FREEDOM

Week One

NUMBERS 101

Welcome

FREEDOM

KNOWING YOUR NUMBERS

'A YEAR FROM NOW YOU MAY WISH YOU HAD STARTED TODAY'

- Karen Lamb

I still remember the day I finally finished creating our money box for fees in woodwork class. I'd been working on this box, where the lid slides on and off, so parents could place their fees in an envelope with the cash inside and we could just pop it in the box. I'd then go home after each night and reconcile the payments with what was in the spreadsheet. Hello, manual labor!

Today, though, times have changed. We can do everything online. We have studio software with cloud-based accounting systems. We have apps for our tablets and smartphones, and we can set up all our customers on autopay systems so all we need to do is push a button and money gets popped into our bank account. These days, there is so much more to keep us on track when it comes to the finances in our business.

With new ways of doing things and more options, it has created confusion for studio owners globally around what works and what numbers you really need to know to grow your business without needing to be an accountant - and without it sucking up all your time.

This week is about you getting comfortable with the important numbers in your business. Don't worry, I never enjoyed knowing or looking at any of the numbers in my studio until I found someone who could break it down, tell me exactly what to focus on and how to interpret them in a way that would help me grow the business and deal quickly with any red flags. And that's exactly what I'm going to give you here.

FINANCIAL FRIDAYS

I'm going to share with you one of the best things we implemented into our studio and in fact, every other business I have created and sold - and that's Financial Fridays. For 60 minutes each Friday morning, I go through all the important figures in the business. And when I say figures, I'm not just talking about money in and money out - I'm talking about being across where all your numbers are at including new student enrollments, drop outs and so on. Right now I want you to open your calendar and block out the same 60 minutes every Friday for you and the numbers to get familiar with each other. Don't break this commitment for anything; it's an important one and as we walk this through, you'll understand why!

STAY WITH ME

I want you to make me a promise – that you'll stay with me while we dig into all things money and finances. As an industry, we need to be able to talk more openly about money. Just like the local hairdresser, beautician or mechanic, we are providing a highly valuable service that needs to be paid for. Do you have fear or guilt around money or think that running your studio out of pure passion is enough? It's not. You will only last so long on the passion journey before you end up working 70 hours a week, earning no money... and that passion will quickly fade, replaced with a bitter, angry studio owner. My aim is to stop this happening!

Remember, it's you who is changing the lives of your students every day. As we all know, dance classes are so much more than just dance classes; they provide you with life skills to become the best version of yourself. You deserve to be paid for that.

IF YOU FAIL TO PLAN, YOU PLAN TO FAIL

Two staple documents that every studio owner needs to have in place: a one-page list of projected expenses and income for that dance season. This is where we put our money where our mouth is. As an aside, if you're reading this and you're halfway into the season no problem, do it for the rest of the season - no excuses, okay?

If you have the data available, a great place to start is by looking back over the last two years and reviewing your income and expenses. If you're a new studio owner you have the opportunity to jump in with both feet and create the figures you want (you'll want to do a little research first).

Once you have the numbers in place, it's time to sit with your goals and figures from the previous years and work out where you want to be financially in terms of income, expenses and profit for the next 12 months.

I still do this each year, and I absolutely love it. I dedicate a few hours a day in the morning across a week to come up with my financial plan and targets that scare me, yet don't seem unrealistic, because there's a fine line.

When it comes to holding all business-related documents, I'm a Google Drive fan and suggest you set up your free account there as well. Once you've done that, you can set up a simple Google Sheet, where all your numbers can live.

For the projected expenses that are relevant for your studio, you'll need to look at a wide range of things:

General: Accountants bills, bathroom items, books, courses, training, leaners, client drinks and food, costumes, event venue hire, external venue hire (concert), furniture, gifts (staff and students), insurance, stationery, subscriptions (online software), uniforms, virtual assistant, website costs merchandise, music royalties, etc.

Marketing: General, live events, online, partners, print

Travel:air/accom, rent/studio, hire/repayments

Shop: snack and drinks

Staff Wages: office staff, owner(s), teachers

Studio Equipment: mirrors, sound system, studio phone, studio, repairs and renovations

Utilities: gas, water, electricity, internet, mobile phone

Every studio is different, but you'll be able to see from previous years where your money is going and put in some solid estimates. Make sure you break it up into daily, weekly, monthly and yearly expenses so you can really see what you're working with.

GETTING SAVVY WITH YOUR EXPENSES

For dance studio owners, I know the margins can be very slim, particularly if you have high rent and a big team. I want to share with you four simple ways to reduce business expenses. None of these are necessarily 'secrets', but simply things that many studio owners either don't know or forget to do. When done correctly, any one of these items will reduce your expenses significantly and allow you to sleep better at night knowing that you have a solid grip on your business.

But before I give you these tips, I want you to know that not all expenses are bad. On the contrary, many expenses we pay out in our business actually allow us to grow it. Ideally, you want to drive up profits in your studio and to do that you may need to dish out some more cash into the right areas of course - like marketing, but more on that soon.

SO, THE FOUR 'SECRETS'...

one

REDUCE UTILITY COSTS

The first step to reducing utility costs is to look closely at what items you are paying for. For example, telephone rates have been dropping for years. If you have had the same plan for more than a year, you should revisit it and look at areas for potential savings. It's worth looking at your mobile phone bill, insurance bills, office telephone bill, and even your electricity bill. For your electricity, you might not have a choice of providers, but you can look at using appliances and lighting that are designed to save energy.

two

ALWAYS ASK FOR A DISCOUNT

From toilet supplies to your internet service, frequently discounts are available for many of the items that you purchase – you just need to ask. You can often receive a discount for signing a contract or purchasing an additional needed service, but if you don't ask, you don't get!

three

CUT OUT PAPER

In this day and age, almost everything that you need to do for your office and marketing can be done digitally. It's oh-so-easy to maintain all of your records online, use email to communicate, and do much of your marketing and advertising online. Not only are you helping the environment, but you're reducing expenses and giving yourself access to all of your information from anywhere.

four

BARTER, EVERY CHANCE YOU GET

Look for opportunities to barter as often as possible. It's likely that you work with businesses that could use your services, so you can barter those services for theirs. For example, if you need a caterer for an open day/house, you might have a student whose parent is a professional caterer - you may be able to barter studio tuition for food at your event.

INCOME INSIDE THE STUDIO

Once you have projected those expenses it's time to look at your income; the revenue that is flowing into the studio. Let's identify where you may be generating income from: birthday parties, costumes, exams, group lessons, merchandise, private lessons, recital/concert, shop - snacks and drinks, studio hire, sponsorship, uniforms, workshops, VIP program etc.

Remember, what we are doing on this first step is projecting what we want to achieve financially with our studio over the next 12 months. As a reminder, have your goals next to you when you do this so you have consistency and clarity on where you are headed.

Once you have sat down and worked out your projected expenses and income for the year, you'll have a clearer understanding of the expected profit that you will generate, which you can then allocate to further education, big ticket studio purchases staff etc. We might think, 'Ugh, numbers'… but this is a really exciting task to do! Picture it now - seeing exactly where you want to head financially with your studio on one page that you can revisit daily. Do yourself a favor and don't skip this important step, otherwise everything else you learn in this book won't make as big an impact as it could.

I am no accountant, but one of the best things I did early on in my business was seek out the best financial advisors. Every studio owner should have an accountant who they can work with on finances and taxes for their business.

Once you've done the above exercise around your projected figures, organize a time to meet with your accountant to go through it, ask for their advice and most importantly, have them hold you accountable to your goals.

Fun Financial Reports To Focus On
Each week in your studio on Financial Fridays, I'm encouraging you to focus on just three reports.

1) Profit & Loss Statement
2) Balance Sheet
3) Weekly Report

Each of these reports will show you exactly where you're at in your studio, highlight any problem areas and allow you to really understand what's going on financially in the business. No matter what staff you have supporting you in your business, it's crucial for you, the studio owner, to be across all aspects of how the business is performing financially.

Back when I started running the studio and my mentor told me that I needed to have a more intimate relationship with the numbers in the studio, I was not impressed. In fact, I was highly resistant! It took me about six weeks to get on board but as soon as I did, our business started to grow - and I started to fall in love with the numbers. I'm hoping it doesn't take you six weeks, but I can assure you that once you start to pay attention and look at these three reports, the way you view and operate your studio will change for the better.

LET'S WALK THROUGH THESE THREE REPORTS NOW...

PROFIT & LOSS STATEMENT (INCOME STATEMENT)

Your profit and loss statement (also known as your P&L or income statement) is the most popular and most common financial statement in any business plan. It's the financial statement that bankers and investors will flip to first when they're reviewing your business plan.

The P&L tells you if your company is profitable or not. It starts with a summary of your revenue, details your costs and expenses, and then shows the all-important "bottom line"—your net profit. Want to know if you're in the red or in the black? Just flip to your P&L and look at the bottom.

Here's a quick run-down and explanation of what each section means and where the numbers come from.

Revenue:
Revenue, also called the "top line" of the P&L, is the money that you're bringing in from your sales. If you're a non-profit, this would be money raised from fundraising. Usually, a company will have a separate table that details their sales and then bring the total sales number over to the P&L.

Of course, revenue is a pretty critical number as it's what you need to cover your expenses. The lower your revenue number, the lower your expenses need to be in order to stay profitable.

Direct costs:
Direct costs are also known as cost of goods sold (COGS). These are the costs that you incur when you make your products or deliver your services. You don't include things like rent or payroll here, but you would include the things that directly contribute to each sale.

For example, for a dance studio, the direct cost of uniform is what you paid to buy the uniforms from the manufacturer. For the manufacturer, direct costs would include the cost of the fabric and thread used to make the garments.

Gross margin:
Subtract your direct costs from your revenue and you have your gross margin.

Revenue – Direct Costs = Gross Margin

Gross margin tells you how much money you have leftover to cover your expenses after you've covered the cost of the product or service you are selling. For example, if you buy a widget for $1 and sell it for $3, your gross margin would be $2.

The gross margin percentage represents that number as a percentage—the higher the number, the better. You calculate that percentage by dividing your gross margin by revenue:

Gross Margin / Revenue = Gross Margin %

When you have a high gross margin, that means that it costs you very little to deliver your product or service and you'll have the majority of the money from every sale left over to cover your expenses.

Interest:
Here's where you'll include interest payments that your company is making on any loans that your company has.

Depreciation and amortization:
These are special expenses associated with assets that your company owns. Over time, assets (like vehicles and large pieces of equipment) lose their value or depreciate. You'll expense that decline in value here.

Taxes:
Any taxes that you pay or expect to pay on your sales show up here.

Net profit:
Also known as net income or net earnings, is the "bottom line" that you hear about so much. You started with your revenue as your "top line" and then subtracted things as you went: direct costs, operating expenses, and so on. What's left over is your profit, or potentially your loss if you ended up spending more than you earned.

BALANCE SHEET

A balance sheet is a snapshot of what your studio owns (assets) and owes (liabilities) at the time of running the report (weekly or monthly). Your balance sheet is split into three areas:

- Assets – including cash, equipment (barres, mirrors, laptops), goodwill, money owed to business, stock
- Liabilities – including credit card debts, loans, money owed to suppliers and tax liabilities
- Owner's equity – the amount left after liabilities are deducted from assets

WEEKLY REPORT

Your profit and loss statement and your balance sheet are generic financial reports that every business needs to generate, but the weekly report is something I created just for our dance studio owner clients. It gives you a glimpse at how your business is performing in all its key areas and compares your results this week to last week, and month to month. Again, you can create your report in a Google Sheet, which means you can have your team edit the document so that everyone knows how you're tracking.

Your weekly report should include the following statistics; make sure you track them every single week. Consistency is KEY!

FINANCES

- Fees Paid
- Fees Outstanding
- Other Income Paid
- Other Income Outstanding
- Staff Wages Paid
- Other Expenses Paid

STUDENTS

- Current Student Numbers
- Current Total Families
- Attendance %
- New Student Enquiries
- New Students Came In
- New Student Enquiry Enrolments
- Conversion Rate %
- Student Drop Offs
- Exit Surveys Sent
- Percentage Drop Off %

CUSTOMER SERVICE

- Concerns & Complaints Received
- Solutions Provided
- Feedback Forms Received
- Testimonials Received

TEACHERS

- Current Teacher Numbers
- Feedback Forms Received

MARKETING

- Database Numbers
- New Facebook Likes
- Total Facebook Likes
- Total Facebook Posts
- New Instagram Followers
- Total Instagram Followers
- Total Instagram Posts

STUDIO FINANCE MADE EASY & FUN-ISH!	
SALES	This is the money you make by selling your services and products.
COST OF GOODS SOLD	All of the costs used to create a product or service.
GROSS PROFIT	The profit your company makes before paying for overhead and general business expenses.
TAXES	This is the money you set aside to pay your taxes. (20% of gross profits)
EXPENSES	This is the money you spend in your business. If you pay yourself a salary, this number is also included.
DISTRIBUTIONS	This is the money you can take out of the company for yourself.
NET PROFIT	Cash In The Bank: This is how much you keep after you pay expenses and take distributions.

MAPPING OUT YOUR REVENUE STREAMS

1. Birthday Parties
2. Costumes
3. Group Lessons (Recreational)
4. Group Lessons (Competition)
5. Merchandise
6. Private Lessons
7. Recital/Concert
8. Shop – Snacks & Drinks
9. Studio Hire
10. Uniforms
11. Workshops & Camps
12. VIP Program

HOW TO TRACK YOUR NUMBERS IN EACH REVENUE STREAM

1. What are your monthly sales for each stream?
2. What are your monthly costs for each stream? (only expenses to run the stream not general expenses)
3. What profit are you making from each stream? (this is your gross profit).

GROUP CLASS EXAMPLE

1. What are your monthly sales for each stream?
$10,000 per month in sales for group classes
2. What are your monthly costs for each stream?
$3,000 per month in instructor expenses
3. What profit are you making from each stream? (this is your gross profit).
$7,000 per month in gross profit (sales - expenses = gross profit).

THE RESULT IN A SPREADSHEET

1. What are your monthly sales for each stream?
2. What are your monthly costs for each stream?
3. What profit are you making from each stream? (this is your gross profit)

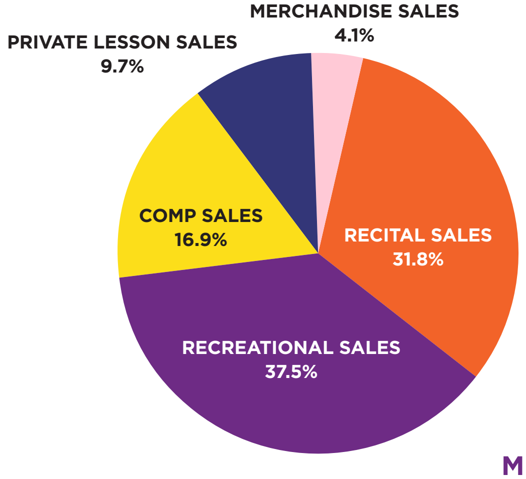
	SALES	EXPENSES	PROFIT
MERCHANDISE	1250	644.6	605.4
RECITAL	9770	4322	5448
RECREATIONAL	11551	3100	8451
COMPANY	5200	4198	1002
PRIVATE LESSONS	3000	2000	1000

NEXT YOU NEED TO WORK OUT...

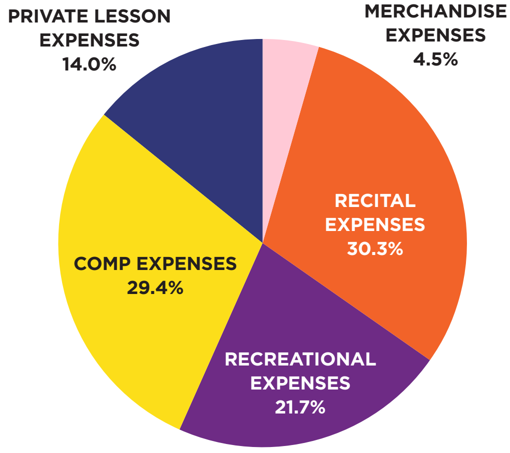
1. What is your total monthly revenue? (add up all your sales)
2. What are your total monthly expenses? (add up all your expenses from each revenue stream)
3. What percentage of your monthly revenue does each revenue stream account for?
4. What percentage of your monthly expenses does each revenue stream account for?

GETTING CLARITY ON THE NUMBERS!

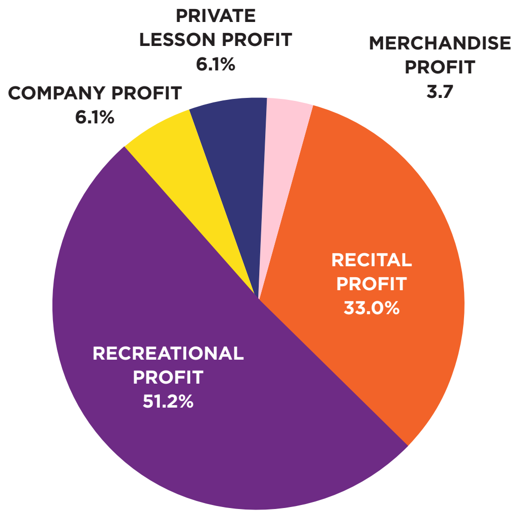
MONTHLY SALES



MONTHLY EXPENSES



MONTHLY PROFIT



SOME STANDARDS TO PLAY WITH

1. Staff 20-30% of gross profits (no more than 40% including teachers pay and your salary)
2. Rec class sales need to be at least 3 times the amount of money you pay teachers
3. Marketing 10-20% of gross profits
5. Net profits at least 10% of gross profits
5. Save for your future : 10% + of gross profits
6. Cash 2-3 months of average business expenses

QUESTION TO ASK YOURSELF

YOUR FINANCIAL TEAM

Do you have an office manager who looks after the day to day finances in your business (accounts payable receivable)? YES ☐ NO ☐

Do you use accounting software? YES ☐ NO ☐

Do you use studio software? YES ☐ NO ☐

Do you have a bookkeeper? YES ☐ NO ☐

Have you implemented a direct debit system? YES ☐ NO ☐

Do you have an accountant (yearly accounts and tax? YES ☐ NO ☐

Do you have a CFO in your business? YES ☐ NO ☐

CLARITY ON CLASS CAPACITIES

I'm now going to run you through the formula for calculating how each of your classes are performing within your studio, but most importantly the opportunity that sits in front of you to increase your numbers and grow your business. That's the fun stuff right there!

Put the following details into a Google Sheet to make calculating the numbers a breeze.

1. Class name
2. Age group of class
3. Style of dance
4. Teacher of the class
5. Current number of students in the class
This is the number of students you currently have in that class.
6. Price per class
This is the price that each child pays for that class. Depending on your pricing model, you may need to calculate the average price of the classes if you have a sliding scale fee structure or capped class model, or you can work them out individually to get a true figure.
7. Current income for class
How much income does the class make you currently, with the current student numbers?
8. Current expenses to run class
How much does this class cost you to run including the teacher's wage?
9. Potential maximum student numbers in class
How many students could you fit in this class?
10. Potential maximum income for class
If your class was at full capacity (the number above), how much income would you be making?
11. Potential maximum expenses for class
If you had the class operating at maximum capacity, how much would expenses be? This may be the same as your current expenses if you don't want or have to put on an additional teacher to cope with more students.
12. Current Class Capacity
To work out how full you are currently, you want to take your current student numbers and divide it by your potential maximum numbers. Then times it by 100 to get the percentage of how full your class is now.
13. Difference in income result
This will tell you how much more income you could be making per week if you reached full capacity, not including any additional expenses (full class income minus current class income)
14. Difference in expenses result
This will tell you the additional expenses you would incur weekly if you reached full capacity (full class expenses minus current class expenses)
15. Potential additional income each week
This is my favorite number. This will give you your profit for that one class for the week if you reach your full capacity. Simply take the number from step 12 and minus step 13 and you will end up with your profit – the magic word!

Let me give you an example of how this could look for your studio.

Let's pretend that I'm filling out my Google Sheet starting with step one in the formula. In class name I have Groovy Groovers, it's for six-year-olds and the style is jazz, Mr Clint takes the class, there are currently 15 students in this class each paying $15 per class, hence my income is $225 per class. My current expenses to run this class after I take out teacher, venue, bills etc (simply look at your weekly expenses and divide it by the number of classes you have and you'll get your average class expense). I end up with $80 for expenses. I have added 20 as the maximum students I could take in that class, which will automatically give me $300 as the class income and the expense stays the same at $80, as I don't need an additional teacher. My class is currently 75% full, if I have 20 students in the class then my additional income would be $75 per week and additional expenses is $0, leaving me with a profit of $75 per week for that one class. Over a 42-week dance year, that's an additional $3,150 for getting just five new students into just one of my classes.

When you complete this step for each class you offer, you're going to really see the growth potential for your studio. It's an exciting thing to see on screen or on paper what opportunities lie ahead for your business!

This process will take time, but it's part of building your solid business foundation for the studio. You will collect so much amazing data by completing this sheet - you will be able to see those age groups that are most and least profitable, those teachers who run the most and least profitable classes, the dance styles that are most and least popular, plus loads more. So many studio owners have had many 'Aha!' moments after completing this exercise, so what are you waiting for?

CLASS CAPACITY FORECAST

CLASS NAME	CURRENT STUDENTS	PRICE PER CLASS	CURRENT INCOME	CURRENT EXPENSES	CURRENT PROFIT	MAX STUDENTS NUMBERS	MAX INCOME	MAX EXPENSES	CLASS CAPACITY	DIFFERENCE INCOME	DIFFERENCE EXPENSES	TOTAL DIFFERENCE $
Level 2 Jazz	15	$15.00	$225.00	$80.00	$145	20	$300.00	$80.00	75%	$75.00	-	$75.00
Senior Tap	12	$18.00	$216.00	$80.00	$136	25	$450.00	$100.00	48%	$234.00	$20.00	$214.00

CLICK HERE TO DOWNLOAD YOUR DATA TEMPLATE

CLASS NAME	CURRENT STUDENTS	PRICE PER CLASS	CURRENT INCOME	CURRENT EXPENSES	CURRENT EXPENSES	MAX STUDENTS NUMBERS	MAX INCOME	MAX EXPENSES	CLASS CAPACITY	DIFFERENCE INCOME	DIFFERENCE EXPENSES	TOTAL DIFFERENCE $
										WEEKLY ADDITIONAL INCOME	

MY BEST,

Clint

FREEDOM

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