

EST 6

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Esthetician – All Trades
Business Management Part - 3
Salon Management

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Business Management Part - 3

Salon Management

Rationale

Why is it important to learn this skill?

Salon management skills and knowledge are important for all estheticians. The information in this module will help prospective salon owners start and run successful businesses, and workers can contribute to the success of their place of employment.

Outcome

When you have completed this module, you will be able to:

Describe and demonstrate salon management skills.

Objectives

1. Describe the basic terminology of transactions.
2. Describe balancing debits and credits.
3. Describe timesheets and timesheet policies.
4. Describe inventory and stocking.

Introduction

Jobs are easy to find and keep during a strong economy. As an economic slow-down approaches, employers begin to lay off staff in anticipation of declining business. At the bottom of an economic slump, employers will retain minimum—or no—staff.

Employers will make layoff decisions based on many factors. They will ask themselves: who is the most productive worker? Who is the most helpful worker? Who is the most useful worker? The knowledge inside this module will help apprentices be more productive, helpful, and useful workers.

Objective One

When you have completed this objective, you will be able to:

Describe the basic terminology of transactions.

Sales Transactions

A **sale** is a transfer of money or credit. Revenue is earned when goods are delivered or services are rendered. There are three types of cash collection.

Cash sales: Cash is collected when the business makes the sale and delivers the product and/or service to the customer.

Credit sales: Cash isn't collected until sometime after the sale is made; the customer is given a period of time before it has to pay the business.

Advance payment sales: The customer pays the business before the sale is completed, that is, before the business delivers the product and/or service to the customer. For this type of sale, at the time of receiving an advance payment, the business does not record a sale; instead, it records a liability that stays on the books until the product or service is actually delivered to the customer. This specific liability is one of the business's operating liabilities.

Receipts refer to a business getting paid by another business for delivering goods or services.

Payments refer to a business paying another business for receiving goods or services.

A **double-entry bookkeeping** system is a way of recording financial information. In this system, at least two entries are made for each transaction. A debit entry is made in one account and a credit entry is made in another account. Both the debit and credit entries can be broken down into several entries, but the total debit and total credit entries for each transaction must equal each other.

Recording an Individual's Intake

Recording the monetary intake of an individual is dependent upon their arrangement. Arrangements span a wide spectrum of options. On one end of the spectrum, an esthetician may own their salon as a sole proprietor and work alone. In this situation, the owner is responsible for paying all the bills, is subject to all the liabilities, and is rewarded with all the financial income. At the other end of the spectrum, an esthetician may work for an hourly wage in a salon that is owned by someone else. In between these two simple opposites is a complicated array of options available to an esthetician who is renting a 'room' or 'chair' in a salon.

When recording the intake of an esthetician who is renting a 'chair,' several things must be known. In general, the esthetician may have multiple sources of income, and they may have multiple deductions.

Income

- Hourly wages.
- Commission on services.
- Commission on retail sales.
- Tips.

Other Considerations

- Furniture.
- Tools.
- Equipment.
- Building clientele.

Deductions

- Space rent.
- 'Back bar' supplies.
- Utilities such as electricity and phone.
- Staff.
- Advertising.
- Laundry.
- Insurance.
- Bookkeeping and accounting.

Depending on their individual situation, an esthetician may pay for, or be paid for, any mixture of these things. For instance, in one situation, an esthetician may pay for their own bookkeeping but not for their furniture. In another situation, an esthetician may not receive any commission on retail sales, but not pay for the reception staff.

Objective One Self-Test

1) In which type of payment option does the customer pay the business before the sale is completed?

2) What are "receipts"?

3) Which two entries are made in a 'double-entry bookkeeping' system, and when are they made?

4) Identify one situation which is simple for determining how an esthetician can be paid?

5) Identify two sources of income for an esthetician who is renting a 'chair.'

6) Identify two considerations (not income or deductions) that must be considered before an esthetician decides to rent a 'chair.'

Objective One Self-Test Answers

- 1) Advanced payment sale.
- 2) *Receipts* refer to a business getting paid by another business for delivering goods or services.
- 3) The two entries are made in a debit account and a credit account. This happens each time a transaction is made.
- 4) A sole proprietor with no employees or working hourly.
- 5) Any of the following: hourly wages, commission on services, commission on retail sales, and / or tips.
- 6) Any of the following: furniture, tools, equipment, and / or building clientele.

Objective Two

When you have completed this objective, you will be able to:

Describe balancing debits and credits.

Cashier Balancing

Cashier balancing is a process that takes place at the closing of the business day or at the end of a cashier's shift. This balancing process makes the cashier responsible for the money in their register.

The Balancing Process

At the beginning of a shift, a cash drawer is populated with money: large and small bills and coins. Throughout the shift, cheques are added to the drawer, while cash is both added and removed; in addition, money is electronically transferred to the business. The first step in balancing (or settling) the cash drawer is to reduce it to its original amount. This is done by first removing the cheques and large bills. Next, additional bills and coins are removed until the original amount is reached. The reset drawer is placed aside, ready for its next shift.

The second step involves counting the money that was placed aside and comparing it to the day's totals. The cash, cheques, and electronic deposits are referred to as the 'cashier's sales deposit.' Most cash registers can print a sales slip and money balancing slip that tells how much money the cashier made in sales and how much money should be present. The manager compares the slips to the money. Ideally, the two amounts are identical. Sometimes the cash is 'over' and extra money is unaccounted for. Sometimes the cash is short, and money is missing. The money will be recounted to make sure that a counting error has not occurred. Overages can occur if the cashier took too much of a customer's money, or they took the appropriate amount (credit), but did not remove the item from the system (debit). The credits and debits did not match up. Shortages can occur if the cashier gave a customer too much change, or someone stole money, or if the cashier removed too many items from the system by mistake.

Trial Balance

Businesses usually complete a trial balance at the end of each month. The trial balance is like balancing a cash drawer, but on a larger scale. All transactions for the month are combined, credits against debits. The sum of the credits should equal the sum of the debits.

Petty Cash

A petty cash fund is used to make small payments during the course of operating a business. A fixed sum of money is put into the petty cash fund and used to purchase things such as light bulbs and birthday cakes. Each time money is taken from the petty cash fund, a petty cash slip is completed. The slip indicates the purpose, date, and amount of money taken. On a regular basis the balance in petty cash (the sum of the cash on hand and petty cash slips) should match the amount of money initially put into the fund. When the cash in the fund gets low, it is refilled. The petty cash slips must be entered into the accounting system, debiting appropriate accounts, and crediting cash. Petty cash slips are marked to prevent them from being used again. Each province regulates the maximum amount of petty cash that a business can use in a given time period. This prevents business owners from using the petty cash fund as a source of untaxed income.

Miscellaneous Financial Statements

The balancing of cash on a daily basis will tell how a business performed that day. Trial balances can give an overview of a business' performance on a monthly basis. Counting debits and credits on a longer term can also provide insight. Consider the two financial statements below.

The Balance Sheet

A reflection of the basic accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Capital}.$$

The Balance Sheet shows the balance between assets on the one hand and liabilities and capital on the other at a particular time.

The Profit and Loss Statement

(also called the Income Statement)

summarizes the revenue and expenses of a business over a certain period of time. It indicates the profit or loss that resulted.

Objective Two Self-Test

1) What is the first step in cashier balancing?

2) What is the 'cashier's sales deposit'?

3) Identify two ways that a cashier can be 'over.'

4) What fund is used to purchase small items such as batteries or coffee?

5) Which two financial statements can give a long-term overview of a business?

Objective Two Self-Test Answers

- 1) The first step is to reduce the cash drawer to its original amount.
- 2) It is the total of the day's sales, made up of cash, cheques, and electronic money transfers.
- 3) Cash can be 'over' if the cashier took too much money from a customer, or did not remove a product from stock.
- 4) The petty cash fund.
- 5) The balance sheet and the profit and loss statement.

Objective Three

When you have completed this objective, you will be able to:

Describe timesheets and timesheet policies.

Timesheet Policies

A *timesheet* is a written record of a person's activities. Timesheets are commonly submitted by employees to their employers. The information on the timesheet is used to determine the pay of the employee. Each business has established policies (rules and procedures) that govern the use of timesheets. Policies include when pay periods begin and end, when timesheets are submitted, and how certain activities are recorded. The correct recording of activities is crucial. If an employee works on Project A for 30 hours and Project B for 10 hours, the employer needs to know. The employer can use this information to send out appropriate invoices or predict the costs of upcoming projects. Accurate timesheets will ensure that employees are neither underpaid nor overpaid.

Timesheets can be used as source documents to determine things such as vacation time owed. They can also be used to double check the accuracy of deductions that are based on income. These deductions can include amounts for Canada Pension Plan and Workers' Compensation.

Completing Timesheets

Each salon will have its own system for keeping track of paying its employees. A salon's computerized Point of Sale (POS) system may keep track of commissions, but hours worked may be kept on a physical timesheet. The different ways of keeping track are as varied as the financial arrangements by which estheticians earn money. It is critical to keep a separate journal of a worker's hours, commissions, and other sources of income. Sometimes a discrepancy arises between how much a worker should be paid, and how much they actually get paid. A separate record will help clear up any mistakes.

Employee Performance Sheets

Some salons may have employee performance sheets which track the employee's financial performance. The sheets commonly include two performance indicators: the retail to service percent (RTS %) and the average ticket price. The retail to service percent is a comparison of how much money a client spends on retail products against how much money a client spends on services. It is calculated by dividing the total cost of retail goods sold into the total cost of the service. For example, an esthetician sold \$87 worth of goods to a client who came in for a \$140 service.

Step one: write out the formula $RTS \% = \frac{\text{retail value}}{\text{service value}}$

Step two: fill in the variables $RTS \% = \frac{87}{140}$

Step three: simplify

$$RTS \% = 62\%$$

A salon wants its employees to have a high RTS % for two reasons: retail sales equal more income for the salon, and the profit of retail sales is often much higher than the profit of a service. In other words, a salon makes more profit on \$100 of retail sales than it does on \$100 of service.

The average ticket price (ATP) often has different names such as *average sale*, *average ticket size*, and *average transaction value*. A 'ticket' in a salon is the combination of services and retail sold to a client. To calculate the ATP, take the total value of all transactions from a time period and divide that amount by the total number of transactions. Here is an example from one month:

Date	Ticket One (\$)	Ticket Two (\$)	Ticket Three (\$)
May 1	62	82	
May 12	58	34	202
May 13	134	77	
May 20	99	56	117

Total value of all transactions: \$921

Total number of tickets: 10

Step one: write out the formula

$$ATP = \frac{\text{total value of all tickets}}{\text{total number of tickets}}$$

Step two: fill in the variables

$$ATP = \frac{921}{10}$$

Step three: simplify

$$ATP = \$92.10$$

Objective Three Self-Test

1) Identify two timesheet policies.

2) Identify one thing that an employer can use a timesheet for.

3) Identify three things that can be double-checked with a timesheet.

4) An esthetician sold \$14 worth of goods to a client who came in for a \$55 service.
What is the RTS %?

5) An esthetician sold \$62 worth of goods to a client who came in for a \$48 service.
What is the RTS %?

6) In one month, an esthetician had a total ticket price of \$1700 and a total of 89 tickets.
What is the ATP?

7) In one month, an esthetician had a total ticket price of \$2200 and a total of 67 tickets.
What is the ATP?

Objective Three Self-Test Answers

- 1) When pay periods begin and end, when timesheets are submitted, and how activities are recorded.
- 2) Timesheets can be used for invoicing and predicting costs of future projects.
- 3) Timesheets can be used to determine vacation time and the accuracy of deductions for things such as Canada Pension Plan and Workers' Compensation.

4) Step one: write out the formula $RTS \% = \frac{\text{retail value}}{\text{service value}}$

Step two: fill in the variables $RTS \% = \frac{14}{55}$

Step three: simplify $RTS \% = 25\%$

5) Step one: write out the formula $RTS \% = \frac{\text{retail value}}{\text{service value}}$

Step two: fill in the variables $RTS \% = \frac{62}{48}$

Step three: simplify $RTS \% = 129\%$

6) Step one: write out the formula $ATP = \frac{\text{total value of all tickets}}{\text{total number of tickets}}$

Step two: fill in the variables $ATP = \frac{1700}{89}$

Step three: simplify $ATP = \$19.10$

7) Step one: write out the formula $ATP = \frac{\text{total value of all tickets}}{\text{total number of tickets}}$

Step two: fill in the variables $ATP = \frac{2200}{67}$

Step three: simplify $ATP = \$32.84$

Objective Four

When you have completed this objective, you will be able to:

Describe inventory and stocking.

Inventory

All of the products purchased by a salon are called *inventory*. After the products are ordered and received by the salon, they are streamed into two categories: products used during services, and products sold to the public. Products are priced according to many factors. How much was the product purchased for? What profit can be made by selling the product at a higher cost? How much are people willing to pay for the product? How much does the product cost at other salons? For example, a quick drying top coat may dry in 15 minutes instead of 30 minutes. However, quick drying top coat may cost more than regular top coat. If a salon purchases and uses the more expensive, quick drying topcoat, they will have to charge the client more to cover increased costs. However, because of the reduced drying time, the salon may have a decreased turnaround time in between clients. As a result, the salon may be able to perform more services in one day, thereby increasing profits. As a final factor, tradespeople prefer to work with certain tools and materials. An apprentice or journeyman may choose a tool or product based solely on personal preference.

Inventory Control

The products in a salon must always be accounted for. The process of accounting for products is called *inventory control*. To begin the process, a salon orders a new batch of products from the wholesaler. For example, 100 paper nail files. When the files arrive, they are counted to make sure that all 100 have arrived. (Conversely, the wholesaler can make the mistake of sending too many.) The next step in inventory control is to circulate the stock. New files are put at the back of the box so that the old ones are used first when a file is pulled from the front. This process makes sure that older products are being used before they expire or degrade.

Throughout the cycle of inventory, records of use and sales are kept. At any given moment, the salon should know exactly how many files are remaining in the box. Each individual salon will perform an inventory count to make sure that the records

match the number of files in the box. Ideally, the records will indicate that the box contains 20 files, and when the files are counted, the box contains 20 files. A mismatch in numbers can indicate many things, such as poor record keeping or theft. Missing stock can have a serious, negative impact to a small business, representing significant losses in revenue. Keeping records is also useful to study trends. How do sales fluctuate by month? Which products are falling out of fashion? Which products are selling at an increased rate?

To complete the inventory cycle, new stock is ordered when supplies are dwindling. Stock is regularly counted (often weekly), and when the box of files only has 10 remaining, another 100 are ordered. Timing is important. New files must be ordered before the salon runs out; however, if files are ordered too soon, the salon is stuck with a large amount of inventory that needs to be paid for and isn't being used or sold.



Cycle Count

In between annual or semi-annual inventory counts, cycle counts can be used to update inventory. A cycle count is the practice of picking one category in a business and physically counting all the inventory. The records are then updated to match the physical count. Because only one category is counted, a very accurate count can be made in a relatively short amount of time. Cycle counts are performed regularly, and the business' inventory is always updated. An accurate inventory will provide a useful 'open to buy.'

Safely Lifting and Stocking



Google images.

Deleting Sold Products

As products are sold or disposed of, they must be removed from the records. This information is mostly kept in a computer system, and each system is different. Computer systems offer many options that range from 'hiding' the items to deleting the items permanently. Deletion can be used if a salon is discontinuing a product. Before deleting a product, it is important to consider if total removal is a good idea. Maybe information about the product will be needed in the future.

Rotating Stock

Stock is rotated every time new inventory arrives in the salon. For example, 20 bottles of essential oils have arrived from the supplier. The esthetician takes the new bottles to the lobby where the existing bottles are on display for sale. The new bottles are placed behind the existing bottles. A customer will likely take the bottle at the front. In this fashion, the older bottles are sold first, and the new bottles slowly make their way to the front of the shelf. Rotating stock is important in all areas where goods are stored. If 10 bottles of essential oils are to be placed in the storage room, they must be placed behind the bottles that are already on the shelf in the storage room. This physical flow of goods is often called 'first in, first out' (FIFO). Stock rotation will reduce the amount of product that is lost to deterioration.

Expiry Dates

All products have a shelf life, which is the length of time that a product may be stored without becoming unfit for use or consumption. Shelf life can be affected by many factors such as exposure to light, cold, heat, oxygen, and moisture. Many products that are made up of chemicals will, at some point, not function as intended as the chemicals degrade or undergo transformations. Packaging can often extend shelf life by preventing the ingress of moisture, oxygen, and sunlight. Tampering with the posted date is illegal in many countries.

For food products, the Canadian Food Inspection Agency produces a *Guide to Food Labelling and Advertising* which sets out a "Durable Life Date" for food products. The authority for producing the guide comes from the Food and Drugs Act. The guide sets out what items must be labelled and the format of the date.

For drugs and natural health products, a DIN (Drug Identification Number) or GP (General Product) number shows that the product was approved by Health Canada. These expiry dates indicate the shelf life and the stability of the product.

Health Canada's *Therapeutic Products Directorate* is the Canadian federal authority that regulates pharmaceutical drugs and medical devices for human use. Prior to receiving market authorization, a manufacturer must present substantive scientific evidence of a product's safety, efficacy, and quality as required by the *Food and Drugs Act and Regulations*.

Reporting Missing and Outstanding Products

Products go missing for many reasons. Products could be missing due to theft, they could have been given as a small gift to a loyal customer, or they could have been discarded (due to breakage or expiry). Unreported missing products are outstanding because they have not been reconciled in the salon's financial accounting system. As soon as a product is known to be missing, report it to a supervisor so that it can be financially reconciled. If products are missing due to theft, immediate reporting will help catch the guilty person(s).

Analyze Sales Trends

Trends in sales are determined by a sales analysis report. The report shows whether sales are increasing or declining, and can be used to find opportunities and areas where sales can be increased. The report can be used to determine sales by location or product. A small businesses with a single location can generate a sales analysis report with the general sales data.

Sales analysis reports can be used to distinguish between new and repeat business. This information can determine if a business is retaining business. The report can also measure the effectiveness of new advertising, new products, and new marketing strategies.

When a sales analysis report focuses on single products, product demands can be determined. Rises and declines in sales can be seen, and effective actions can be taken.

For example, a decline in sales could indicate a change in customer attitudes, increased competition, or the introduction of newer, better products by other salons.

Factors That Affect Sales Trends

The Economy

The consumption of products and services are affected by wealth in the forms of credit and disposable income. Clients will use both to pay for products and services during strong economic times. When the economy slows down, customers will first cut back on using credit, then disposable income.

Beliefs and Attitudes

Spending is often affected by beliefs and attitudes. Beliefs and attitudes are formed by forces such as media, technological advances, the family, and education. These attitudes change over time. Keeping track of social media is a good way to stay current on developing trends.

Politics

Political factors are slow and reactionary; as a result, they should never take a business by surprise. Political decisions affect many aspects of running a business, such as the regulations and approvals of products, levels of taxes, and import / export of goods.

Environment

Customers are often swayed to purchase goods that are labeled 'environmentally friendly' or 'organic.' If goods are labeled as such, it is critical to research them to make sure that their claims are true. If a customer discovers that a product is not environmentally friendly when it claims to be such, they may become disillusioned with and untrustworthy of the product and the vendor.

Technology

Technological advances span all areas of a business. New products can reduce application times and provide better results. New computer systems can keep better track of inventory and sales, and generate insightful reports. It is essential to stay up to date with technology and be open to trying new products and techniques.

Objective Four Self-Test

1) What is 'inventory control'?

2) The computer shows that a salon has 54 packages of sponges. How many sponges should be on the shelf?

3) How many steps can the inventory cycle be broken into? What is the last step?

4) What is a 'cycle count'?

5) Identify two incorrect things to do while lifting.

6) What is the name of a common stock rotation system?

7) Identify three things that can reduce the shelf life of a product.

8) Which act gives the Canadian government its authority to control the dating of foods and drugs?

9) What is the main objective of a sales analysis report?

10) Which factor that affects sales trends is slow and reactionary?

11) Which factor that affects sales trends can be monitored with social media?

Objective Four Self-Test Answers

- 1) The process of accounting for products.
- 2) 54.
- 3) The process has five steps. The last step is to count the products, then they are re-ordered to begin the cycle again.
- 4) An inventory count of only one item. The count happens frequently, thereby slowly counting all the inventory.
- 5) Any of the following: straight legs, back bent, back and abdomen muscles strained.
- 6) First in, first out (FIFO).
- 7) Exposure to light, cold, heat, oxygen, and moisture.
- 8) The Food and Drug Act.
- 9) To determine whether sales are increasing or declining.
- 10) Politics.
- 11) Beliefs and attitudes.

Module Summary Self-Test

1) What is a 'payment'?

2) Identify three possible deductions for an esthetician who is renting a room.

3) What can a cash register print that will help to balance the cash drawer? How does it help?

4) What is the purpose of a trial balance, and how often is it commonly performed?

5) What is a 'timesheet'?

6) After a salon receives an order of products from a supplier, how are they divided?

7) What can happen if a salon does not order supplies soon enough?

8) What is a 'cycle count'?

9) When would a salon delete an item from its computer system?

10) How can packaging be used to extend the shelf life of a product?

11) What could be the cause of a product's declining sales?

12) Why is it important to check the claim that a product is 'organic' or 'environmentally friendly'?

Module Summary Self-Test Answers

- 1) Payments refer to a business paying another business for receiving goods or services.
- 2) Any of the following: space rent, back bar supplies, utilities and phone, staff, advertising, laundry, insurance, bookkeeping, and accounting.
- 3) Most cash registers can print a money balancing slip that tells how much money should be present. The money amount in the drawer can be compared to the slip.
- 4) A trial balance is a comparison of the credits and debits, usually performed once a month.
- 5) A timesheet is a written record of a person's activities.
- 6) They are divided into two groups: those used during services, and those sold to the public.
- 7) The salon can run out of supplies.
- 8) A cycle count is a regularly occurring count of one inventory item.
- 9) When the item is being discontinued.
- 10) Packaging can prevent the ingress of moisture, oxygen, and sunlight.
- 11) Any of the following: a change in customer attitudes, increased competition, or the introduction of a better product by a competitor.
- 12) Customers can easily research a product to verify its claims. If the product is not organic or environmentally friendly, the customer may become disillusioned with the product and vendor.