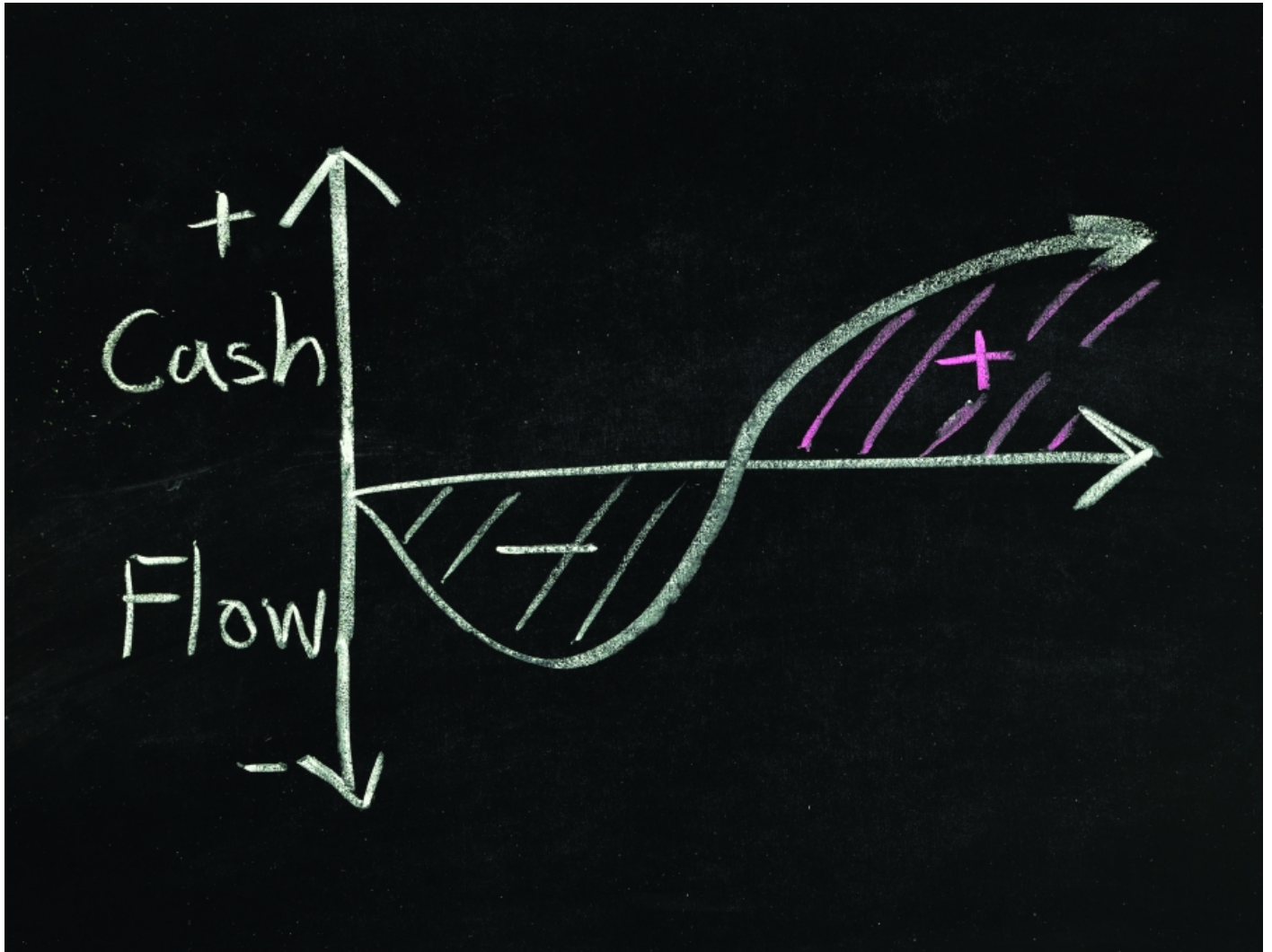


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The Brass Tacks: Financial Figures & Metrics

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In order to stay healthy, know your numbers; at least that's what our health providers tell us. The same holds true for running a healthy medical spa. If you don't know what your numbers are, you won't know whether your practice is healthy or headed for financial problems. It's time to pick up your magnifying glass and focus on your bottom line and the numbers that go into determining it. "Businesses that rely on solid numbers and key metrics, rather than subjective measures such as hearsay and intuition, have the edge on financial success."¹

KEY FINANCIAL NUMBERS

First and foremost is your profit and loss (P&L) statement. Your monthly profit and loss statement is your financial report; it tells you the profitability of your business. It also tells you what your overhead and direct costs are before your debt service. For your medical spa to be healthy, your net profit should fall between 15% and 25%. Your overhead should not exceed 30% of your total revenue and any loans you have should not total more than half of your net profits before other debt. It is important to note that the percentages above may fluctuate slightly and should be used as a general guideline.

For new practices, there are lots of startup, marketing, and opening expenses that will impact year one, but these are well worth the investment to get your practice off on the right foot and set it up for growth.

BUDGET

Beyond your profit and loss statement, there are other numbers you should monitor, such as your budget. If you don't have a budget for your practice, you can't measure your success at the end of each month. A budget is critical. It provides you with spending guidelines or targets for each area, so you have an idea how you are progressing against your plan. Without a budget, you can't make course corrections as needed or reallocate monies from one area to another to avoid overspending.

Know what your expenses are and how they are trending over time. Be sure that you have clearly and accurately listed all your expenses and that they are sufficiently detailed and broken down so you can determine if there are areas requiring attention. Additionally, be certain that items are being correctly allocated so you have a clear picture of your costs.

REVENUE

It is equally important to correctly allocate revenue. This allows you to determine what products and services are generating the most revenue and which ones may need attention. By having detailed information available, you can identify causal relationships. For example, if you notice an increase in certain consumable costs but the treatments calling for these consumables have not shown an increase in revenue, something may be amiss.

CASH FLOW

You must also look at your cash flow on a frequent basis. Just having a positive balance in your checking account isn't enough. Cash flow is the lifeblood that keeps your practice viable. Cash flow is the inflow and outflow of money to a business. A practice needs to generate enough cash from its activities so that it can meet its expenses and have enough left over to repay investors and grow the business.

Cash flow is more important than profit. It's possible for a practice to show a profit and still go out of business. It's also possible for a profitable practice to be unable to grow, secure additional financing, or attract investors. The reason for this is simple. Profit figures are easier to manipulate because they include non-cash line items such as depreciation expenses and goodwill write-offs. Cash flow statements provide a clearer picture of the cash available to the practice. Without adequate cash, a practice can't purchase new inventory or pay operating expenses such as utilities. To be healthy, a practice should have enough cash on hand to maintain its operations for at least three months. Work with your local bank to secure a line of credit to help with your cash flow. It also helps you build your business credit.

SALES

It's also important to understand how your sales are trending. One measurement of this is the average sales revenue per client. This simple measurement is calculated by taking the service revenue generated for a specific period and dividing that by the number of clients you've had in that same time period. The resulting dollar figure is the average revenue dollars per client. Knowing how this number is trending on a daily and weekly basis helps you identify problems and make correction early. It also allows you to set staff goals to increase the per client revenue figure by cross-selling supporting products and services.

NEW CLIENTS

Finally, you should keep your eye on the number of new clients coming through your door. New clients are critical to maintaining long-term practice viability and driving growth, but you must convert them into returning clients. Pay attention to your consultation conversion rate as well as the revenue generated per consultation.

Knowing your numbers can prevent financial issues from creeping up on your practice. A little preventative care goes a long way toward ensuring a growing practice and healthy bottom line.

Reference

1. Whitman, C. (2018). *Beautifully Profitable, Forever Profitable* (6th ed.). Cheryl Whitman.

Internationally recognized aesthetic business development expert Cheryl Whitman is the founder and CEO of Beautiful Forever Consulting. She is a sought-after speaker and industry marketing specialist. With her seasoned team of professionals at Beautiful Forever, Whitman assists physicians and medical spas in creating new profit centers, developing profitable private label product lines, ghost writing articles and eBooks, and identifying and executing new business strategies aimed at improving their bottom line. A celebrated author, Whitman's "Aesthetic Medical Success System," a turnkey educational system, has assisted clients in opening or jumpstarting their current businesses. Her second book, "Beautifully Profitable, Forever Profitable," provides solid, practical information on how to create, launch, and grow successful aesthetic medical practices and related businesses.

