



ProMACSM

Professional Martial Arts College

Session 8A, Section # 4

Section #4

Business Management

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TOPIC 1 – PROJECTIONS -How To

- I. Why Do Projections?
- II. How Do I Create Projections?
- III. Your Profits
- IV. Considerations Applicable to Our Industry
- V. Sample Framework for Projections (Attached)

Why Do Projections

There are several reasons you *must* do projections if you wish to build a strong business. The first is the adage: “Inspect what you expect.” You cannot have an expectation of a certain return from your school unless you are inspecting the performance of the school in a way that is going to enable you to achieve those returns. You cannot expect a certain salary if you don’t know what revenue is required to generate that salary. What are the costs to get that revenue? How many new students are necessary to attain that revenue?

By establishing specific financial goals you are then able to guide your organization to achieve those goals. This not only holds true for you but also for those staff members who are compensated through financial performance bonus participation. The same way you manage your student’s expectations on each step toward Black Belt, you should be guiding and managing the expectations of your bonus-based staff towards their goals. It is not conducive to a healthy organization to have a staff member who thinks they might make \$50,000 this year (one half of which is financial performance bonus), because “we are going to have a great year!” when it is not clear what is required each day, week, and month, to get the bonus which will meet that objective. Without establishing sound projections and then managing to them, the result, more often than not, is an unhappy employee or owner who has not achieved what they felt they “should.”

How Do I Create Projections?

There is no magic to create a solid set of projections. It just takes thoughtful consideration of each aspect of your business, starting with the revenue you expect to generate and then going through each expense required to properly run the business. Before you begin please understand that the past should be used as a guidepost for the future. If you charged each student \$90 a month in 2006, DON'T build your projections for 2007 based on \$125 per month! It will not happen, unless you raise your rates as of January 1, and are ready to accept the drop out rate associated with such increase. Even if you do begin the year at the higher rate, you are likely to continue the older students at the older rate, giving you an average rate for the year below \$125. The point here: be realistic with the numbers you use, you are only fooling yourself if you use too much confidence in how high you can push your revenue or how low you can drive your costs. To modestly underestimate performance is better than overestimating. You can always revise your numbers.

We recommend that you build your projections on a monthly basis to start. You can then divide them by weeks to get an approximation of what weekly performance is required to meet your objectives. As to the categories you should use to define your revenue and expenses you may want to start by using those that you or your accountant currently uses to reflect your historical financial performance.

Revenue

The best way to determine revenue is to create two or three revenue categories. We would suggest for most schools that you have one line that shows revenue for your service contracts, one for product sales, and a third for special events. If you charge testing fees you may want a line item under the service revenue called "testing fees". One formula that works for establishing service revenue is to look at the average rate you

got from your students over the last three months and use that as your base monthly service revenue per student. Then determine how many students you expect to have each month. You can do this by having a starting number which consists of your current student base. You then determine how many students you expect to gain that month, and reduce that number by the average number of students you expect to lose that month (or your “attrition rate” ----use last years average to get this number). Adding the net increase (hopefully not a decrease) to your base will give you the total students for that month which you then multiply by the average rate mentioned above. *Remember that this number will be HIGHER than your actual number because all of the new students were not added on the first day of the month; but this may be offset by the fact that you charge a sign-up fee, etc.* As you begin to build these projections you will over time refine them to reflect how you run your specific operation. We would suggest that you not begin by trying to make them perfectly mirror your operations. Experience suggests that you will get lost in the process. Start by getting a system that is somewhat close, and then improve them over time!

After you have established a reasonable projection of your basic service revenue move on to the rest of the revenue categories and do the same thing. Then total them to give you revenue per month that you believe you can achieve. We recommend that you be “modestly aggressive.” Do not be too conservative or your organization will not stretch to reach a higher goal and improve; but, do not create unrealistically high goals as they tend to frustrate the organization.

Lastly, assuming you use a third party billing company, you will eventually want to create two columns of revenue: *Cash Collections* and *Monthly Billing Collections*. This will give you some idea of what you can expect next month from your third-party collections and will begin to give you an idea of what percentage of your business is Cash and what you are building up in receivables. There are many strongly held views on what the percentages should be and where you should place your emphasis.



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Our company view is that you should provide your students/customers with a variety of options, all designed to make the program work most comfortably for them. That being said, we find that most prefer monthly payments. Because we like predictability in our business we strive to see the Third Party Billing (receivables) grow each month.

Expenses

We find the best way to set up the expense categories in our industry is something similar to the following (but always tailored to your particular needs):

Personnel Costs
Occupancy Costs
Sales and Marketing Costs
Miscellaneous or Other Costs

It is important to be certain that you are adding all appropriate costs to the category. For instance, in Personnel Costs you need to be sure you are adding all FICA and other taxes, Insurance, other benefits, etc. The same holds true for occupancy costs. Make sure you are including all Triple Net charges, utilities, etc.

There will be various costs that can fairly be allocated to more than one category. For instance, phone charges can arguably be allocated to Sales and Marketing as most calls are related to getting students in the door or keeping them. Phone charges can also be included in other Miscellaneous costs. Initially, it is more important to make sure you get them included than it is what category you put them in. You will get them into the category you feel appropriate as you spend more time managing to your projections and getting comfortable with how they work.

As is evident from the above discussion, there are several sub-categories under each larger heading. It is worthwhile to break out each subheading under the main heading and then provide a total for the main heading. By doing so you will begin to develop an understanding of “relative” operating numbers. By that we mean that you will begin to determine what each category ought to represent in your business in order for you to maximize your operations. For instance, we find that a mature school should not have Personnel costs (before owner’s wages) of more than 40% of revenue, and that Occupancy costs generally range between 15% and 22% of revenue.

As you begin to use your projections and manage your business by them you will want to note the percentage of revenue each item represents. These percentages usually appear on the far right column of your projections.

Your Profits

Following the expenses will be the profits or excess cash which can be drawn by the owner of the business. Depending on how you define your employee bonus program, this Category may also include the cash available for distribution to those employees. (Note: for purposes of determining percentage of revenue attributable to Personnel Costs the bonuses should be included).

Considerations Applicable to Our Industry

As you begin to actively use your Projections you will notice a few things that will frustrate you a bit. First, as you get more sophisticated in your use, you will want to modify the formulas to make the projections more accurate. For instance, you may find that your sales model has a “two



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months for the price of one” program or that 5you’re your students prefer to pre-pay their tuition and take advantage of whatever discount you may provide for doing so. These programs may, in an optimal setting, require you to change your projections to accurately present this. The formulas for doing these types of things can be difficult to create. Don’t try to be a Black Belt in Microsoft Excel overnight! Just get some basic projections going and get yourself started. Once you have become accustomed to using them you can then work on becoming an Excel guru, or hire a student or your accountant to build the formulas for you. The Second thing that will frustrate you is that every week and month does not grow consistently. February is a short month, the summer months tend to be slower, etc. These things will tend to cause you to miss your projections at various times, and to build the model to accommodate these issues is no small feat! But, do not let these issues slow down your drive to run the company/school by your projections. You will better understand the reasons for adjustment when running the school by the guideposts you have established.

Student Value will become a number that will be important to you. First as relates to the monthly student value discussed under *Revenue* above, as well as the Value of a single student over time. This number can be derived by taking your average monthly student value and multiplying it by the average time a student stays in your program. This second student value number will highlight the importance of retention and the high costs (marketing and other) of having poor retention.

With the above undertaking, you will now be able to sit down with those employees that are paid, in part, by financial performance bonus, and outline the specific goals they will be required to achieve in order to meet their income expectations. You will also be able to better estimate what you will be able to draw from the business as its owner. If you don’t meet your objectives you are likely to have a much clearer understanding of where you fell short.



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You should avoid revising your projections monthly or weekly. However, a policy of revising them periodically (for instance quarterly) to address changing trends is important.

Go forth and inspect what you expect.

TOPIC 2 – PARENTING TIPS 101

Ways to make a child feel special

- Write a special note to your child. Tape in on the bedroom door or put it in the lunchbox.
- On an ordinary day, cook all of your child's favorite dishes for one special dinner meal.
- Leave work early in midweek, pick up your child from school, and go to the park.
- On a Friday night, have a picnic on the living room floor and play a board game.
- Turn up the stereo. Dance to your child's favorite music.
- Call up Grandma, and tell her how proud you are of your child. Tell all the details, and be sure the whole family hears.
- Bake a cake, and let your child decorate it.
- Ask your child's advice on something important.
- Serve your child breakfast in bed on a school day.
- Put your child's latest artwork in your finest frame in the living room.

Fun Things You Can Feel Good About Saying Yes To

- An extra bedtime story
- Rock and Roll music while getting dressed in the morning
- More berries for dessert
- A picnic dinner
- A weekend pajama day
- A trip to a petting zoo

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- Building a fort with couch cushions
- Making Halloween masks
- Blowing bubbles in the tub
- Making mud pies

Helpful Family Rules

- Treat others as you would like to be treated.
- Tell the truth.
- Obey safety rules at all times.
- No name calling.
- Be kind.
- Ask for help when you need it.
- Respect one another.
- Do things the first time asked.
- Communicate.
- Contribute.

How to Slow Down the Morning Rush

- Skip sandwiches sometimes! Use a small Thermos for a warm lunch treat!
- Get dressed first! You'll feel less harassed if you're prepped early.
- Put it by the front door. If you need it for school, make it easy to find.
- Buy multiple lunch boxes and cooling elements. If your child forgets to bring home his/her lunchbox, you won't be in a panic the next day.



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- Launder favorite clothes after each wearing. You'll avoid a morning melt-down when your son discovers his Spider Man shirt in the hamper.
- Unpack your child's back pack each night before dinner. That way you'll be sure to see homework and permission slips.
- Post the school schedule on the fridge. Then you'll always know the days for P.E. and Art.
- Do as much as you can at night. You won't be frantic, and you might be able to call on extra helpers.
- Have children pack their lunch while you make dinner.
- Give yourself a break on Fridays. Dress down days and pizza lunches are fun!

Parenting Tips

Raising kids today is arguably harder than ever before. But, there are some ways to help ease the stress and strain of raising your little ones and prevent behavior problems through good parenting.

- Establish "together time" Establish a regular weekly routine for doing something special with your child -- even if it's just going out for ice cream
- Don't be afraid to ask where your kids are going and who they'll be with. Get to know your kid's friends -- and their parents -- so you're familiar with their activities.
- Try to be there after school when your child gets home.
- Eat together often. Meals are a great time to talk about the day and bond.
- Be a better listener. Ask and encourage questions. Ask your kid's input about family decisions. Showing your willingness to listen

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will make your child feel more comfortable about opening up to you.

- Don't react in a way that will cut off further discussion. If your child says things that challenge or shock you, turn them into a calm discussion.
- Be a living, day to day, example of your value system. Show the compassion, honesty, generosity and openness you want your child to have.
- Know that there is no such thing as "do as I say, not as I do" when it comes to your kids.
- Examine your own behavior.
- Reward good behavior consistently and immediately. Expressions of love, appreciation, and thanks go a long way – even for kids who think themselves too old for hugs.
- Accentuate the positive. Emphasize what your kid does right. Restrain the urge to be critical. Affection and respect will reinforce good (and change bad) behavior. Embarrassment or uneasiness won't.
- Create rules. Discuss in advance the consequences of breaking them. Don't make empty threats or let the rule-breaker off easy. Don't impose harsh or unexpected new punishments.
- Set a curfew. Enforce it strictly, but be ready to negotiate on special occasions.
- Have kids check in at regular times. Give them a phone card, change or even a pager, with clear rules for using it.
- Call parents whose home is to be used for a party. On a party night, don't be afraid to stop in to say hello (and make sure that adult supervision is in place).
- Listen to your instincts. Don't be afraid to intervene if your gut reaction tells you something's wrong.
- Let your children know how much you care in every situation you can, and especially when they are having problems.

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- Keep a positive attitude about your ability to be a parent. Trust your instincts.
- Take care of yourself. Meet your needs for support with other adults so you can establish healthy parent-child boundaries.
- Take time to teach your children values while they are young. Live your own values every day.
- Make your home a safe, secure, and positive environment. Provide appropriate privacy for each family member.
- Get involved in your child's school, your neighborhood, and your community. You, not the teachers and other authority figures in your child's life, are responsible for parenting your child.
- Set clear rules and limits for your children. Be flexible and adjust the rules and limits as they grow and are able to set them for themselves.
- Follow through with consequences for your children's misbehavior. Be certain the consequences are immediate and relate to the misbehavior, not your anger.
- Let your children take responsibility for their own actions. They will learn quickly if misbehavior results in unpleasant natural consequences.
- Be a guide for your children. Offer to help with homework, in social situations, and with concerns about the future. Be there to help them direct and redirect their energy and to understand and express their feelings.
- You are separate from your child. Let go of the responsibility for all of your children's feelings or outcome of their decisions. Your children's successes or failures are theirs, not yours.
- Provide an environment for your children where a foundation of mutual appreciation, support, and respect is the basis of your relationship into their adult years.

TOPIC 3 – RED, WHITE AND BLUE THEORY

It is important for us to remember that our students have a lot of options when it comes to where they spend their time and money. And, they will always have enough time and money for the things most important to them. One of our jobs is, for every time they leave, to make sure our students think, “Wow...that was great...I’m so glad I went to class...”

Let’s discuss what makes this possible. The first thing to remember is that it is more than just teaching a great class. It starts from the moment your students enter your parking lot until the moment they leave the school; and every moment in between.

Kyoshi Tom Clifford talks about the Red, White & Blue Theory for Success in the Martial Arts.

Red stands for the “Red Carpet Treatment” and refers to the importance of having an incredibly inviting atmosphere.

White stands for the “White Glove Theory” and refers to having an immaculately clean school; impeccably well-groomed instructors; and a “G” rated environment.

Blue stands for “Blue Ribbon Customer Service” and refers to delivering all you’ve promised and more.



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Rate your school from 1 – 10 in the following areas:

1. Parking situation

- Adequate # of spaces
- Accessibility from the street
- Lighting
- Cleanliness
- Safety
- Exterior appearance of the building

2. First Contact

- Order
- Professional appearance
- Greeting
- Positive energy

3. Class

- Friendliness of Instructors
- Appearance of the floor
- Parent Interaction
- Safety
- Instructor/Student relationship
- Progress recognition
- Class planning

4. Post Class

- Announcements and Handouts
- Class to class transition
- Between class crowd control
- Exit traffic flow

Tally up your scores and see where you are weak. What can you do to strengthen those weaknesses?

TOPIC 4 – RETENTION 101

People start Martial Arts for many different reasons and usually when they continue, it's for reasons different than the ones they started for.

They may start for self-defense, but stay for the workout. They may start for the workout, but stay for the camaraderie. They may start for stress release, but stay for the ongoing challenges. Children usually want to do Martial Arts for entirely different reasons than their parents want them to. Regardless of the reasons people begin training; in a well-run school everyone's long-term needs are being met.

The grim reality is...the majority of our students don't train for as long as we would like them to. Too often, they discontinue their training well before they began to see the benefits that long-term Martial Arts training can bring.

We, as Instructors, usually take the viewpoint that their quitting was beyond our control. The fact is, however, more often than not, that most of our now inactive students would still be training if we would have done a better job of meeting their needs in the first place.

Starting from the first lesson, and going to beyond Black Belt, list various reasons why students might quit training. Next to each reason, list a solution that will help solve the problem in the future.



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Reasons For Quitting	Solutions
1.	1.
2.	2.
3.	3.
4.	4.
5.	5.
6.	6.
7.	7.
8.	8.
9.	9.
10.	10.

Remember, it is much easier to fix potential problems ahead of time than to try to perform damage control. Be one step ahead of your students and watch your active count grow.