



FINANCIAL HEALTH CHECK-UP SERIES WORKBOOK

A STEP-BY-STEP GUIDE TO CREATING A
SOUND FINANCIAL SYSTEM



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Introduction

The Financial Health Check-up Series workbook is designed to help you implement a financial system and perform regular financial reviews to keep your business financially fit.

- The workbook format is a series of twelve sections you'll use to check and improve the financial system in your business. In the process you may find weak links to fix that will improve your financial results and increase understanding of your businesses financial health.
- The workbook sections focus on the systems related to your financial review and analysis. There are important controls in every business to prevent loss that are outlined in our Financial Foundation Guide PDF you received as a bonus tool with this workbook. The bonus also provides information on owner pay types and creating a financial support team. Be sure to read the Financial Foundation Guide and confirm your internal controls are sound before proceeding through this workbook.
- Each workbook section includes detailed background information and guidance on performing the related financial health check-up tasks. The section also includes recommended action steps that help you make the improvements to your financial system.
- After completion of the workbook you will have implemented a financial system you can rely on each year to keep your business financially healthy.

The Financial Health Check-up Series workbook is a step-by-step guided process to ensure a healthy financial structure for your business. You can progress through the sections at your own pace. Our recommendation is to complete one section a month so in the span of a year you achieve a healthy financial system!

Of course, you can proceed through the sections more quickly and we've included a summary checklist of all action steps by section so you can easily track your progress.

Throughout the workbook we refer to QuickBooks as the system used to maintain your financial records. It is the most popular tool used by small business, but is not a requirement to apply information from the workbook. If you use a different system, just know that when the workbook refers to QuickBooks you will be working with your financial system tool.

Take advantage of this opportunity to invest a little time each month to create a healthy financial system for your business. Block time on your calendar now or add reminders in

your task management system so you complete each of the twelve sections in the workbook.

Once you have implemented all action steps your financial system is in place. As long as you remain consistent in your review your reward will be a business that stays healthy every year. Financial success requires your time as business owner reviewing results and taking action. The adjustments you make in your business operations from your financial reviews are the key to improving your profits each year.

Congratulations on taking an important step for yourself and your business. This is a journey that will help you build confidence in your financial management skills.

This structure is one you can replicate any time for your business in the future. Come back to the workbook for easy reference as you make changes and get comfortable working in your financial system.

Working with a strong financial system you gain confidence that the decisions you make for great pet care also provide profits to you.

Implementation Checklist

Section	Action Step	Description	Target Date	Date Completed
Understand Your Chart of Accounts & Financial Statements				
1	1	Review your Chart of Accounts & revise for appropriate level of detail		
1	2	Establish Financial Statement report preparation timeline and confirm full understanding of every component		
1	3	Establish positive thoughts and feelings about money and finances		
Pricing It Right				
2	1	Clearly define your business mission and pricing strategy		
2	2	Perform pricing analysis for your primary service revenue streams using all 3 models		
2	3	Perform cost model analysis on secondary service revenue streams		
2	4	List discounts offered and analyze impact to your profit		
2	5	Create your annual plan for analyzing and adjusting pricing		
2	6	Reflect on the value you provide clients through your business		
Establish Your Key Measures or KPI				
3	1	Implement occupancy measures for key service areas of boarding, daycare and grooming		
3	2	Calculate one revenue per pet measures for boarding and daycare		
3	3	Measure 1 or 2 non-pet client or quality measure and start tracking for 3 months		
3	4	Ask for the pet volumes you want for your center and be grateful for each new client		

Section 1

Understand Your Chart of Accounts & Financial Statements

With section one your goal is to ensure the basic financial structure is in place to provide you with quality information as you progress through each step in the workbook. The basics of your financial system include:

1. Chart of Accounts – accounts established to record your business financial transactions. You can use QuickBooks defaults for this function or recommendations of an outside bookkeeper/accountant.
2. Financial Statements – summarizes information from the accounts into meaningful reports
 - a. Profit & Loss – sales and expense activities summarized
 - b. Balance Sheet – business financial position
 - c. Cash Flow – follows the money



Key Tests:

- You understand the reason for and contents of each account listed in your chart of accounts.
- Your financial report set provides meaningful information so you understand your current financial results.

Chart of Accounts

You seek a balance with your chart of accounts on the level of detail provided. It is important to have enough detail to perform meaningful analysis and have good information to make business decisions. At the same time you do not want too much detail where you get overwhelmed with the amount of information in your statements.

A sample chart of accounts is included as Appendix A for you to use as a comparison to your existing account listing. Start by looking at the income and expense accounts. At a minimum you should have separate income or revenue accounts for each of the key services you provide.

As an example, boarding, daycare, grooming and retail sales should be in separate accounts. For your top two or three services you may want to further sub-divide that income into key segments. In the sample chart of accounts boarding revenue is divided into enclosure income, ala carte activities, packages, treats and day boarding.

On the flip side make sure your chart of accounts is not so detailed that you have pages of income or expense items in your final reports. For example in retail sales you do not need to know sales of each brand of pet food in the chart of accounts. You can summarize all pet food sales in your financials and use your POS (point of sale) system for the details by brand.



ACTION STEP 1

REVIEW YOUR EXISTING CHART OF ACCOUNTS & COMPARE TO THE SAMPLE PROVIDED. AS YOU LOOK AT EACH SECTION ANSWER THE FOLLOWING QUESTIONS:

1. Do you have good level of detail in your income accounts to identify your top five sources of income?
2. In looking at your expense accounts do you know where your money is spent each month? Again what are your top five expense categories?
3. For the balance sheet accounts do you know who owes you money and the vendors that you owe?
4. Highlight accounts in the sample chart from Appendix A that you want to add to your list.
5. Highlight accounts in your current chart of accounts that you want to eliminate or combine with another account.
6. Add the new accounts from #4 to QuickBooks and make the accounts in #5 inactive. If you use services of a bookkeeper or accountant have a meeting with them and request they make the revisions.

Section 5

Effective Payroll Management

In section five we are analyzing and putting structure to the payroll system. Typically this is the largest expense category for pet care service businesses. The key basics of a payroll management system should include:

1. Pay scale defined by job description and annual budget for wage increases
2. Key financial and related measures analyzed monthly
3. Owner compensation plan



Pay Scale and Increases

A first step to managing payroll costs is to set and define pay scales for each job description in your business. This step helps focus on keeping wages aligned with the work performed versus the background and skills of the person performing the job. Exceptions can be made when it is in the best interest of the business, but as a general rule you will pay for level of work required for the specific job.

Typically entry level positions will start at minimum wage so you need to determine the maximum amount you are willing to pay someone to do that same job. For example, if kennel attendant is an entry level position and minimum wage in your state is \$8.25 you may decide that the maximum you will pay is \$10.00 for an experienced kennel attendant. Your kennel attendant pay scale is \$8.25 - \$10.00.

Chapter 4 of Counting Noses includes a complete description of payroll accounting requirements.

Benefits of setting a maximum to your range is to encourage cross-training and growth opportunities for long-term employees. Employees that want to continue earning more money will need to assume additional responsibilities or cross-train so they provide more valuable work to the business.

Another important management policy for payroll is setting when employees are eligible for pay increases. Clear communication on this during the hiring process helps you manage to a plan and budget. A business decision can be made that "x" dollars are available for payroll increases for all employees for the year. Again, exceptions can be made, but a plan is in place to keep payroll costs within a predefined limit for the year.

A schedule option could be that new hires are evaluated for a small increase at end of their probationary period and subsequently on their date of hire anniversary. Another option that became my practice was to plan one or two months a year when the business evaluates all

employees and gives increases based on performance regardless of hire date. This method allows you to budget and plan increases in advance for a time of year when cash flow is best for the business. You don't have to track individual hire dates and you can review all employees by job title, current pay and performance at one time. If you plan to offer a pay increase to staff that achieve certification credentials through the Professional Animal Care Certification Council you would want to set increase periods after each exam window.

An example would be to set June as primary month for wage increases for majority of staff. You might take a second assessment in December to adjust specific individuals that merit an increase prior to the next June.

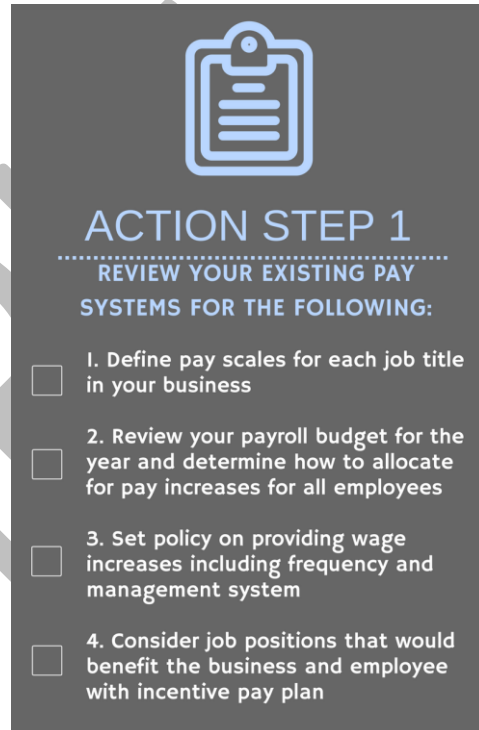
Another pay system to consider is the use of incentive pay plans. A portion of a job title's

Chapter 9 of Counting Noses provides more in-depth discussion on incentive pay plans.

compensation is performance based so pay is tied to either a specific aspect of business performance or achieving set goals for an individual job. Commissions and bonuses are a good

example of incentive pay plans. It is important to clearly outline for employees how they earn the incentive portion.

In addition to groomers and trainers incentive pay plans can work for bathers, front desk staff and management. Just be sure that you consider quality and quantity when creating your plans. People will focus on the portion of the job that rewards them.



ACTION STEP 1
REVIEW YOUR EXISTING PAY SYSTEMS FOR THE FOLLOWING:

- 1. Define pay scales for each job title in your business
- 2. Review your payroll budget for the year and determine how to allocate for pay increases for all employees
- 3. Set policy on providing wage increases including frequency and management system
- 4. Consider job positions that would benefit the business and employee with incentive pay plan

Financial Measures

Since payroll is such a large expense for your business it is important to have access to meaningful financial information and key measures. Payroll information for analysis should include:

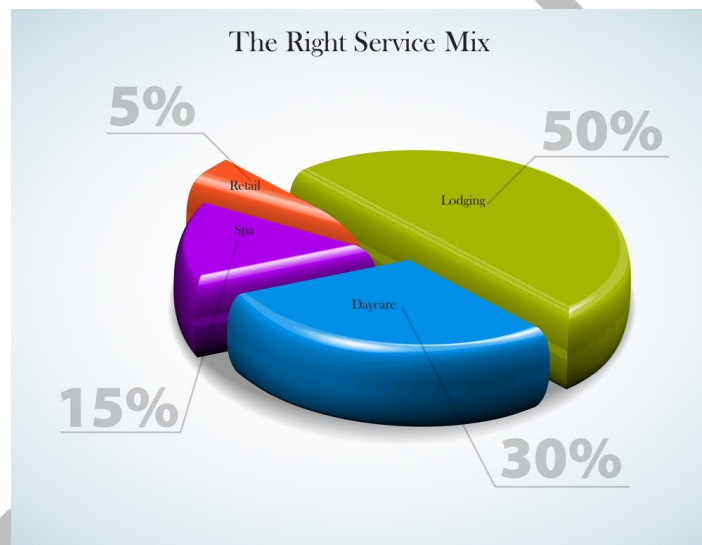
- Total payroll as a percentage of gross revenue (industry average ranges from 40 – 60%)
- Payroll cost by revenue department calculated as a percentage (e.g., lodging, daycare, grooming, customer service, etc.)
- Overtime wages
- Total labor hours paid each pay period
- Full time equivalents on staff each month
- Employee turnover

Section 9

Determine The Right Service Mix

In Section nine your goal is to take a fresh look at your service mix to confirm it still meets your business goals. The key considerations of your service mix should include:

1. Validate Meets Business Goals – your revenue mix should be a win/win/win formula
2. Assess New Revenue Streams – the pet industry evolves every year with new service opportunities being offered so make sure you keep a competitive edge
3. Refresh Existing Offerings – keep your services fresh and inviting to clients



Service Mix Goals

You want your service mix to align with your business mission and contribute to profits. Use the data from the Section eight as input during this analysis.

It is also critical that your service mix meet the needs of your client base. Do your clients use other pet care service providers? If yes, for which services?

Also consider your physical space and staffing. Do you have space that is not used to generate revenue? Do you have staff that could be more productive or work more hours?



ACTION STEP 1

TAKE A FRESH LOOK AT YOUR MIX OF SERVICES BY TAKING THESE STEPS:

1. Does your mix meet both your mission and profitability? If not, then know it's time to make some changes.
2. How does your mix compare to local competitors? How does it compare to other pet businesses in similar markets?
3. What percentage of your clients use other pet service providers? Could you offer those services profitably? Are you at risk of losing clients if those providers expand into your service offerings?
4. What percentage of your physical space is dedicated to revenue producing service activities? Think about this during peak busy times and off-peak slower times of year. List non-revenue producing space as potential to convert or share in new service offerings.
5. Do you have staff that want more hours or could be more productive by providing revenue producing services? Estimate number of hours of staff capacity you have even if it is seasonal.
6. What services or product sales can you add that require less labor? Research adding or expanding retail sales items where you can provide expertise to sell to existing clients.

As minimum wage increases impact your profits consider adding services that require less labor. What services require less staff time? Can you expand your retail section? (e.g., review your mission and service stars and add items that align; avoid competing with large box stores or online stores, find a retail niche to serve).

Spending time answering these questions is the first step in taking a fresh look at your mix of services. The pet industry continues to grow in large part to the creativity of business owners.

Every year businesses are creating new service offerings to pet parents with great success. Plan some internet search time reviewing websites in other markets that are similar to yours. Look for new service ideas that you can introduce that align with your business mission and facility. Brainstorm with staff and clients remaining open to wild and crazy ideas!

New Revenue Streams

Think about new revenue streams you can add to your business. Focus on the criteria you want any new service offered to meet. Stay open as you explore options and list everything that falls within your criteria.

You should be able to create a list of at least 10 potential offerings. Some ideas to get you started:

- Core pet care services that you don't currently offer (e.g., lodging, dog daycare, grooming, training, dog daycare 2.0 as presented by The Dog Gurus at www.TheDogGurus.com)
- Dog walking (offer mid-day to existing clients on days dog does not attend daycare)
- Special Event Dog Parties (no parents; add-on service of a photo and special treat to celebrate holiday or local event; e.g., football rivalry games, back to school, Oktoberfest, etc.)
- Camp or School Weekly Activities – create a series of special activities during off season that may include craft projects, special fun activities like hikes, scent games, trick of the month, etc.
- Fit Paws – fast growing fitness program for dogs; search on YouTube for videos