

## GMSB 245

[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.

[00:00:27] **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. Thank you for the compliments regarding the podcast. I really do appreciate it. And if you're one of those people who haven't yet left us a review for the podcast, I would love it if you did.

[00:00:46] **Antony Whitaker:** Ratings and reviews are extremely helpful. They do matter in the rankings of the show and it helps other people to find the podcast. I also love to hear what's been helpful. All you need to do to leave us a review is to go to the Apple podcast app, search Grow My Salon Business, scroll to the bottom of the page and leave a review, and you would make us very happy.

[00:01:07] **Antony Whitaker:** So, with that said, on with today's show. What's your number? Now, I'm sometimes asked what is the most important number that you should focus on as either a salon owner, Or as a hairstylist and I've answered that question before, but usually I'm coming at it from the angle of productivity or growth. But there's one number that we don't talk about enough in this industry

[00:01:34] **Antony Whitaker:** and that's probably because although it sounds simple to understand, it isn't always that easy to work out. And even though if pushed, most salon owners will take a stab at answering it. The reality is that when you dig a little deeper, they admit that it's really just a guess, and it's based on a few facts and a lot of guesswork.

[00:01:56] **Antony Whitaker:** So what's the number I'm talking about? It's the number that represents the amount of revenue you need to generate each week to keep the doors open and pay all the bills, including your personal income. And that number is referred to as your breakeven point or breakeven number. Breakeven is the point when your total sales equals your total costs.

[00:02:23] **Antony Whitaker:** Breakeven is the point at which your business starts to make a profit. And the breakeven point is the number that you have to achieve every week, because, well, if you don't, you are losing money for that week. So how important is it that you know what your breakeven point is? Well, I think it's essential.

[00:02:44] **Antony Whitaker:** So if you're a salon owner listening to this, What is your breakeven point? What is the minimum amount of revenue that you need to produce each week to avoid running at a loss? Now, obviously, that's a rhetorical question, but the reality is that most salon owners can't accurately answer that question.

[00:03:04] **Antony Whitaker:** At best, they'll make a half hearted guess and they'll say, well, let me see there. Rent costs me this each week, and my wage bill is usually about that, and the product costs are usually about such and such each month. And very quickly, they will start drowning in numbers, and then they'll say something like, Look, Antony, there are so many moving pieces in my business and it's impossible to nail it down to one number.

[00:03:30] **Antony Whitaker:** After all, the commissions vary, product use fluctuates depending on how busy you are, and Many of our expenses fluctuate throughout the year or perhaps they're only paid once a year and I get it I totally understand what the challenges are to arrive at a reliable number

[00:03:53] **Antony Whitaker:** There is an easy way of doing it and for a while, it's what I used to do until I realized the shortcomings that came with it. And so I learned how to do it properly. But before I talk about how to do it properly, let me explain what the easy way is, because that's what It's something you might already be doing and although I always say it's better than doing nothing at all, you need to understand the downside of it.

[00:04:19] **Antony Whitaker:** Okay, so the easy way is to get last year's profit and loss and work it out from that. So let's imagine that on last year's P& L, I had total sales of 500, 000 and then I look at the profit amount on the P& L and let's imagine that that said 50, 000. Well, I'd subtract the 50, 000 profit from the total sales of 500, 000.

[00:04:45] **Antony Whitaker:** Which would leave me with 450, 000. And I'd use that as my breakeven number for the year. Then I'd divide that 450, 000 a year

by 52 weeks to get a weekly breakeven. In this example, that would be 8, 653. Now, just to be clear, having that number is better than nothing, and it's a really good reference of what the breakeven was for last year.

[00:05:18] **Antony Whitaker:** But here's the problem. Those numbers are based on last year's profit and loss, and if you've had a rent increase since last year, or if your product costs have gone up since last year, and if your wage bill has gone up since last year, or if you have COVID loans that you now have to repay. I'm sure you're getting the idea because if you have had any of that happen, then you're working out this year's breakeven on a business.

[00:05:45] **Antony Whitaker:** That effectively no longer even exists. And that's where the problem starts. Because if you don't know what your breakeven point actually is for this year, then there's a very good chance that you're working really hard, but you are, in fact, losing money. Now obviously, you can't keep that up for long.

[00:06:06] **Antony Whitaker:** And so what typically happens is that you reduce the amount you're paying yourself. Then you'll max out your credit cards. Then you'll exhaust your ability to get loans and overdraft facilities from the bank. And then you'll borrow money from family and friends until you can no longer ask them for help.

[00:06:22] **Antony Whitaker:** And at that point, you are then in the situation of not being able to pay your bills, And it's only a matter of time before it's all over. Recently I was talking to a supplier who deals with hundreds of salons and they were telling me the cold hard facts about the number of salons that they do business with that are closing their doors for good every month.

[00:06:44] **Antony Whitaker:** It was something like 13 in February, 15 in March, 12 in April. These are real salon businesses that are just calling it quits. And they are just the tip of the iceberg. And it's not because they can't do balayage and beachy waves, and it's not because they don't have 20, 000 followers on Instagram or a great looking salon, and it's not because they don't work hard.

[00:07:10] **Antony Whitaker:** It's because they didn't know what it was costing them each and every week to breakeven. And eventually, they close the doors because they are no longer profitable. Their business is running at a loss. And

they just can't keep going any longer. And that's why you need to know what your breakeven point is.

[00:07:32] **Antony Whitaker:** It's essential. Because if you're averaging under the breakeven number, you're losing money every week. Week after week after week. And then the only question is, are you losing 100 a week or 200 every week? And more importantly, how long can you sustain those losses for? Because eventually, every business owner will reach the point where they will say, enough.

[00:07:59] **Antony Whitaker:** I've had enough. I can no longer go on. But enough of the doom and gloom, because There is an alternative. If you know what that breakeven number is, and it's a very real number, then you have something to compare your results against each week. And if you can see that you're losing money, you then know that you have to take action.

[00:08:21] **Antony Whitaker:** You have to find ways to increase sales and reduce expenses. Now, most salon owners just keep focusing on the top line, meaning how do I increase the total sales revenue that is being produced? But on its own, that isn't enough because no matter how much your total revenue increases, you have to know the impact that it's having on the bottom line, which is the profit.

[00:08:46] **Antony Whitaker:** Because if there's no profit, then you're still running at a loss. So I'm not saying that focusing on increasing sales isn't a good thing because having a focus on increasing your total sales is always a good thing. But if the increase in total sales is matched by the expenses that you have to make to get those sales increases, then you're still in the same place.

[00:09:09] **Antony Whitaker:** Meaning that there's no point in producing another 100, 000 a year if it costs you 100, 000 in extra wages and product costs, et cetera, in order to do it. So it's not just about focusing on increasing sales. It's also about reducing or maintaining your expenses while those sales increase. So what expenses do you or can you reduce?

[00:09:36] **Antony Whitaker:** well, without getting down into the weeds on this podcast too much, you have to start by understanding that expenses come in two different kinds. First you have what are called fixed expenses.

[00:09:50] **Antony Whitaker:** And secondly, you have the variable expenses. Fixed expenses are things that you have to pay even if the salon was closed for a week. So the obvious example of a fixed expense is usually rent, which has to be paid regardless of how many clients you did or how much you generated in total sales.

[00:10:08] **Antony Whitaker:** And the fixed expenses are costs that you usually have limited options to reduce. Then we have the variable expenses, which, as the name suggests, vary along with the number of clients you do and the amount of revenue you produce. An obvious example is commissions, which will increase as the total revenue increases.

[00:10:30] **Antony Whitaker:** So it's important to understand that every expense in your business is either a fixed or variable expense or a variable expense. And if your business isn't breaking even, then as well as looking at ways to increase total sales, you need to be looking at ways to maintain or reduce your variable expenses as you increase the total sales at the same time.

[00:10:53] **Antony Whitaker:** So how do you work out your breakeven point? Well, it's a simple formula, which is, Fixed costs divided by contribution margin ratio equals the breakeven point. So that's the formula. But until you understand how to work out your fixed costs, and what is meant by the term contribution margin ratio, and how to work it out, well, you're probably no better off.

[00:11:23] **Antony Whitaker:** so I don't mean to tease you, but on June the 3rd we will be relaunching our online money course where we will go into a lot more about all things financial including working out your breakeven that every salon owner not only needs to know, but you have a responsibility to know and understand.

[00:11:44] **Antony Whitaker:** Now that doesn't mean you have to be an accountant or a bookkeeper. What it means is that you have to have enough knowledge to understand what the accountant and bookkeeper are doing, so that you know what questions to ask them in order for you to be able to make smart financial decisions for your business.

[00:12:04] **Antony Whitaker:** So if you want to find out more, then visit us at [growmysalonbusiness.com](http://growmysalonbusiness.com) or on Instagram at [growmysalonbusiness](https://www.instagram.com/growmysalonbusiness). And I will put those links in the show notes for today's podcast on our website. So to

wrap up, thank you for listening to this week's episode of the Grow My Salon Business podcast.