Money Management Suggestions and Solutions

I. Run your own business

Congratulations on your new Mary Kay business! As the owner, you now have the freedom and responsibility to choose how you will run your business. The amazing part about being involved in Mary Kay is how much you can bring into your life without the same life-consuming investment of time and resources needed to operate a "typical" new business. However, many business principles *do* overlap. In the following information you will find suggestions on how to handle the financial aspect of operating a business, all of which is up to you to use at your discretion as the owner of your own business. And if numbers and/or finances tend to overwhelm you in general, just take it one step at a time and use your Unit Coach or Director as a resource to help clarify and explain these principles and practices.

II. Inventory

a. *<u>Inventory as "investment"</u>*

If you have decided to begin your business with inventory in order to provide the best customer service to your clients, you have made an investment in your business. We use the term "investment" because you have purchased a product with the potential to create income for you. Because we purchase our products at a 50% discount, you actually make a 50% profit with each sale to a customer or client. So the money you initially invested has bought a product that not only pays for itself but also brings a 50% return on your investment. This differs from other general purchases that you make on a daily basis in that, while those items (i.e., great bag, new shoes, car, etc) bring an emotional return and/or serve the needs of your life and your family, they do not generally have the ability to create income. This is why we consider inventory an investment.

b. *<u>How to build to a full store and why it matters</u>*

Whether you decide to start with a full store of inventory or begin by collecting orders or any place in between, you are in the driver's seat of your new business. That is exciting! One great way to create a profitable business and streamline your efforts is to operate your new business with a full store of products. This is important because you will be able to provide great customer service and save time and money in the process by limiting shipping expenses and the need to deliver any products not in stock. So no matter where you begin in your business, you can build to a full store level based on your own goals.

A full store is considered to be $3,600 wholesale Section 1 products. If you began at this level or higher, you are already operating with a full store! To use a comparable example in the retail world, if you owned a clothing store, you would now have all the styles, colors, and sizes of clothing necessary to keep a wide variety of customers satisfied. You even have some fun accessories, shoes, and bags available for your customers. You are in business!

If you started off with less than $3,600 wholesale Section 1 products, you are also definitely open for business! And continuing our example of a clothing store, you have certain elements (a few styles, colors and sizes) in place. So if a customer comes into your store looking for something you don't have, what happens? In a typical retail situation, they would try another store because women tend to prefer convenience and immediate gratification in shopping situations. In Mary Kay, you can order it for them and then deliver the products as part of our customer service. However, if you truly want to build a profitable business, this can eat up your time and money, which just slows you down and causes frustration.

So how can you build to a full store from your current product level? The easiest way is to create a list of items you want to keep stocked in your store at all times (how many filled roll up bags, miracle sets, brush sets, eye shadows, etc). Then as you start selling products, you can take a portion of that 50% profit you make and re-invest it into adding those items from your list until you have built your full store. If you are sharing products regularly with your customers, you can build to a full store very quickly, but you can also move at your own pace if that better suits your goals. Once you've achieved a full store, you have all the pieces in place to earn a profit from your business and to keep your customers very happy!

Note: It is always important to be sure that your product level supports your business goals, so you can tailor this approach to any level of products!

c. *Paying down your initial investment*

Consultants finance their initial inventory investment in a variety of ways, and there are several options to pay down that investment within your first several months of business. One option is to utilize a percentage of your profits from your sales. If you are currently building to a full store, the percentage may be smaller initially but will grow as you complete your store. As an example, if you are completing a Fab5 every month, your sales would total about $1,000 based on the company averages. Out of your $500 profit, a portion would go to building your store, to paying down your initial investment, to running your business, and to you as profit. The amounts that go into each category depend on your priorities, your business goals, and your pace. You can contact your Unit Coach or Director to make a specific financial plan for your business.

A second option that Consultants often use to pay down their initial inventory investment is to utilize any free product bonus received with their first inventory order. To learn more about this option, contact your Unit Coach or Director. She can show you how to tailor this option to your personal situation.

One final note about repaying initial investments: if you chose a credit card or loan option to finance your inventory, be sure not to use them again for re-ordering products. All of your product orders from this point are reorders from sales you have made. It would be impossible to pay down your initial investment if you keep increasing it, which is an irresponsible business practice. The only exception to this guideline is stocking up on holiday products or new products you are adding to your store, and those seasonal investments are paid down with the profit from your sales. Building a healthy, profitable business starts with incorporating smart financial practices.

III. Profit

a. Profit percentages

Selling products at their suggested retail value is what creates a profit in our Mary Kay business. We get to buy our products at half price and sell them for double, which creates a 50% profit. So what do we do with that 50% profit? As we discussed earlier, we use it in part to build our store and/or pay down our initial product investment. One aspect that is critical to include is the money you need to actually run your business. Allocating 10% of our profit to running our business is a general rule. This 10% encompasses hostess gifts, Look books, samples, meeting dues – anything you need to run your business. 10% remains consistent as a good rule of thumb for meeting the expenses of your business.

You might have noticed that as you build to a full store and pay down your initial inventory investment, the personal profit allocation from your product sales will be smaller. While that might seem counterintuitive to the reasons women have for starting a Mary Kay business (often to make money), it is a critical step in creating a sustainable business. Learning smart financial habits and setting yourself up for greater success over time is worth a few weeks or months of a smaller personal profit. Think about that in comparison to the way other companies operate – most won't start to show a profit at all until a few years down the road! Even with a moderate amount of activity, *you* have the opportunity to pay off your entire investment and build to a full store of products in a matter of months!

b. A stocked store

We have already looked at the benefits of building to a full store of products. So how do you make sure you keep your store stocked with those great products your customers love? Let's go back to the clothing store example we used earlier. If you had a customer purchase a t-shirt from your store, what happens to the money she gave you in exchange for that t-shirt? First, a portion of that money would go to running the store, a portion would be considered profit, and a portion would be used to order another t-shit to replace the one that was sold. If the proprietor skipped over this part of ordering products to replace those sold, she would quickly run out of items to sell and no longer have a store at all. The necessity of replacing sold items to maintain your store is exactly the same principle we use in Mary Kay.

So let's look at it from the perspective of Mary Kay products. If you sold $200 at a skin care class, what happens to the money you receive from your new customers? First, $100 would go toward re-ordering the products you sold during the class. This is important because it's what keeps you in business (having products to sell). Our profit is $100, which can be allocated into the following categories: business expenses (10%), building to a full store, paying down initial investment, and personal profit. Initially, you might put more of the 40% profit left after business expenses into building your store and paying down your investment. And after those two items are complete, that 40% profit goes right into your pocket!

c. *How much and when to pay yourself*

The bottom line is that you are the owner of your own business, and you can choose the ways in which you want to operate. If you are following the principles and practices outlined here, you would pay yourself a portion of the 40% profit (50% sales profit minus the 10% used to run your business = 40%) from your product sales. The amount you pay yourself from each product sale depends on where you are in terms of operating with a full store and paying down your initial investment. It also depends on how quickly you want to get to the point where you get to keep all 40% profit. If you need more of your profit for living expenses and have the time to pay down your initial investment slowly, than you may decide to take a higher percentage of your profit and be prepared to grow at a slower pace to retaining all 40% for yourself. If you want to move quickly to keeping more profit in your pocket, you may decide to take a much smaller percentage of your profit in the short-term. If you are unsure about what is the best course for you, your Unit Coach or Director is available to answer any questions you might have. The great news is that you can literally tailor your choices to your own priorities and goals!

IV. Tax Tools

The following items and ideas are listed to help with keeping track of important information relevant to taxes.

a. Keep a separate checking account for business use only.
b. Use a mileage notebook to track distances to classes, training, deliveries, etc.
c. Organize the following by month: receipts/bills, orders to Mary Kay, sales ticket copies.
d. Check out Money Matters for Dream Achievers CDs and worksheets available on InTouch for more ideas and tips!

V. You are ready!

Now that you have taken the time to learn more about running a successful, profitable business, you are ready to get out there and make it happen! Don’t forget to use your Unit Coach or Director as a great resource in addition to the Business Systems and Tools page available for New Consultants.