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GUIDE TO PET CARE BUSINESS

# FORECASTING



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# INTRODUCTION

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Whether you are new to pet care creating your initial business plan or a veteran business operator financial forecasting is a valuable decision-making tool. The purpose of the Guide to Pet Care Business Forecasting is to help you create a system for creating and using forecasts in your business operations.

Financial forecasting is a great tool to use for:

- Creating Business Plans
- Preparing an Annual Budget
- Determining Impact of Adding New Services or Staff Members
- Assessing an Investment in New Equipment
- Analyzing Business Expansion or Remodeling Options
- Proactively Assess Impact of Regulatory Changes like
  - Minimum Wage Increases
  - Staffing Ratios
  - Safety Equipment

Our five steps will help you gain clarity on both the revenue and expense impact of the business opportunities you are exploring. Use our examples as a guide to create your list of facts and assumptions. The exhibits include tips for assigning numbers to your assumptions and pet industry resources for current statistics.

Forecasting is a wise use of your time as a business owner. You'll have confidence in making your business decisions as you have:

- Taken a full picture view of the opportunity or challenge
- Quantified both expenses and revenue benefits
- Documented your assumptions
- Identified important KPI or key performance indicators to monitor as you implement
- Know from your assumptions and KPI how to adjust if reality differs from your forecast

The excel workbook templates that accompany this guide are created to assist you with the financial calculations. You'll find more details on using them in the last section of the guide.

The exhibits include resources such as pet industry statistics, tips and resources for obtaining more data to use in your assumptions. Take your time going through this guide and reviewing our examples. There is not one "right way" to forecast a project and our goal is to assist you in creating the system that works best for you and your business.

# FIVE STEPS IN FINANCIAL FORECASTING

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Regardless of the pending business decision you can use these steps to create your financial forecast. The benefit of using a systemized process is the understanding you gain of the variables involved.

For your initial business plan and very large projects you may repeat these steps multiple times prior to making your final decision. You gain knowledge through your forecasting system that is very powerful as you implement and operate the new version of your business.

Before we get into the steps let's talk about the difference between facts and assumptions.

- **Fact** – something that has occurred or is actually the case. A fact is verifiable and can be proven.
- **Assumption** – is a belief without proof. Assumptions are often part of your financial forecast and the key is to document them and test different scenarios prior to making a final decision.



## **Step 1 – Determine Your Facts**

List the facts you know about the business decision you are analyzing. If the government has approved minimum wage hikes then the new wage rate and effective increase dates are facts you can verify.

## **Step 2 – Document Your Assumptions**

This is the area where you should keep good records (see Exhibit 1 for a form template). In most difficult business decisions you must make assumptions based on your beliefs and experiences. The key is to clearly identify each

# EXAMPLES

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## *Example 1 – Evaluate Adding a Manager Position*

### Steps 1 & 2 – Determine Facts & Document Assumptions

List of Facts & Assumptions	Quantified
Manager Salary Range (\$35 - \$40,000)	\$38,000/year
Recruiting Costs	\$250
Owner time spent preparing to hire (4 hours x \$80)	\$320
Owner time to onboard & train manager (48 hours: Month 1 – 32, 2 – 16)	\$3,840
Manager training time (Owner time plus 60 hours with staff hands-on)	\$3,600
Staff Productivity Gains (3% after 3 months; \$50,000 payroll/month)	\$1,500/month
Revenue Increase (5% after 6 months)	\$3,125/month

It is important to review the list of facts and assumptions. Some are obvious to forecasting, like the salary and recruiting costs. What you may omit is the training time of the owner and manager; their non-productive wages during training.

Other important assumptions to include are quantifying the business benefits to hiring a manager position.

- With closer supervision you expect staff productivity to increase from fewer errors, rework and aligning staff levels to pets served daily. In this example, a 3% productivity improvement is expected after 3 months of hiring a manager. This would be a good objective goal and feedback measure for your manager.
- A manager can also help increase revenue by building relationships with clients and recommending additional services that are a good fit for their pet. They can also oversee front desk team commission plans for upselling. With a manager on board the business owner gains time and can spend time increasing effectiveness of marketing that will also increase revenue.

The percentages you decide on in your assumptions are arbitrary, but provide an objective measure to monitor if you do decide to hire the manager. Everyone learns from the process and you'll get better in setting assumptions the more you practice.



As you start focus on being conservative so if you really want the manager to improve productivity by 5% use a lower number in your forecast. Same with revenues you may expect 10%, but used 5% in the forecast. You can set goals for the manager at the higher expectations, but make a decision on hiring using the more conservative numbers.

Next we take all of the assumptions and calculate the impact on the business profits.

### Steps 3 & 4 - Create Profit & Loss & Cash Flow Forecast

Item	Initial Cost	Year 1 Forecast	Year 2 Forecast
Manager Salary	\$3,167	\$38,000	\$38,000
Recruit & Prep	570	570	0
Owner Train Time	3,840	3,840	0
<b>Total Costs</b>	<b>(\$7,577)</b>	<b>(\$42,410)</b>	<b>(\$38,000)</b>
Lower Staff Payroll		13,500	18,000
Revenue Increase		18,750	37,500
<b>Net Profit Impact</b>		<b>(\$10,520)</b>	<b>\$17,500</b>
Two Year Impact – Profit Increase	\$7,340		

This example also demonstrates why it is important to forecast more than one year for your projects. If you only looked at year one, adding the manager would cost the business over \$10,000 so you would probably decide not to proceed.

However, when a second year is forecast there is over \$17,000 increase in profit. When you combine the two years the business should benefit by close to \$7,000 by adding a manager position. When you interview candidates you would want to discuss their 2-3 year goals to ensure they align with retaining the manager for that time period so the business benefits are realized.

## Expand with Dog Training Services

List of Facts & Assumptions						
Item	Fact			Assumption		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Dog Trainer Commission	60%					
Class fee	\$250					
Maximum dogs per class/workshop	8					
Workshop fee	\$50					
Number of classes	18	36	36			
Number of workshops	8	8	16			
Class Occupancy				65%	65%	75%
Workshop Occupancy				75%	85%	95%
New client percentage from training				50%	50%	50%
Annual cross-sell revenue				\$1,200	\$1,200	\$1,200
Advertising/Marketing	\$2,500	\$5,000	\$3,000			
Training Supplies per dog in classes	\$10	\$10	\$10			
Retail Sales - % of Training Revenue				5%	5%	5%
<b>Profit &amp; Loss Calculations:</b>						
	Year 1	Year 2	Year 3			
Class Capacity - number of dogs	144	288	288			
Workshop Capacity - number of dogs	64	64	128			
Number of dogs in class	94	187	216			
Number of dogs in workshops	48	54	122			
<i>Direct Revenue:</i>						
Training Revenue - Classes	23,400.00	46,800.00	54,000.00			
Training Revenue - Workshops	2,400.00	2,720.00	6,080.00			
<b>Total Direct Training Revenue</b>	<b>25,800.00</b>	<b>49,520.00</b>	<b>60,080.00</b>			
<i>Less Direct Expenses:</i>						
Trainer Commission	15,480.00	29,712.00	36,048.00			
Supply Costs	936.00	1,872.00	2,160.00			
<b>Gross Margin</b>	<b>9,384.00</b>	<b>17,936.00</b>	<b>21,872.00</b>			
<i>Indirect Revenue:</i>						
Cross-sell services	84,960.00	144,960.00	202,560.00			
Retail Revenue	1,290.00	2,476.00	3,004.00			
<b>Total Indirect Revenue</b>	<b>86,250.00</b>	<b>147,436.00</b>	<b>205,564.00</b>			
<i>Less Indirect Expenses:</i>						
Marketing	\$2,500	\$5,000	\$3,000			
<b>Net Profit Impact</b>	<b>93,134.00</b>	<b>160,372.00</b>	<b>224,436.00</b>	<b>477,942.00</b>		

Impact of Minimum Wage Increase								
List of Facts & Assumptions								
Item	Current Year	Fact			Assumption			Year 3
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 3	
Minimum Wage	10.50	12.00	13.50	15.00				
Wage adjusted for taxes & benefits	11.50	13.00	14.50	16.00				
Payroll Percentage of Revenue	55%							
Daycare Capacity - # of dogs	50							
Adjust daycare discounts	30%	25%	20%	15%				
Increase effective daycare rate	25				27	29	30	
Reduce number of hourly staff	11%				10	9	8	
Profit & Loss Calculations								
	Current	Year 1	Year 2	Year 3				
	Year							
Min Wage	10.5	12	13.5	15				
Adj for taxes	11.5	13	14.5	16				
<i>Wage Calculations:</i>								
# Min Wage Staff	3	3	2	2				
Min Wage + .5	3	2	2	2				
Min Wage + 1	4	4	4	3				
Min Wage + 1.5	1	1	1	1				
Total Hourly Staff	11	10	9	8				
# Min Wage Staff	71,760.00	81,120.00	60,320.00	66,560.00				
Min Wage + .5	74,880.00	56,160.00	62,400.00	68,640.00				
Min Wage + 1	104,000.00	116,480.00	128,960.00	106,080.00				
Min Wage + 1.5	27,040.00	30,160.00	33,280.00	36,400.00				
Total Hourly Staff	277,680.00	283,920.00	284,960.00	277,680.00				
<i>Revenue Calculations:</i>								
DC Capacity	50	50	50	50				
Effective Daycare Rate	25	27	29	30				
Annual daycare occupancy %	80%	80%	80%	80%				
Annual daycare days	260	260	260	260				
Daycare Revenue	260,000	280,800	301,600	312,000				
Other Services Revenue	240,000	254,200	263,400	273,000				
Total Revenue	500,000	535,000	565,000	585,000				
Payroll Percentage of Revenue	55.54%	53.07%	50.44%	47.47%				
Revenue Increase		7.00%	5.61%	3.54%				



Sniff Test: Install a Swimming Pool			
Project Cost	\$30,000		
Note Payable	\$25,000		
<i>Revenue:</i>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Dog Swims	2,500	3,000	3,500
Swim Rate	10	11	12
Swim Revenue	25,000	33,000	42,000
<i>Direct Expenses:</i>			
Payroll	6,296	8,395	10,494
Supplies	600	850	1,200
Total Expenses	6,896	9,245	11,694
Swim Operating profits	18,104	23,755	30,306
Less: Loan Payments	(9,024)	(9,024)	(9,024)
Swim Cash Flow Impact	9,080	14,731	21,282
Swim Profits			
Payback Shortfall/Contribution	(\$11,896)	\$11,859	\$42,165
Return on Investment	-40%	40%	141%

You can edit these spreadsheets easily to customize them to your projects. They are provided to give you a head start on calculations for your project forecasts.

## New Business Templates

The new business forecasting templates include worksheets for projecting revenue and direct expenses for the common pet service business revenue streams:

- Dog Daycare & Cage-free Sleepovers (worksheet A1)
- Lodging (worksheet A2)
- Spa Services (worksheet A3)
- Dog Training, Pet Sitting or Dog Walking (worksheet A4)

The file also includes worksheets to determine business costs including:

- One-time Start-up Costs (worksheet B1)
- Operating Costs and Overhead (worksheet B2)

The revenue and operating expense worksheets are designed to provide an annual forecast by month. You can use these templates to create best and worst case scenarios by saving the file with different names as you adjust your assumptions. Multiple years of information can also be forecasted by saving the file with different names.

All calculations are done for you once key assumptions are input into the white box areas of each spreadsheet. Calculation cells are highlighted in gray and cannot be edited.

## A1 - Dog Daycare

Start by completing the top section of the worksheet that is used to calculate staff hours and payroll. For each day of the week enter the number of hours staff will be scheduled to provide either daycare or cage-free overnights (rows 7 & 8).

	A	B	C	D	E	F	G	H	I
1									
2	Day Care								
3									
4									
5									
6	Staff Hours	Mon	Tues	Wed	Thurs	Fri	Sat	Sun	Total
7	Hours of day care	12	12	12	12	12	0	0	60
8	Hours overnight cage free	12	12	12	12	12	12	12	84
9									

The next section you update includes:

- Daycare and overnight capacity (row 10)
- Dogs per staff member (row 13 or 11)
- Rates charged for the services (full published rate - row 11 or 12)
- Number of staff that requires adding a supervisor (row 14)
- Merchant rate for accepting credit cards (row 15)
- Staff and Supervisor hourly wages (row 18 & 19)
- Percentage your business pays for taxes & benefits (row 20)


	A	B	C	D	E	F	G	H	I
1									
2	Day Care								
3									
4									
5									
9									
10	Day care capacity dogs	75		Cage free overnight capacity	20				
11	Day care rate per dog	\$ 29.00		Dogs per staff	20				
12	Extra services ave % per dog	10		Overnight rate per dog	\$ 22.00				
13	Daycare dogs per staff	15							
14	Staff per supervisor	6							
15	Net merchant fee ( credit card ) %	2.5							
16									
17									
18	Staff pay \$/hour	\$12.00							
19	Supervisor pay \$/hour	\$13.00							
20	Benefits % ( at least 10 )	10.00							

Now you are ready to enter monthly information needed to forecast revenue. Input by month the occupancy rate for daycare and cage-free sleepovers (rows 23 & 24). The last entry is the effective discount percentage offered through sales of packages or any other discounts offered to your client base. To finalize your revenue projections input the dollar amount of any miscellaneous sales, like dog evaluation fees in row 32.

## B2 - Operating Costs and Overhead

This spreadsheet will help you calculate the ongoing operating expenses not directly related to providing services. These are “fixed costs” of the business and must be paid regardless of the number of pets coming through the doors.

The first section is a summary of your ongoing facility costs. Next is a summary of management and support payroll expenses. The last section is a list of the common other operating costs incurred by pet businesses. In this example the business is planned to open in June.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
	<b>Operating Costs and Overhead</b>													
														
		Jan	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec	Total
<b>8 Building costs</b>														
9 Rent or Mortgage							\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 52,500
10 Utilities							\$ 800	\$ 820	\$ 825	\$ 745	\$ 695	\$ 720	\$ 745	\$ 5,350
11 Facility maintenance							\$ -	\$ -	\$ -	\$ 50	\$ 50	\$ 50	\$ 50	\$ 200
12 Taxes														\$ -
13 <b>Total building costs</b>		\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,300	\$ 8,320	\$ 8,325	\$ 8,295	\$ 8,245	\$ 8,270	\$ 8,295	\$ 58,050
<b>15 Payroll Costs</b>														
16 Payroll - Management						\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 24,000
17 Payroll - Reception & Support						\$ 1,920	\$ 2,880	\$ 2,880	\$ 2,880	\$ 2,880	\$ 3,840	\$ 3,840	\$ 3,840	\$ 24,960
18 Other Personnel Expenses						\$ 600	\$ 600	\$ 400	\$ 300	\$ 250	\$ 200	\$ 250	\$ 200	\$ 2,800
19 <b>Total payroll overhead</b>		\$ -	\$ -	\$ -	\$ -	\$ 5,520	\$ 6,480	\$ 6,280	\$ 6,180	\$ 6,130	\$ 7,040	\$ 7,090	\$ 7,040	\$ 51,760
<b>21 Other Costs</b>														
22 Advertising/Marketing						\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 24,000
23 Dues & Subscriptions						\$ 110	\$ 110	\$ 110	\$ 110	\$ 110	\$ 110	\$ 110	\$ 110	\$ 880
24 Professional Fees						\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 2,400
25 Finance Charges/Bank Fees						\$ 35	\$ 35	\$ 35	\$ 35	\$ 35	\$ 35	\$ 35	\$ 35	\$ 280
26 Insurance						\$ 320	\$ 320	\$ 320	\$ 320	\$ 320	\$ 320	\$ 320	\$ 320	\$ 2,560
27 Internet & Telephone						\$ 245	\$ 245	\$ 245	\$ 245	\$ 245	\$ 245	\$ 245	\$ 245	\$ 1,960
28 Licenses & Permits						\$ 250								\$ 250
29 Miscellaneous Expense						\$ 50	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50	\$ 400
30 Cleaning & Maintenance Supplies						\$ 350	\$ 75	\$ 75	\$ 350	\$ 75	\$ 75	\$ 350	\$ 75	\$ 1,425
31 Office Supplies						\$ 225	\$ 25	\$ 50	\$ 225	\$ 25	\$ 25	\$ 50	\$ 50	\$ 675
32 Equipment Expense						\$ 30	\$ 30	\$ 30	\$ 30	\$ 30	\$ 30	\$ 30	\$ 30	\$ 240
33 Seminars & Travel								\$ 325	\$ 210		\$ 450			\$ 985
34 Staff Training						\$ 320								\$ 320
35														
36 <b>Total operating costs and overhead</b>		\$ -	\$ -	\$ -	\$ -	\$ 10,435	\$ 19,290	\$ 19,140	\$ 19,380	\$ 18,615	\$ 19,925	\$ 19,850	\$ 19,550	\$ 146,185

Sniff Test: Install a Swimming Pool				
<b>Project Cost</b>	\$30,000			
<b>Note Payable</b>	\$25,000			
<i>Revenue:</i>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	
Dog Swims	2,500	3,000	3,500	
Swim Rate	10	11	12	
Swim Revenue	25,000	33,000	42,000	
<i>Direct Expenses:</i>				
Payroll	6,296	8,395	10,494	
Supplies	600	850	1,200	
Total Expenses	6,896	9,245	11,694	
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Swim Profits				
Payback Shortfall/Contribution	(\$11,896)	\$11,859	\$42,165	
<b>Return on Investment</b>	-40%	40%	141%	



SAM

## Spa Services



	Mon	Tues	Wed	Thurs	Fri	Sat	Sun	Total
Grooming hours per day	8	8	8	8	8			40
Number of bather hours worked	6	6	6	8	8	8	4	46
Number of baths per day	20	20	20	20	20	20	10	130

Grooms per 8 hours worked	10	Merchant fees (credit card) %	2.5
Groom commission %	50.00	Benefits % (at least 10)	10
Bather salary/hr	\$ 10.00		
Groom rate	\$ 50.00		
Bath rate	\$ 20.00		

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Tot or Ave
Capacity %	50	60	70	70	70	80	90	80	75	70	70	75	72
Number of dog grooms	108	130	152	152	152	173	195	173	162	152	152	162	1,862
Number of baths	281	338	394	394	394	450	507	450	422	394	394	422	4,841
Dog groom revenue	\$ 5,413	\$ 6,495	\$ 7,578	\$ 7,578	\$ 7,578	\$ 8,660	\$ 9,743	\$ 8,660	\$ 8,119	\$ 7,578	\$ 7,578	\$ 8,119	\$ 93,095
Bath revenue	\$ 5,629	\$ 6,755	\$ 7,881	\$ 7,881	\$ 7,881	\$ 9,006	\$ 10,132	\$ 9,006	\$ 8,444	\$ 7,881	\$ 7,881	\$ 8,444	\$ 96,819
Other services	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 12,000
<b>Total revenue</b>	<b>\$ 12,042</b>	<b>\$ 14,250</b>	<b>\$ 16,458</b>	<b>\$ 16,458</b>	<b>\$ 16,458</b>	<b>\$ 18,666</b>	<b>\$ 20,875</b>	<b>\$ 18,666</b>	<b>\$ 17,562</b>	<b>\$ 16,458</b>	<b>\$ 16,458</b>	<b>\$ 17,562</b>	<b>\$ 201,914</b>
Groomer comission	\$ 2,706	\$ 3,248	\$ 3,789	\$ 3,789	\$ 3,789	\$ 4,330	\$ 4,871	\$ 4,330	\$ 4,059	\$ 3,789	\$ 3,789	\$ 4,059	\$ 46,548
Bather payroll	\$ 2,191	\$ 2,191	\$ 2,191	\$ 2,191	\$ 2,191	\$ 2,191	\$ 2,191	\$ 2,191	\$ 2,191	\$ 2,191	\$ 2,191	\$ 2,191	\$ 26,292
Supplies and equip maint	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 12,000
Mechant fees	\$ 301	\$ 356	\$ 411	\$ 411	\$ 411	\$ 467	\$ 522	\$ 467	\$ 439	\$ 411	\$ 411	\$ 439	\$ 5,048
<b>Total expenses</b>	<b>\$ 6,198</b>	<b>\$ 6,795</b>	<b>\$ 7,391</b>	<b>\$ 7,391</b>	<b>\$ 7,391</b>	<b>\$ 7,988</b>	<b>\$ 8,584</b>	<b>\$ 7,988</b>	<b>\$ 7,689</b>	<b>\$ 7,391</b>	<b>\$ 7,391</b>	<b>\$ 7,689</b>	<b>\$ 89,887</b>
<b>Total cash flow</b>	<b>\$ 5,843</b>	<b>\$ 7,455</b>	<b>\$ 9,067</b>	<b>\$ 9,067</b>	<b>\$ 9,067</b>	<b>\$ 10,679</b>	<b>\$ 12,291</b>	<b>\$ 10,679</b>	<b>\$ 9,873</b>	<b>\$ 9,067</b>	<b>\$ 9,067</b>	<b>\$ 9,873</b>	<b>\$ 112,027</b>

SAMPLE