

Module 24: Managing Costs

- The costs associated with starting a salon
- The ongoing expenses associated with running a salon
- How much you can expect to make after these costs
- The best way to keep costs down

By the end of this chapter, you will know:

- The costs associated with starting a salon
- The ongoing expenses associated with running a salon
- How much you can expect to make after these costs
- The best way to keep costs down

24.1: Introduction



Every new business owner has to familiarise themselves with the costs associated with their business.

In terms of salons, this means the cost of starting one, as well as the cost of maintaining it. By

preempting your costs, you can make forming business plans and executing winning profit strategies easier.

24.2: The Costs Associated with Starting Your Salon



Providing you're not starting a mobile salon, the costs associated with beginning one can get quite hefty.

First, you need to consider how many chairs you'll have, along with the space needed to administer treatments. Let's say you decide to begin with six chairs; for this, you're going to need a fair amount of space.

After calculating the space you need for your chairs, you're going to need to start looking at rent. The majority of salon owners will begin their business by renting as opposed to purchasing, and you're unlikely to be any different. Most business rental costs are calculated per square foot. When you're working in a low-cost area of the UK, this isn't too hefty. However, when you're working in a more expensive area, such as London or the South East, these costs can soon begin to rise.

What you need to consider is how much rent you're going to go through while you're setting up your salon. Few buildings come ready equipped for nail technicians, and the property's owner isn't going to let you go without paying rent while you're setting up. As such, this needs to be factored into your start-up costs.

After considering your rental and chair purchasing costs, you need to look deeper into the setup process. This should include focusing on the equipment you need to buy, as well as the stock you need to maintain. Merchandise has already been discussed; you're going to need to purchase a little of that too so you can get started with sales straight away.

Other non-physical costs can include using the services of professionals, such as accountants and solicitors. You're also going to need to look at how much interest you'll pay on loans over time (if you have any) alongside establishing your web presence, creating a brand, beginning your marketing campaign, and the candidate hiring process.

There is a lot to consider when it comes to the costs associated with starting your new salon. However, the investments you make now are probably going to save you a lot of money in the future, especially when it comes to buying decent equipment and using the services of well-educated professionals.

Before you even find a premises, you need to sit down with your business associates (if you have any) and establish what all the initial start-up costs are.

24.3: The Ongoing Expenses Associated with Running a Salon



The costs don't end once you've established the salon; in fact, they're only going to continue.

One of the biggest costs associated with running a salon is hiring and maintaining staff. Unless you are choosing to go down the zero-hour contract route—which may lead to inconsistent staffing—you are going to have to keep paying your staff members, regardless of whether business is booming or not.

An alternative to this is to do what some hair salons do and hire out chairs or booths to other stylists.

They can then pay you a little commission, or they can simply pay a blanket fee for using the chair. Either way, they benefit from your branding and marketing efforts while you use them to bring in extra customers and keep your business afloat.

However, this is not one of the most effective ways to make sure you attract enough profits to keep your business afloat, so approach with caution.

Other costs associated with having staff can include:

- Sick pay, which is partially reimbursed by the government
- Maternity and paternity pay, which are also partially reimbursed by the government
- Paid annual leave, which both full-time and part-time employees are entitled to
- Training
- Team motivation exercises
- Staff parties, if you want to have them

Staff aside, you'll also be paying for supplies on a regular basis. Your supplies aren't just central to administering treatments, you have the merchandise you'll be selling in order to keep those profits flowing.

Other ongoing costs can include the following:

- Bank fees and loan repayments. Most business accounts charge customers to use them.
- The use of professionals. If you're opting to use an accountant for your PAYE, for example.
- Business insurance, public liability insurance, and employers' liability insurance
- Utilities
- Maintaining your web presence

All of these costs need to be considered when you're forming a business plan, as well as when you're looking at your monthly sales to determine how profitable the business has been.

Research that focuses on the nail technology industry has identified manual labour and rent as being the two highest costs, accounting for around 40 to 45% of your overall outgoings.

24.4: How Much Can You Expect to Make After These Costs?



Now this may sting a little, but it is worth bearing in mind that it's actually a relatively high figure as far as the business world is concerned: you can expect to make around 10 to 11% profit.

Seem lame?

Not really, once you consider how much manual labour costs, plus rent, supplies, and everything else that goes with it.

When returning to the chapter on pricing, you need to consider this profitability when you're making your treatment price markups. Aim for around this much as a minimum, and you'll eventually find that you strike the right balance.

In order to make sure you keep your equipment costs down, you need to focus on maintaining a good relationship with your suppliers. If you successfully manage to open an account with a supplier, make sure you maintain all of your financial responsibilities in relation to it. Once you tarnish your financial connections with suppliers, it's difficult to avoid high prices.

One of the most complex aspects of starting a salon is establishing what your costs will be.

To begin with, this module taught you about start-up costs. This included exploring rent as well as the cost of initially sourcing equipment.

In addition, you took a look at ongoing costs. This included both the cost of physical items, like equipment, and non-physical costs, like utilities.

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