

Profit Center DVD Companion Notes

by Liana Lehman

Before You Start

- <http://PhotoBizBootCamp.com/forum>
- This DVD is best viewed a chapter at a time so that you may take the time to stop and process your own information after each lesson.
- On average, expect that it may take you a few days, weeks, months (depending on your current state and time devoted to the process) to be able to go through all of the information and initially apply it to your own business.
- It may be helpful to print out this document and take notes as you go through each chapter. We have kept these pages free of heavy graphics and left space for this purpose.
- Go through this process with others. Make sure all business owners and decision makers are involved in this process so you're all on the same page. Talk with others on the forum and/or in your BBC class to keep each other accountable, encourage one another, share progress, and get feedback.
- Remember that this is an ongoing process. It never stops. We need to constantly be tracking, analyzing, planning, and evaluating progress and goals. This goes for our personal stuff too. Packages and pricing should change with the season or at least once a year to account for changes in the market, demand, and costs.
- Don't forget "Anything worthwhile does not come easy!" Dream big and keep up the hard work - it's worth it!

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Lesson 1:

Make it Personal & Goal-Oriented

If you were stuck on a
deserted island ...

An easy way to define our top values is to ask ourselves following question: If you were stuck on a deserted island and could only have five values, what would they be?

First take the time to write down some of the experiences, personality traits, influences, and aspirations that define you.

This may help guide you in picking five top values.

Experiences

Influences

Aspirations

Style & Personality

Listed here are some values for you to take into consideration.

This may help guide you in picking five top values.

We say only five because most of us will value a majority of these but what defines us are the the ones that are most important to us – the ones that, if you took them away, you would not be you!

So ask yourself the deserted island question and put some serious thought into it.

(circle your top five)

Accomplishment

Adventure

Authenticity

Beauty

Being Acknowledged

Being Free-Spirited

Being Known

Collaboration

Community

Competition

Camaraderie

Connection

Contribution

Creativity

Diversity

Excellence

Faith

Family

Financial Security

Free Will

Fun

Health/Well Being

Honesty

Humor

Independence

Integrity

Intimacy

Joy

Justice

Leadership

Learning

Love

Loyalty

Mastery

Meaning

Moderation

Mystery

Nature

Nurturing

Orderliness

Participation

Partnership

Peace

Productivity

Relationships

Resilience

Resourcefulness

Responsibility

Risk Taking

Romance

Self-Discipline

Service

Spirituality

Success

Tenacity

Tradition

Trust

Vitality

BHAGs

(Big Hairy Audacious Goals)

Think of something you've only dreamt about. Then take it a step further and "kick it up a notch" as Emeril Lagasse would say!

Take this time to write out BHAGs for yourself including the following:

	Personal / Lifestyle	Business
Long-term		
Short-term		

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Lesson 2:

Creating a Personal Salary Budget

Creating a Personal Salary Budget

- Download the Excel Financial Planner from <http://PhotoBizBootCamp.Com/forum> and use the Personal Salary Budget worksheet to assist you in this process.
- This lesson is best done at home or at your office where you have access to your bills and other information containing costs of living, etc.
- Fill in the *light yellow fields only* and everything else will compute automatically. There are directions on the worksheet too.
- Don't forget to include things you might not normally like saving, investing, paying off debts, and giving.
- Create a budget for your current situation and your ideal situation and save them both. Use the ideal situation as your desired salary for the rest of the process so you can work on making it a reality!

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Lesson 3: Tracking Income

Tools for Tracking

Excel
Quickbooks
Successware
Quicken - Personal Only!!

Recommendations

- Get in the habit of keeping a database of all of your clients, jobs, and orders. We use successware in the example on this DVD because it does all of these things plus tracks the numbers.
- Once a client makes a payment, deposit it into your main business checking account and track it in a program designed for tracking financial information for businesses.
- Hire someone to enter income if you do not want to do it yourself. It needs to be done **REGULARLY!**
- Also, be sure to watch the “housekeeping” portion of this DVD to learn the importance of keeping funds organized in different accounts - so you don’t spend \$ that’s not yours to keep!

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Lesson 4:

Expenses & Functions

3

3 Types of Expenses

7

7 Functions

3 Types of Expenses

1. General Expenses (a.k.a. Overhead, Fixed Costs)
2. Capital Expenditures (a.k.a. Assets)
3. Cost Of Sales “COS” (a.k.a. Variable Costs)

7 Functions

- | | |
|-------------------------|-------------------------|
| 1. Owner's Compensation | 5. Advertising |
| 2. Employee Expense | 6. Administrative Costs |
| 3. Outside Services | 7. Depreciation |
| 4. Building Overhead | |

Props and Accessories
go under the
“Administrative”
Function



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Lesson 5: Tracking Expenses

Tools for Tracking

Excel
Quickbooks
Successware
Quicken - Personal Only!!

Recommendations

- Get in the habit of writing on receipts and organizing them in a binder (tape onto blank page and write purpose of expense, date, and amount in upper right corner.)
- Make sure your books are kept up-to-date on a weekly basis.
- Hire someone to enter expenses into a program like Successware or schedule a time to do it yourself once a week.
- Track by FUNCTION so that you can later understand and analyze your numbers.

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Lesson 6:

Analysis: The Number Story

The Process

- First, create an Income and Expense Statement report in Quickbooks, Successware, or by using the Excel Financial Template provided.
- An Income and Expense sheet details money coming in (income), coming out (expenses), and should show you percents to measure your success by.
- Download and read PPA's 2005 Studio Benchmark Survey (members can download from PPA.com) to understand industry benchmarks.
- Take a look at your numbers and compare %s to the recommended %s on page 24 of the Benchmark Survey (attached).
- Rafael's I&E Statement is attached also so you can follow along

Income & Expense Statement

An I&E Statement consists of:

For Example:

Income	\$10.00
<u>- COS</u>	<u>- 3.00</u>
Gross Profit	7.00
<u>- General Expenses</u>	<u>- 3.00</u>
Net Income	3.00
<u>- Depreciation</u>	<u>-1.00</u>
Net Income + Owner's Compensation	3.00

Weddings by Rafael
Profit and Loss
 October 2006 to December 2005

	<u>Sept 2006</u>		<u>Sept 2005</u>		<u>Dec 2005</u>	<u>Average Home Studio</u>	<u>Top-Performing Home Studio</u>			
Ordinary Income/Expense										
Income										
Total Income	129,622.35		103,728.47		85,352.00	129,394.00	200,097.00			
Cost of Goods Sold	<u>40,867.21</u>	31.53%	<u>44,637.50</u>	43.03%	<u>34,012.00</u>	39.85%	33.33%	27.00%		
Gross Profit	88,755.14		59,090.97		51,340.00					
Expense										
Administrative costs										
Accounting/legal	2,605.86		1,299.85		962.00					
Auto expense	4,501.04		4,160.93		3,514.00					
Education expense	3,208.55		938.26		694.00					
Interest expense	0.00		0.00		1,966.00					
Office expense	5,193.85		3,175.91		1,553.00					
Props & equipment costs	1,856.93		1,539.52		754.00					
Telephone	<u>1,743.58</u>		<u>1,567.43</u>		<u>1,200.00</u>					
Total Administrative costs	19,109.81	14.74%	12,681.90	12.23%	10,643.00	12.47%	16.53%	12.00%		
Employee Expense	0.00	0.00%	0.00	0.00%	0.00	0.00%	4.25%	4.00%		
Marketing expense	14,549.16	11.22%	9,389.69	9.05%	13,001.00	15.23%	6.07%	4.00%		
Overhead expenses										
Building maintenance					203.00					
Rent										
Real Estate Taxes										
Utilities										
Insurance										
Total Overhead expenses	<u>0.00</u>	0.00%	<u>0.00</u>	0.00%	<u>203.00</u>	0.24%	5.05%	3.00%		
Owners Compensation										
Total Expense	<u>33,658.97</u>	25.97%	<u>22,071.59</u>	21.28%	<u>23,847.00</u>	27.94%				
Net Income	55,096.17		37,019.38		27,493.00					
	55,096.17		37,019.38		27,493.00					
Depreciation	12,154.75	9.38%	14,600.00	14.08%	15,782.00	18.49%	9.23%	9.00%		
NI + owners' comp	42,941.42	33.13%	22,419.38	21.61%	11,711.00	13.72%	32,977.00	25.49%	82,327.00	41.00%

Table of Suggested Financial Benchmarks

July, 2006

Home-Based Studios

Sales Volume Target	\$150,000
COST OF SALES	35%
General Expense Categories	
Employees (Sales/Administration)	4% - 5%
Building Expense	3% - 5%
Marketing Expense	4% - 7%
Administration Expense	12% - 13%
Depreciation Expense	7% - 9%
TOTAL GENERAL EXPENSES (excluding Owner's Compensation)	30%
OWNER'S COMPENSATION + NET PROFIT	35%
	\$52,500

Retail-Location Studios

Sales Volume Target	\$250,000
COST OF SALES	25%
General Expense Categories	
Employees (Sales/Administration)	7% - 10%
Building Expense	8% - 11%
Marketing Expense	5% - 8%
Administration Expense	12% - 13%
Depreciation Expense	4% - 6%
TOTAL GENERAL EXPENSES (excluding Owner's Compensation)	40%
OWNER'S COMPENSATION + NET PROFIT	35%
	\$87,500

Percentage figures shown above are expressed as a percentage of Total Sales

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Lesson 7:

The Big Equation & COS

The BIG Equation & COS

Also known as a “Break-Even Analysis” the BIG Equation is the fun part where we take the numbers we’ve come up in the first part of this DVD and figure out how much money we need to make to cover all of our expenses, costs, investments, and pay ourselves a good salary.

We will also take a look at how to determine the number of weddings Rafael needs to shoot at what price to make the “break even” number, how to determine mark-up factor, and how to calculate Cost of Sales (COS).

Follow along with Rafael’s example on the next few pages then try this with your own numbers.

The BIG Equation

$$\frac{\text{General Expenses} + \text{Capital Expenditures}}{100\% - \text{COS}\%}$$

The BIG Equation

$$\frac{\text{General Expenses} + \text{Capital Expenditures}}{100\% - \text{COS}\%}$$

$$\frac{63,000 + \text{Capital Expenditures}}{100\% - \text{COS}\%}$$

The BIG Equation

$$\frac{\text{General Expenses} + \text{Capital Expenditures}}{100\% - \text{COS}\%}$$

$$\frac{63,000 + 7,000}{100\% - \text{COS}\%}$$

The BIG Equation

$$\frac{\text{General Expenses} + \text{Capital Expenditures}}{100\% - \text{COS}\%}$$

$$\begin{aligned} &+ 40,000 \\ &\frac{\$63,000 + \$7,000 = \$110,000}{100\% - 33\% \quad .67} \end{aligned}$$

The BIG Equation

$$\frac{\text{General Expenses} + \text{Capital Expenditures}}{100\% - \text{COS}\%}$$

$$\begin{aligned} &+ 40,000 \\ &\frac{\$63,000 + \$7,000 = \$110,000}{100\% - 33\% \quad .67} = \$164,179 \end{aligned}$$

Break-Even #

How many weddings at what price to get the the break even # ?

$$\frac{\$164,000}{40 \text{ weddings}} = \$4,000$$

40 Weddings at \$4,000 each to make \$164,000

Determining Mark-Up Factor

COS	Mark-Up
10%	10x
20%	5x
25%	4x
30%	3.3x
33%	3x
35%	2.9x

Take your desired COS # and divide by 100 to get your mark-up factor.

i.e. $25 / 100 = 0.25$



Determine Your COS %

$$\frac{\text{All material, labor, and additional COSTS added up}}{\$ \text{ PRICE you charge}}$$

$$\frac{\text{All material, labor, and additional COSTS added up}}{\$ \text{ PRICE you charge}}$$

i.e. What is the COS for an 8x10" Print ?

\$2 print
\$1 S&H
\$2 Two Minutes Photoshop

Cost of Sales



$$=\$5 \text{ Total Cost} / \$20 = 25\%$$

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Lesson 8: Planning

Recommendations

- Download the Excel Financial Planner or use the Planning tool in Successware (which is recommended). Follow the instructions on the DVD on how to complete the planning in Successware, watch their tutorials online, or read the instructions on the Excel Financial Planner.
- Refer to last year's numbers for help on anticipating what to plan for in the future.
- Make sure to break down what you do/sell into as many different product lines that make sense to help you identify what you have to sell, establish a marketing plan, provide structure for your accounting system, and recognize where income comes from
- For example, I have the following product lines: Local Weddings, Southeast Weddings, National Weddings, International Weddings, Commercial/Corporate, Lifestyle Portraiture, Non-Wedding Events, Fashion, Albums, and Frames. This allows me to analyze my numbers well later.

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Lesson 9:

Pricing & Packaging

Pricing Profitably

Many Different Pricing Methods

Cost-Based
Competitive-Based
Demand-Based

Pricing Profitably

Cost-Based Pricing

Price with certainty by understanding the costs of running a business.

There are industry standards and formulas that allow you to establish a structure to your pricing.

Pricing Profitably

Competitive-Based Pricing

Takes into consideration the local, regional, national market you are in.

Recognizes that some products are more price-sensitive to consumers than others, therefore competition is a concern.

For example, commodity items such as a 4x6" or 8x10" print are more price-sensitive than items such as a large album or wall portrait.

Pricing Profitably

Demand-Based Pricing

What we also like to call "Brand-Based" Pricing. The greater the perceived value, the more you can charge.

If there are few providers you can charge more. The greater the market demand for what you offer - the more you can charge.

Cost-Based Pricing

8x10 Print

8x10 Print Cost = \$3

Photoshop 5 minutes = \$5

Handling (20 min assistant) = \$5

Shipping = \$2

Total cost = \$15

Price = $\$15 \times 3.3 = \$49.50 \sim \$50$

BUNDLING

4 8x10" Prints (of same image)

8x10" Print Cost x 4 @ \$3 each = \$12

Photoshop 5 minutes = \$5

Handling (20 min assistant) = \$5

Shipping = \$2

Total cost = \$ 24

Price = $\$24 \times 3.3 = \$79.20 \sim \$80$ (\$20 Each)

Package A - \$2,500

- 10 Hours
- 2 Photographers
- 4x6” Proofs of All Images
- Engagement Session
- 8x10” Engagement Print
- 10x10” Coffee Table Album with 40 Sides

**10 Hours
2 Photographers**

\$300 for 2nd Shooter,
6 Hrs Edit = \$100 flat fee to assistant
(shooting, downloading, editing, online)

Price = $\$400 \times 3.3 = \1320

4x6" Proofs of All Images

$\$0.30 \times 400$ prints = \$120,
2 Hrs Assistant Time = \$30
Total cost = \$150

Price = $\$150 \times 3.3 = \495

Engagement Session

Shooter = \$75
1/2 Hr Edit = \$50 flat fee to assistant
(shooting, downloading, editing, online)

Total cost = \$125
Price = $\$125 \times 3.3 = \412.50

8x10" Engagement Print

8x10 Print = \$3
Photoshop 5 minutes = \$5
Shipping = \$2
Handling (20 min assistant) = \$5
Total cost = \$15
Price = $\$15 \times 3.3 = \49.50

10x10" Coffee-Table Album with 40 sides

Design Fee = \$200

Per Image Retouching = \$2 per picture x 80 pictures = \$160

Album Printing = \$300

S&H = \$30

TOTAL for Album = \$690

Price = \$690 x 3.3 = \$2277

Package A - \$2,500

- 10 Hours
- 2 Photographers
- 4x6” Proofs of All Images
- Engagement Session
- 8x10” Engagement Print
- 10x10” Coffee Table Album with 40 Sides

Package A - \$2,500

Total Cost =
\$ 400 (Shoot & Edit) +
\$ 150 (Proofs) +
\$ 125 (Engagement Shoot) +
\$ 15 (8x10" Engagement Print) +
\$ 690 (Album)

= \$1380 Total Cost of Sales
Ideal Price = \$1380 x 3.3 = \$4554

what he SHOULD
be charging!

mark-up factor
for 30% COS

1380/2500 = 55% COS!!

Determining Mark-Up Factor

COS	Mark-Up
10%	10x
20%	5x
25%	4x
30%	3.3x
33%	3x
35%	2.9x

Take your desired
COS # and divide
by 100 to get your
mark-up factor.

i.e. $25 / 100 = 4$



How to Make Package A work for YOU and the CLIENT??

Package A - Revised

- 10 Hours

\$300 for 2nd Shooter,
6 Hrs Edit = \$100 flat fee to assistant
(shooting, downloading, editing, online)
cost = \$400
Price = \$400 x 3.3 = \$1320
- 2 Photographers

$\$0.30 \times 400 \text{ prints} = \120 , 2 Hrs Assistant Time =
Total cost = \$150
- ~~4x6" Proofs of All Images~~ Online Proof Gallery

Price = \$150 x 3.3 = \$495
- Engagement Session

Shooter = \$75
1/2 Hr Edit = \$50 flat fee to assistant
(shooting, downloading, editing, online)
Total cost = \$125 \$50
Price = \$50 x 3.3 = \$150
- ~~8x10" Engagement Print~~

8x10 Print = \$3
Photoshop 5 minutes = \$5
Shipping = \$2
Handling (20 min assistant) = \$5
Total cost = \$15
Price = \$15 x 3.3 = \$49.50
- ~~10x10" Coffee Table Album with 40 Sides~~
- \$1,000 Print Credit

\$1,000 Print Credit = \$300 Cost

Design Fee = \$200
Per Image Retouching = \$2 per picture x 80 pictures = \$160
Album Printing = \$300
S&H = \$30
TOTAL for Album = \$690
Price = \$690 x 3.3 = \$2277

Cost-Based Pricing

8x10 Print - Outsource

8x10 Print Cost = \$3

Photoshop 1 minutes = \$1

Handling (20 min assistant) = \$0

Shipping = \$2

Total cost = \$6

Price = $\$6 \times 3.3 = \$19.80 \sim \$20 !!$

Package A Revised - \$2,500

Total Cost =
\$ 400 (Shoot & Edit) +
\$ 0 (Proofs) +
\$ 50 (Engagement Shoot) +
\$ 6 (8x10) +
\$ 300 (Print Credit)

= \$756 Total Cost of Sales
Ideal Price = $\$756 \times 3.3 = \$2,495$

$756/2500 = 30\%$ COS!!

Comparison

- 10 Hours
- 2 Photographers
- 4x6" Proofs of All Images
- Engagement Session
- 8x10" Engagement Print
- 10x10" Coffee Table Album with 40 Sides

Cost = \$1380
COS% = 55%

- 10 Hours
- 2 Photographers
- Online Proof Gallery
- Engagement Session
- 8x10" Engagement Print
- \$1,000 Print/Album Credit

Cost = \$750
COS% = 30%

Your turn!

- Go through each of your products and packages and determine the Cost of Sales (COS = how much it cost in labor and products to produce)
- Figure out what your price should be by multiplying the COS by your mark-up factor.
- Determine if this price works taking into consideration the market and demand.
- Adjust packages accordingly by bundling, creative packaging, and perhaps adjusting your COS. This will likely take a lot of time and research. Know that streamlining workflow, eliminating costly products, and being creative in the way it's presented will help a lot.

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Bonus Lesson 10: Housekeeping

Recommendations

- Tax and business laws change state-to-state - check with your state and local government to see what is necessary for your business.
- Go to www.IRS.gov and your state's Secretary of State page for more information and contact info.
- Set up accounts after you have filed your business (ie become and LLC or S-Corp), have any local licenses necessary, and have a tax ID ready. Keep personal and business money completely separate. Set up transfers between accounts to be automatic whenever possible.
- Look at some of the programs organizations (like PPA) provides for guidance and group discounts on insurance.

Business Formation

- It is recommended by industry experts that most small businesses be filed as an S Corp or LLC. Consult your accountant and tax professional for additional guidance. For ease in filing, use a company like The Company Corporation (link on the forum).
- **Sole Proprietorship** - Easy to form, taxed at individual rate, no additional taxes to file (use Schedule C), losses apply against other income, no legal separation between company and personal assets.
- **Partnership** - We highly recommend against this if you are in business with another individual. Instead, look into filing as an LLC or S-Corp.
- **Corporation** - We recommend against this for small businesses because of the double taxation (you will be taxed at a corporate level and individual level). Instead, look to filing as an LLC or S-Corp.
- **S Corporation** - Taxed at individual tax rates, losses can be applied against personal or spouse income, legal separation between company and personal assets, allows you to avoid paying social security on all of your earnings (you can take dividends in addition to a salary), must file a corporate tax return, more paperwork than an LLC
- **LLC - Limited Liability Company** - Taxed at individual tax rates, losses can be applied against personal or spouse income, legal separation between company and personal assets, easier to set up than an S corp, not recognized the same in all states, single-owner LLC pays self-employment tax. Recommended for businesses with more than one partner for ease of distributing dividends.

Bank Account Overview

4 Personal Accounts

- **Personal Checking:** Deposit your salary into this account and pay all personal bills out of this account (for example everything in your Personal Salary Budget comes out of here). Keep all business funds separate. Program like Quicken are available to help you balance your checkbook, download statements from your bank online, and pay bills. All personal accounts can be tracked in Quicken.
- **Personal Savings:** Great for overdraft protection and short-term savings (car, clothing, furniture, vacation, giving, investment savings, etc). It should be connected to your personal checking account for ease in transferring funds. If you automatically transfer money to this account that you want to put aside for these things you will not be as tempted to spend it. Get the short-term savings OUT of your checking - it is savings for a reason :)
- **Personal Money-Market Account:** For longer-term savings like education funds, and a place to put back-up funds of 3-8 months total living expenses in case of emergency. This should yield a higher return than the personal savings account and should not have high penalties for withdrawing funds.
- **Personal Retirement Fund:** Consult with a personal financial planner to have them help you set up individual retirement accounts (IRA, Sep-IRA, etc) and investments (Vanguard, T Rowe Price, etc).

Bank Account Overview

3 Business Accounts

- **Business Checking:** All money comes in and out of this account. Funds from sales, borrowed capital (even if it's from yourself), are deposited into this account, and all business expenses are written from this account.
- **Business Limited Checking Account:** Every week, make a transfer from your regular account to this account. The transfer should include the amount of sales tax collected any service retainers, and an allotment to cover cost of sales for payments coming in. Each pay period, make a transfer for the amount of any employee withholding and social security payments. This account can also be used as a repository for funds to pay their lab and supplier bills. Avoid cash-flow problems by managing this account well - the absence of funds in your checking account will create a psychological pressure on you to keep plugging away for new business so that you can keep your expenses covered.
- **Business Money Market Account:** This is your depreciation account. The best way to recapture your original investment in your business is to write a monthly check for the amount of your depreciation allowance as a means of safeguarding the funds and placing pressure on your business to cover the expense. Keep in mind that depreciation funds do not represent "income," and therefore are not taxable.

Insurance

- Mandated Insurance - Auto insurance, home/renters insurance
- Life Insurance - If you have debt, family, or other obligations
- Health Insurance, disability insurance
- Business Insurance - PPA's Indemnification Trust

Taxes

- Sales Tax: Varies greatly state-to-state. Stay informed on what the rates are for your state, what gets taxed, and transfer funds on a weekly basis to your limited checking so you will have them when it comes time to pay sales tax!
- Income Tax: You will need to pay state and federal taxes on your salary. Again, putting funds aside for this into your limited checking account and getting set up on a payment plan (most businesses pay this quarterly) will help ensure that you are not stuck with a bill that you can't pay later.
- Go to [IRS.gov](https://www.irs.gov) and your state's Secretary of State website to learn more, find numbers for local assistance, and file to pay your taxes online.

Who To Hire

- **Bookkeeper:** If you don't like keeping the books - hire someone to do it for you! You can have an employee or independent bookkeeper do a majority of data entry so that your books are kept up-to-date.
- **Accountant:** An accountant can be hired to prepare reporting forms, tax filings, and financial statements. Unfortunately, many are unfamiliar with normal expenditures of a professional studio - so at the very least look for someone that understands small business (managerial accounting based on functions).
- **Tax Professional:** Have a professional file your taxes (if your accountant is not already doing this).
- **Business Consulting:** For industry expertise. Check for consultants and instructors approved and recommended in your industry.
- **Personal Financial Planner:** To help you save for retirement, manage your portfolio of investments, recommend investing and saving strategies, etc.