Whitaker:** And unless you make your money work as hard for you as you work for it, then you won't be able to retire or at least won't be able to retire with the lifestyle that you desire. So that's my six reasons as to why your business needs to make a profit. I'm sure that you can probably come up with some more, but those six reasons on their own are a sound enough reason to me to say that you need to build a profit factor into your business.

[00:07:06] **Antony Whitaker:** Now the next question to answer is what exactly is profit? And as I said at the beginning, as simple as it sounds, it's an area where there's a lot of confusion. Let me explain. There was a point in time where you went from saying, one day I'm going to open my own business. And instead you said, I am opening my own business. In other words, it changed from just being a good idea to actually making the decision to do it and good on you. And underlying that decision was the belief or the desire to not just be your own boss and be in control of your destiny, et cetera, but there was a desire to make more money.

[00:07:50] **Antony Whitaker:** And that is where the word profit entered your vocabulary, so to speak. Because like most people who open a business, you probably started by literally knowing nothing about business, but knowing plenty. About the work that gets done in the business. In our case, that's the work of hairdressing. And as has been said before, the work that gets done in the business, in our case hairdressing, is very different to the work of building and running a business.

[00:08:19] **Antony Whitaker:** But no matter how many times you heard that said, or no matter how many times you read it, it's not until you get the keys to the door, so to speak, that you truly begin to understand what it means. You opened A business with the ambition of making money. And I don't just mean making a living. Because just making a living is a lifestyle business.

[00:08:40] **Antony Whitaker:** But building a proper business means that the business makes a profit over and above paying you a salary for the work that you do. So let's start at the beginning and define what profit actually is because not understanding that is where the problem starts. Now, assuming that you are not just a business of one.

[00:09:01] **Antony Whitaker:** The mistake that many salon owners make is thinking that once they get the money into the business and then they pay the rest of the team and all the bills, then what's left is the profit. But the bit they leave out is that they haven't paid themselves, and they think of the profit as their wages. But the net profit is what is left over after everything else has been paid, including paying you, the owner, for the work that you do.

[00:09:30] **Antony Whitaker:** Now that's so important I'm going to say it again. The net profit. Is what is left over after everything else has been paid, including paying you the owner for the work that you do. So once you've paid all the bills, and that includes paying yourself properly, then what typically happens in the salon industry is that there isn't a huge amount left over.

[00:09:53] **Antony Whitaker:** Now let me just say that the salon industry all over the world is not renowned for having reliable data. But one thing that consistently comes up is that the profit margins in our industry are typically, on average, somewhere between 0 and 8 percent. Now just to be clear, if you make a quick visit to Google and ask the question, What profit percentage does the typical small business make?

[00:10:19] **Antony Whitaker:** Notice I said small business, not salon. But ask the question and you'll get an answer saying, 10 percent net profit margin is considered average. A 20 percent margin is considered high or good, and a 5 percent margin is low. So salons are at the lower end of the profit scale, and the majority of them are a lifestyle business.

[00:10:44] **Antony Whitaker:** Now, a lifestyle business simply means a business that gives the owner a good lifestyle,

[00:10:49] **Antony Whitaker:** Meaning that the revenue the business generates covers all the business overhead, they pay themselves properly, they are their own boss, they take an occasional holiday, and are in control of their destiny. But there is no, or very little, net profit. Thus, the term lifestyle business. Now, let's be clear. There are some salons that are not a lifestyle business and do genuinely make a lot more than 5, 10 or 20 percent clear profit.

[00:11:18] **Antony Whitaker:** But it's not the norm. And when I meet someone who says that they make more than that, there is usually something very different about their business model. Or alternatively, let's just say that they have a different definition of what profit is and it's not the same definition that they teach in any recognized business school.

[00:11:37] **Antony Whitaker:** So once again, the net profit is the difference between total sales and total costs. The emphasis is on the word total, meaning everything that came in and everything that went out, and what is left is the net profit. Now I think part of the reason that there is sometimes a misunderstanding about profit is that there are three main types of profit.

[00:12:02] **Antony Whitaker:** Gross profit, Operating profit and net profit. So, let's talk about them one at a time, starting with gross profit.

[00:12:11] **Antony Whitaker:** Gross profit is the biggest. It shows what money was left after paying for the products that are directly related to the services being done. And in a service-based business, your accountant will usually also include the salaries of the service

providers as a cost of sales. So, on a profit and loss report, underneath the income section, there will typically be a section called cost of sales or cost of goods sold.

[00:12:43] **Antony Whitaker:** And in the hair and beauty industry, that will typically be the cost of the professional use product, and in some cases, your accountant might also include the salaries of the service providers. Either way, they are referred to as the cost of sales or cost of goods sold, which is sometimes abbreviated to the letters C-O- G--S.

[00:13:06] **Antony Whitaker:** And when subtracted from the total income, the result is what is referred to as the gross profit. Now, operating profit is next. An operating profit shows what's left after also paying the operating costs, such as insurance. Rent, electricity, phones, the non-income producing staff, and the owner's salary.

[00:13:33] **Antony Whitaker:** And then, after that's taken out, we have the net profit, which comes last. It shows what you made after deducting all the cost of sales and all the operating costs and the tax. Now, in theory, the net profit is a portion of the income that you get to keep. Now I say in theory because sometimes, as the owner, you can keep all or part of the net profit.

[00:14:00] **Antony Whitaker:** Alternatively, you may decide to keep the net profit in the business as what is referred to as retained earnings, meaning money in the bank as a financial buffer. Now, a good example of why you should do that is in the event of any situation that prevents you from working, such as a pandemic or an earthquake or floods or fire or political or social unrest or any accident or health issue that prohibits you from working, then you at least have a cash fallback position.

[00:14:35] **Antony Whitaker:** Ideally, you should have enough money to allow the business to survive and pay all its bills for six months. The reality is, though, that very few salons have that, and so when there is a problem for the business, it can very quickly bankrupt the business. So aside from keeping some or all of the profit in the business's retained earnings, the net profit is also what is used to pay back any loans or to reinvest back into the company for the purpose of growth and expansion.

[00:15:07] **Antony Whitaker:** And then, if there is still some profit left, it can be distributed to the business owners. So, we have answered the question, why is profit important? We've answered the question, what exactly is profit? And so, the final question is, how do we increase the profit in our business?

[00:15:29] **Antony Whitaker:** **There are two ways to increase the profit.** The first way is to increase the total income without a proportionate increase in the outgoings. Meaning that there's no point in increasing the total sales by 100, 000 a year if the outgoings have also increase by 100, 000 a year, because that leaves you in exactly the same place as far as the profit goes, which is a good example of why bigger is not always better.

[00:15:59] **Antony Whitaker:** The second way to increase the profit is to reduce the outgoings, meaning reduce the expenses in the business.

[00:16:07] **Antony Whitaker:** And as the business owner, that is one of your jobs to focus on growth and profitability. Your job is to have a vision for the financial future of your business and to make it happen. And that's your job because the financial success of your business doesn't just happen on its own. You have to plan for it.

[00:16:27] **Antony Whitaker:** But the problem is that most salons don't have a financial plan. Most salons are simply focused on short term survival and meeting their short-term financial commitments. They have no plan at all except to work hard and hope that they succeed. But hope and hard work on its own are not a reliable strategy for financial success.

[00:16:49] **Antony Whitaker:** So how do you do that? Well, the starting point for any plan is to have an outcome in mind, a goal or a clear target for what you want to achieve. Because without a target, you have nothing to aim for. So what is the target or goal for your profit or profit margin? Because as the owner of the business, if there is one number you should know.

[00:17:11] **Antony Whitaker:** But unfortunately, when you ask most salon owners either What was your profit last year? Or what percentage of your total sales was profit last year? You will usually be met with a blank stare Or a comment such as Well, I'll need to talk to my accountant to get that information However, if you were to ask that salon owner How much do you weigh?

[00:17:35] **Antony Whitaker:** They would be able to tell you the exact amount. And then if you ask them, what's your ideal weight, they'd probably have a number for that too. And if you ask them, do you have a plan to get to and maintain your ideal weight, well some of them would also have a plan for that. And yet when it comes to their business, in most cases, salon owners don't know what the single most important number is or what they would like it to be.

[00:18:00] **Antony Whitaker:** And as a result, there is no real plan in place other than to work hard and hope. Remember, if a business isn't profitable, it doesn't survive. So a business's primary function is to make a profit, and that is down to you. The golden rule of business is to control your costs and increase your revenue. Now, as you already know, as a very successful hairdresser and former salon owner, I have developed an online money course with the goal of helping salon owners just like you to master their understanding of the numbers in business and to take control of all the necessary financial aspects of running and growing a successful salon.

[00:18:46] **Antony Whitaker:** It's not about turning you into a bookkeeper or an accountant. It's about giving you the tools and developing your understanding of the financial aspects so that you are in control of your financial future. The fact that this course is online allows you to work through it at your own pace with the support of myself and other salon owners that are also going through the course.

[00:19:09] **Antony Whitaker:** The course opens for enrollment on Monday, January the 15th, and it's open until January the 25th. If you want to find out more about it, visit growmysalonbusiness.com forward slash course forward slash money. And I'll make sure I put that link in today's show notes. So we need to start wrapping up this episode. If you want to find out more, then visit us at growmysalonbusiness.com or on Instagram, also at [grow my salon business](https://www.instagram.com/growmysalonbusiness). And I'll put those links in the show notes for today's podcast. So to wrap up, thank you for listening to this week's episode of the grow my salon business podcast. And let's make this the year that you get financially savvy.

[00:19:55] **Antony Whitaker:** Thank you for listening to today's podcast If you'd like to connect with us you'll find us at [Grow My Salon business.com](http://GrowMySalonbusiness.com) or on Facebook and Instagram at [Grow My Salon business](https://www.instagram.com/growmysalonbusiness) And if you enjoy tuning into our podcast make sure that you subscribe like and share it with your friends Until next time this is Antony Whitaker wishing you continued success