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BEAUTY SHOPS

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FOREWORD

This publication is part of a new series of Industry-Small Business Profiles prepared by Small Business Institutes (SBIs). The institutes are organized through the Small Business Administration and currently are located at 520 college campuses around the nation. The institutes provide counseling by students and faculty to small business clients. The Industry-Small Business Profiles are also prepared by institute faculty and student teams who conduct the research and write the Profile.

The Profiles are designed to be a reference resource for existing and prospective small business owners, particularly as they assess how their businesses are operating and develop plans for the future. Each Profile introduces the small business owner to trends, opportunities, and small business examples that may be useful in the planning process.

Some Profiles summarize nonproprietary industry information that has been extracted from counseling cases of the institute's small business clients. These examples illustrate various ways in which small businesses are actually operating but are not meant to be instructions that small businesses should follow.

The Profiles also are intended to be reference tools for SBI teams. In preparing to work with a specific small business client, each SBI team has needed to conduct its own background research into the client's industry. The Profiles reduce the preparation time needed by presenting the type of information generally collected in background research.

Other small business counselors, for example, the Service Corps of Retired Executives (SCORE) and the Small Business Development Centers (SBDCs), may also find the Profiles useful for their work with small business clients.

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I. INDUSTRY AND BUSINESS ENVIRONMENT

Trends Affecting the Industry

Certain organizational or structural changes in the beauty shop industry have occurred that tend to standardize operational practices and set standards of managerial efficiency. As of 1983,

the U.S. Department of Commerce listed 19 firms that franchised or operated more than 2,000 beauty and barbershops. In addition, training services were offered as part of exclusive product-sales franchises to more than 5,000 shops.

It appears likely that the basic skills of hairstylists will continue to resist widespread technological changes. Handheld tools will probably continue to improve relative to the required functions. Chemical applications needed for setting, conditioning, and coloring hair will improve and become simpler to use. It is not expected that there will be a wave of new useful gadgetry as there was in the 1972-84 period with regard to perming.

Consulting services are now available to assist in setting up and equipping salons. They offer services such as architectural and interior design, advertising programs, and managerial and financial advice. Salon management systems have been widely accepted by the larger shops. The consulting services also provide computer software and advice on its use.

In a subsequent section, examples of large-scale and chain salon operations will be examined. In the 1980s, there was a tendency toward this chain "reaction" more than ever before in the hairdressing history. These chains are reported as being highly successful at present.

Current State of the Industry

Employment in beauty shops increased in the mid-1980s. However, in the smallest beauty shops with one or two paid employees, the numbers have declined. Self-employment in beauty shops attained a peak in 1980 that was 19 percent above the previous high reached in 1972. In 1983, self-employment in beauty shops was 4 percent below the 1980 level (Branch and Ahmed 1986).

Beauty salon sales were expected to increase 6.5 percent to \$21.2 billion in 1988 according to an industry survey conducted for American Salon by Audits & Surveys, Inc., a New York-based marketing research firm. The sales gain, however, would be "substantially below" the increases of 13.3 percent in 1986 and 9.4 percent in 1985. Industry sales rose from \$11 billion to \$19.9 billion between 1982 and 1986, according to Robert Rhoades, vice president of Audits & Surveys. Longer term comparisons show beauty shop sales throughout the 1970s grow by about 9 percent annually (Table 1).

Of the total salon sales estimated for 1987, \$17.2 billion came from women's services, \$2.7 billion from men's services, and \$1.3 billion from retail sales of salon products. These totals represent gains of more than 6, 8, and 10 percent, respectively.

The Audits & Surveys study projected that average customer charges would drop slightly to \$13 for women and \$14 for men. According to Mr. Rhoades, "The slower rate of growth in dollar volume is the result of lower inflation and stronger competition among increasing numbers of beauty salons."

Demand for hair coloring has experienced a small growth in the 1985-87 era to account for nearly 25 percent of salon sales (similar to the figures suggested in Table 2). In women's basic services, 22 percent of industry dollar volume will come from cutting, followed by 17 percent from perming, and 16 percent from hair styling. The fastest growing salon service will be manicuring, which will grow 31 percent to \$545 million for women and 20 percent to \$60 million for men. The Audits & Surveys study predicts slight declines in women's skin care, which grew 165 percent to \$162 million in 1986, and for men's perming, the volume of which is projected at \$500 million.

Retail sales of salon grooming products were expected to increase 10 percent to \$120 million in 1987 to become more than 6 percent of total industry volume. That gain followed an increase of 11.3 percent in 1986.

Table 1--Change in Selected Performance Indicators for Beauty Shop Industry, 1939-63 and 1972-82

Industry Performance Indicator	Annual P 19
Current dollar receipts	7.89.3
Price	
Real output	
Employment	
Real output per person	1.50.2

Source: U.S. Department of Commerce, Bureau of the Census, 1982 Census of Service Industries (Washington, DC: U.S. Government Printing Office, 1985).

Legal Requirements for Cosmetologists and Beauty Shops

Hairstylists are often referred to as cosmetologists. They are skilled workers and are required to obtain up to 1,800 hours of training in most states, as well as to be licensed. Although the exact licensing requirements differ from state to state, the following requirements for the state of Ohio indicate the range

regulations that exist.

1. Beauty salon license: Application for a beauty salon license must be submitted at least 2 weeks prior to scheduled opening date with a \$30 fee.
2. Compliance with state sanitary rules: These rules must be posted in a conspicuous place.
3. A vendor's license must be obtained from the County Auditor of the county in which the business is located. The initial fee is \$25 with an annual renewal fee of \$10.
4. If the business is to have a fictitious name, a form from the Secretary of State must be filed. Fee: \$10
5. If the business wishes to have a trade name registered, a form from the Secretary of State must be filed. Fee: \$20
6. If the business is to have employees, even part-time only, a Federal Identification Number must be secured.
7. If the business is to have employees, an application for Ohio Workers' Compensation must be filed.
8. If the business is to have employees, a report must be made to the Ohio Bureau of Employment Services. This report, called "Report to Determine Liability," is to provide unemployment compensation coverage to employees.
9. The U.S. Department of Justice, Immigration and Naturalization Service, will inform prospective employers of the laws requiring verification of the identity and employment eligibility of prospective individuals hired after November 6, 1986.

Table 2--Percent of Distributor Purchases of Key
Products, Excluding Cosmetics

Total			
Permanents			
Hair color			
Shampoo			
Conditioning			
Hair goods and accessories	11	3	1

Hand-held electrical appliances	10	15	9
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Source: Audits & Surveys, Inc.

II. FINANCIAL FACTORS AND ACCOUNTING

Financial Factors

Table 3 depicts financial data collected by Dun and Bradstreet in 1987 from a sample of 847 beauty shops. The sales average of \$155,487 indicates that these 847 shops may have been among the larger establishments in size, or that a few large "chains" are represented as establishments.

The relatively low level of fixed assets seemingly indicates that the majority of the shops rent or lease their space. Long-term liabilities are less than 18 percent of total assets, again signifying a lack of fixed or long-term debt. This may in part reflect difficulty in securing bank or bank-type financing for a business of this type. Net profit after tax averaged only about \$14,000, or 9 percent of sales. Two key ratios, the quick ratio and the current ratio, show wild disparity between the upper quartile and the lower quartile, signifying radically differing liquidity status among the different companies in the population. The profitability ratio shows similar dispersion. A likely implication is that the marginal operator is able to "survive" or maintain a presence in this labor-oriented industry to a greater degree than a marginal operator could in a retail-oriented industry.

A break-even analysis may be developed by using the sales figure of \$155,733 (the average sales given in the Dun and Bradstreet report, Table 3) combined with expense figures (percentages) developed by the Marietta College Business Resource Center (Table 4). Using this combined set of data from Tables 3 and 4, we calculate that almost \$80,000 is the break-even sales requirement (Table 5). Once a firm gets past the almost \$76,000 fixed cost, variable costs are reported to be less than 5 percent of total sales. The implication is that once a certain sales volume is reached, the balance of the receipts is mainly profit! While this is true with most businesses, it is exceptionally valid for service-oriented businesses.

Accounting

Those commanding a successful business avidly pursue bookkeeping duties or hire professional help, establish strict budget policies, and are armed with an organized accounting system. The owner keeps close check on routine day-to-day activities--

incoming sales and outgoing expenses. At the same time, the owner budgets for the future.

Forecasting the salon's economic conditions will also help determine plans for expansion, consolidation, pricing structures, and upcoming expenses.

Novice owners are wise to hire an accountant who has other salon clients for establishing an accounting system that is workable.

Essential records in an accounting system include

- Daily journal, recording sales (cash and credit) and expenses
- Accounts-payable file, tracking outstanding bills
- Accounts-receivable records, noting credit sales and bad debts
- Payroll, including time cards, wage rates, tax schedules
- Taxes, classifying type and dates of payment
- Income statement, compiling account records and journal entries to measure the cost of doing business and profit progress over a period of time
- Balance sheet, taking stock of the business' financial standing at a given time, usually at the end of each fiscal year

As additional bookkeeping safeguards, experts recommend

- Retaining receipts for all business expenses
- Separating personal and business bank accounts. Some owners also find that auxiliary accounts reserved for taxes ensure that sufficient cash is on hand when taxes are due
- Subtracting owner salary from gross profit along with other operating expenses-rather than taking personal income from net profit-in order to avoid distortion of a true profit reading

Table 3--Financial Data for a Sample* of Beauty Shops, 1987

Assets

Cash			
Accounts receivable		2,882	4.5
Notes receivable			564
Inventory			
Other current			
Total Current Assets		26,146	41.7
Fixed assets			
Other non-current			15,362
Total Assets			
Liabilities			
Accounts Payable			\$2,633
Bank loans			
Notes payable			
Other current			
Total Current Liabilities	15,487		24.7
Other long term			11,0
Deferred credits			125
Net worth			
Total Liabilities & Net Worth	62,701		100.0
Net sales			
Gross profit			
as a % of net sales		---	60.8
Net profit after tax		14,016	---
as a % of net sales		---	9.0
Working capital			10,6
*Sample of 847 establishments.			

Financial Ratios	Quartile	Quartile	Quartile
Solvency			
Quick ratio (times)	3.0	1.0	0.4
Current ratio(times)	5.5	2.1	0.9
Current Liab to NW (%)	8.3	26.0	81.8
Current Liab to INV (%)	39.1	118.4	320.4
Total Liab to NW (%)	14.0	53.8	150.3
Fixed assets to NW (%)	37.9	73.8	129.9
Efficiency			
Collection period (days)	2.4	8.4	35.4
Sales to INV (times)	88.7	34.3	13.9
Assets to NWC (times)	25.5	10.9	4.8
Sales to NWC (times)	25.5	10.9	4.8
Acct pay to sales (%)	0.7	1.6	3.0
Profitability			
Return on sales (%)	16.7	6.8	2.1
Return on assets (%)	38.3	14.7	1.3
Return on NW (%)		67.8	23.1
			3.6

Source: Dun & Bradstreet

Table 4--Beauty Shop Cost Profile for Newly
Started Salons, 1980

Indus

Revenues
 Cost of Goods Sold
 Purchases
 Labor
 Materials & supplies
 Other costs
 Cost of Goods
 Gross Profit
 Indirect Costs
 Advertising
 Bad debts
 Car & truck expense
 Depreciation
 Dues & publications
 Employee benefits
 Freight
 Insurance
 Interest
 Laundry & cleaning
 Legal/professional
 Office supplies
 Postage
 Rent
 Repairs
 Salaries & wages &
 commissions
 Supplies
 Taxes
 Telephone
 Travel/entertainment
 Utilities & other
 Total Operating Expense
 Net Income

Source: Marietta College Business Resource Center, Marietta, Ohio.

Table 5--Beauty Shop Break-Even Analysis

Sales	100%	Fixed Costs	
Less variable expenses			Car/Truck 9,188
Cost of goods sold			Dues/publ 1,55
Purchases	0.2%	Employee ben.	311
Var. labor	1.8%	Insurance	1,868
Materials	0.6%	Interest	2,179
Other costs	0.7%	Laundry/cleaning	160
Operating costs		Postage	779
Bad debts	0.1%	Rent	
Commissions	0.7%	Repairs	1,0
Freight		0.0%Salaries/wages	21,180
Supplies	0.7%	Taxes	
Total variable costs	4.8%	Travel/ent.	2,025
Contribution margin	95.2%	Other	9,967

Break-Even Calculation:

Total fixed costs	
Divide by contribution margin percent	95.2%
Sales dollars required to break even	\$79,822

Break

Dun & Bradstreet combined with industry percentages provided by Marietta College Business Resource Center.

III. MARKETING CONSIDERATIONS

The expansion of unisex salons, with their emphasis on walk-in, no-wait service (no appointments), represents a basic marketing shift; this shift has been a factor in the persistent decline in the number of barbershops. However, research by the Bank of America suggests that many patrons, particularly older women, are not comfortable side by side with men (Small Business Reporter vol. 12). In addition, many states, including Ohio and California, have regulations that prohibit cosmetologists and barbers from working side by side. Thus, if a barber is hired, a floor to ceiling partition is required.

The age distribution of employed women age 35 to 54 has changed little, and this group, according to an industry survey, has the greatest probability of visiting beauty shops and the highest frequency in doing so. The proportion of employed women in this age group declined from 38 percent in 1972 to 34 percent in 1977, then rose to 37 percent in 1984. Overall, employment of

women rose at an average annual rate of 3.3 percent between 1972 and 1984, and median income (in current dollars) of women working full time increased at an estimated rate of 8 percent a year. The rise in women's income and employment proved paradoxical. It often meant that less time was available for visits to beauty shops, and more hair care was performed at home. Moreover, many women apparently preferred unisex or no-frills salons. In general, according to the survey, the frequency of beauty salon visits rises with income. Yet, pressure of time may reduce the services requested or desired by the client.

Many prospective owners have a fixed image of the kind of salon they want to operate. To find a market receptive to that concept requires extensive study, but a successful match augurs well for a profitable salon enterprise.

Advertising

Many new owners open salons near their previous jobs where they are likely to start with a guaranteed clientele. Others base their business environment decisions on market potential, or on a neighborhood's need for a new type of beauty service or its lack of competition. A study of several communities can open up new possibilities that might not have been considered otherwise.

When considering potential locations, owners should examine the following factors:

- Age/income/occupation of community members
- Community growth patterns
- Amount and type of competition

An analysis of census figures from government sources or statistics from local chambers of commerce may produce helpful information on a community's business potential. An area dominated by discount stores, for example, may be a welcome spot for a budget beauty shop, while a fashionable village of boutiques may stimulate business for an elegant hair salon.

Taking count of a neighborhood's salons will not necessarily reveal an area's demand for or saturation of salons. Experts advise new owners not to consider all neighboring beauty salons as competitors. Rather, they stress the importance of measuring the prospective shop's particular features against a community's market.

The type of advertising selected will depend primarily on the salon's budget. Typically, a salon owner spends 2 to 3 percent of sales on advertising annually, although a salon in its first year of business may spend as much as 5 percent.

When developing a campaign, the owner should keep in mind a clear concept of the salon and its potential market. Guided by this information, the owner can design the best message and choose the most appropriate media for the targeted clientele.

Ads in the telephone directory yellow pages are the most common form of paid advertising. Rates vary according to the area covered by the directory and the size of the advertisement. A large urban directory ad may cost from \$35 to \$150 monthly.

Newspaper ads are occasionally used, particularly by new salons to promote their grand openings. In most cases, TV or radio advertising is too costly for the independent merchant. However, there are exceptions, and some large salon owners find radio spots worth the investment. Owners considering radio advertising should study the markets of various stations and choose the one that broadcasts to the salon's target clientele.

To gauge their advertising success, some salon owners inquire about a new customer's source of referral. If, for instance, a newspaper ad has had no effect, the owner can allocate future expenditures to another advertising medium.

Promotion

Besides advertising regularly, salon owners who want to keep their names up front can also engage in promotional activities or offer special rates to generate new business. Providing hairstyling in local fashion shows or sponsoring free beauty clinics at high schools, social clubs, and retirement groups promotes the salon's good public image and helps the community in the process.

Discounting as a promotional activity can prove costly for the owner. Experts stress that if quality service is expected from the stylists, they should be paid a commission based on the regular service price.

Site Location

Knowledgeable owners emphasize location as a prime fact a profitable business. In describing what influenced their own location choices, successful managers cite the following features: parking facilities, lease requirements, electrical/plumbing outlets, access to major transportation routes/public transportation, and proximity to other shops and services. Descriptions of different types of locations follow.

- Street-side or walk-up localities--The popularity of street-side salons is based on visibility and accessibility. These salons are usually located on a major street, flanked by

regularly patronized retail shops and service businesses. The salon's styles and prices conform to the tastes and incomes of the neighboring shop's customers.

- Walk-up space--This location is also frequently used by salons, especially where ground floor sites are expensive. Since visibility is an important feature, walk-up salon owners should make sure they can post a sign downstairs or hang a shingle visible from the street.
- Shopping center sites--Shopping center managers are known to look with favor on beauty salon tenants as a good means of attracting shopping mall patronage. "No appointment" salons predominate in these modern day marketplaces, permitting shoppers to break for a shampoo and set during their round of regular chores.
- Hotel space--Setting up a business in a bustling hotel has appealing advantages, the most significant being a captive market of tourists and conventioners who often need salon services during their stay. A hotel's central location helps to pull in the indigenous populace as well. The salon owner may be required to pay a percentage of gross sales to the hotel in addition to rent. Scheduling customers can be a problem, advises one manager. "Partying conventioners are frequent callers for last-minute, 7 P.M. to 8 P.M. appointments. And your position with the hotel management is secured by accommodating their guests."
- Department store space--Most major department stores make lease arrangements with the large beauty salon chains. Space in independent department stores, however, may be available to the small beauty shop. Lack of visibility to non-department store patrons can be a drawback.
- Apartment complex suites--Where zoning regulations permit, large apartment and condominium communities can be good places for salons when there is a sufficient number of homemakers to fill daytime appointments. However, dual-career-family areas can be ghost towns during the day, a bad omen for salon business.

Customer Loyalty and Choice of a Beauty Shop

A unpublished study of an Oxford, Ohio beauty salon by Miami University students was completed in 1983 (Havelka and Harubin). Although the sample sizes were small, the study offers some insight into the importance of customer loyalty and shop selection.

The study found that 14 of 37 women (38 percent) and 8 of 22

men (36 percent) frequent the same shop virtually every time. In terms of how the first contact was made between the customer and the salon, 11 of the 37 women (30 percent) and 6 of the 22 men (27 percent) went on the recommendation of a friend (word of mouth). Only 4 of the women (11 percent) and 6 of the men (27 percent) went because of the price. None of the 59 in the sample used a coupon, and none of the 59 saw any advertising done by the salon (excluding its sign). The study was done in such a way that the interviewee could check only one response. If the 14 "loyal" women and 8 "loyal" men are removed from the responses, the combined word-of-mouth percentage increases to 46 percent (17 of 37 persons), and 16 percent (6 of 37 persons) were price conscious. Also, only 2 women and 2 men mentioned location as the most important factor (conditional probability of 10 percent, combined). As mentioned, the sample size was small and the design of the questionnaire is subject to debate. However, the results offer realistic guidelines. They strongly suggest the need to build up clientele, and, if service is valued, the salon will build loyal customers through time.

IV. MANAGEMENT AND CONTROL

Layout

Efficient service results from accessibility to supplies and adequate working space, and congenial atmosphere derives from comfortable customer accommodations. Both are predicated on ease of mobility and good traffic patterns within a salon, since salon service may require a customer to change places three or four times during a visit. New owners often get layout advice from design specialists affiliated with equipment dealers.

Most salons have a main passageway between the reception area and shampoo room. Traffic aisles should be clear of obstacles such as styling stations and hair dryers to avoid interference with service and to maintain a relaxed atmosphere.

Where plumbing and electrical outlets are already present, layout designs typically conform to existing utility patterns, since alterations can be costly. Services requiring plumbing outlets--shampoo bowls, workroom sinks, and the bathroom are usually grouped together.

- Reception area--Priorities: convenience and comfort. The reception area gives customers their initial impression of the salon's service. Adequate customer seating and a centrally located receptionist's desk are essential requirements. The desk should be accessible to patrons checking in or paying for service. In laying out small

salons where stylists often double as receptionists, owners place the desk and telephone within easy reach of styling stations. The reception room usually serves also as a retail sales area where products, charts, and brochures are displayed.

- Styling stations--Priority: efficient working space. To give stylists adequate work area, styling chairs should be at least four feet apart. Usually stations are grouped together, either affixed to a side wall or placed in rows across the width of the salon. Standard hood dryers should be grouped together and separated from major traffic areas so that passers-by, are not likely to bump into the propped-up feet of those under the dryer. Where scheduling depends on a large number of dryers, small groups may be placed in several locations throughout the salon, which is aesthetically more pleasing than 20 dryers positioned in assembly-line fashion.
- Shampoo room--Priority: location. Considered one of the less attractive features of salon service, the shampoo room is often partitioned off from the rest of the salon. To enhance patron convenience despite this drawback, the planner usually locates the shampoo room in a spot easily accessible from the reception area.
- Storage/work area--Priority: organization. Owners stress that a well-designed storage area is the first step toward efficient control of inventory and prevention of errors in product use. With thoughtful planning, the owner can have shelves and drawers constructed to meet the particular requirements of salon supplies. It is common for salons to have numerous drawers with one type of supply in each--for example, frosting caps in one drawer, neutralizing caps in another, etc. Shelves and drawers should be labeled. For hair coloring items, some owners find that keeping the different brands on separate shelves helps avoid the possibility of grabbing the wrong bottle.

Insurance

The beauty salon owner needs several types of insurance coverage. In addition to carrying property damage and loss, theft, and employee health and life insurance plans, the owner should also be insured against claims arising from professional services and products sold in the salon. Some insurance companies have comprehensive policies specifically designed for beauty salons. Trade associations offer insurance packages to members at reduced rates.

Types of coverage included in the typical salon insurance plan follow.

- Property--loss or damage to building and personal property caused by fire, lightning, smoke, explosion, wind, riot, or vandalism
- Professional/product liability--injuries arising from professional services offered and cosmetic products produced by others but sold in the salon for patrons' home use.
- General liability
- Business interruption--revenue lost during temporary halt in business caused by illness and loss of or damage to property
- Crime--losses from burglary and robbery or other criminal act
- Auto liability--losses due to liability from the operation of autos in the business
- Workers' compensation--injuries and loss of pay related to employee accidents on the job.

Pricing Services

Pricing any service product is not easy because the "product" basically involves only time and skill--difficult commodities to measure and control. Particularly in beauty shops, pricing can appear to be a problem at first, because work volume is heavily dependent on the stylists.

Finding a pricing structure that accommodates the special "human factor," provides a good income to stylists and the business, and is still competitive takes time and careful consideration. Many new owners begin calculating a basic pricing structure by looking at the local competition's prices, using the neighborhood prices as a guideline, and then considering their own expected expenses and projected monthly income (Table 6). They make adjustments as needed to fit the financial needs of their particular salon.

Wages make up the largest share of the cost of service. Most salons offer, along with a set wage, commissions that may range between 45 percent and 55 percent of the sales price. (To cover supply costs, many salons deduct a dollar or two from each sales ticket before figuring commissions.)

Table 6--Hypothetical Pricing Worksheet

Competition price for cut-and-blow-dry styling	
Projected monthly appointments	
Projected gross income/month	\$6,4
Stylists' commissions	
Supplies	
Monthly expenses	
Other salary	
Profit	
Actual gross income	
Divided by 400 appts.: Base price for average cut-and-blow-dry or 1-hr. service	

Source: Small Business Reporter, "Hairgrooming/Beauty Salons."

V. SMALL BUSINESS FACTORS

In the beauty industry, it is easy to begin a new business, buy an existing business, or even buy a franchise associated with a large regional or national operation. Examples of different types of beauty shops are discussed in section VI.

Startup Information

According to the Small Business Reporter, the cost of equipping a salon--styling chairs, shampoo bowls, reclinable shampoo chairs, vanities, mirrors, and standard hair dryers--varies with the number of stylists and the types of services offered. For example, each full-service salon with four operators, including a full range of services such as hair coloring, hair analysis, and permanent-wave treatments, can cost from approximately \$22,000 to \$45,000 to equip (Table 7). Equipping the same size salon with just a cut-and-blow-dry service may require only half that amount. Common price estimates average from \$2,000 to \$2,500 per operator station and include equipment, cabinets, and reception furniture (Table 8).

Table 7--Capital Investment Requirements*

Opening Costs	
Leasehold improvements	\$4,000
Equipment/supplies	
Subtotal	

Operating Expenses
 Rent
 License/taxes
 Insurance
 Advertising/publicity
 Professional services
 Utilities/telephone
 Supplies
 Owner and employee
 wages (incl. receptionist)
 Cash reserves
 Subtotal
 Total

*For a hypothetical beauty salon with annual gross sales under \$100,000 (for the first three months of business).

Source: Small Business Reporter, vol. 12, no. 9,
 "Hairgrooming/Beauty Salons," p. 12.

Table 8--Equipment/Supplies Costs*

Styling Equipment		Typical
Vanities (incl. mirrors) (4)	\$800-\$2,500	
Styling chairs (4)		
Shampoo bowls (4)		
Shampoo recliner chairs		450-1
Standard hair dryers		
Manicure table/stool		
Subtotal		
Reception, office equipment		
Reception counter		\$2
Cash register		
Couch		
Chairs (2)		
Adding machine		
Lamps (2)		
Display cases		
Coffee table		
Radio		
Coat rack		
Subtotal		
Soft Goods (3 months)		
Shampoos, conditioners, hairsprays, hair coloring, perms	\$600-\$1,500	
Subtotal		
Hard goods/sundries		

Cut-and-blow-dry (hand dryers, styling irons, styling caps)	\$400-\$600
Full-service (rollers, pins, hair nets, capes)	\$600-\$800
Subtotal	
Miscellaneous	
Skin care equipment	
Cleaning supplies	
General	
Subtotal	
Total	

*Annual gross sales of hypothetical four-station beauty salon under \$100,000.

Source: Small Business Reporter, vol. 12, no. 9,
"Hairgrooming/Beauty Salons," p. 11.

Three basic types of styling chairs dominate the market. The most expensive--electric hydraulic chairs--run about \$750. Manually operated hydraulic chairs are more common and may be purchased for half the cost. Swivel chairs have become popular in recent years. This sleek design model, sought by high fashion salons, costs less than traditional models.

Some salon managers invest in a washing machine and dryer rather than pay for laundry service. However, thrift-seekers should evaluate the differences between do-it-yourself and outside service before buying; although some salons find a washer and dryer saves money, other owners say the additional staff time required for in-house laundering makes outside service a better investment.

Used equipment occasionally can be found through newspaper ads when a salon is going out of business or remodeling. Before used equipment is purchased, one should be sure that it is compatible with existing equipment and be sure that all used equipment is in working order.

Salon supplies are usually separated into three categories: hard goods, i.e., auxiliary equipment, which include hand dryers and styling irons; soft goods that must be replenished regularly, such as shampoos and conditioners; and sundries that are reused and ordered less frequently, e.g., rollers, hairpins, styling capes, etc. Examples of the different types of supplies are listed in Table 8.

Buying an Existing Salon

The Small Business Reporter indicates that purchase of an existing salon can be either a wise investment or a financial disaster. To avoid the latter, the prospective buyer should spend considerable time checking out a target business. Of primary importance is determining the reason for the salon's sale. An owner may be moving, expanding, in ill health, or simply ready to retire. But there may be other reasons for the sale which can spell trouble to a prospective owner. Smart shoppers sometimes locate certain danger signals during preliminary checks into community features, site location, or type of clientele. The following are some potential problems that may confront the buyer:

- Depreciating community resources (dwindling population, etc.)
- Poor reputation of previous salon
- New or aggressive competition
- Undesirable site features (necessary repairs, lease agreements)

The buyer will also want to find out whether staff members plan to stay or leave after the change of ownership. Equipment, fixtures, and furniture that will be included in the salon's sales price should be itemized and priced according to age and condition. Old hands know there is no point in paying for used equipment or outmoded decor that will have to be replaced in short order.

Decision making also requires a study of the business' sales history and operating expense ratios (Table 9). Serious buyers usually hire an accountant to help measure past profit progress and to determine whether the sales price is reasonable. This requires analysis of the business' accounting records for the previous few years. An attorney can help with the technical and legal concerns involved in finalizing sale terms and establishing new ownership.

Table 9--Operating Expense Ratios--Typical Ranges*

Cost of Sales
 Stylists' commissions
 Supplies
 Gross Profit

Expenses
 Other salaries

Rent
 Utilities & telephone
 Advertising
 Depreciation
 Licenses/taxes
 Insurance
 Professional services
 Seminars/dues/travel
 Laundry
 Total Expenses
 Net Income (before taxes)

*Annual income of hypothetical four-station salon under \$100,000.

**All figures given are percentages.

Source: Small Business Reporter, vol. 12, no. 9,
 "Hairgrooming/Beauty Salons," p. 14.

VI. CASE EXAMPLES

Beauty salons serve different target markets, offer radically different services from very basic to full line, and have differing objectives and methods.

Independent salons that vary from the very small one-or two-person shops to fairly large operations find themselves in competition with chain beauty salons. The following are examples of the types of business in this industry.

Visible Changes

Visible Changes, Inc., is the largest, fastest growing haircutting chain in any city in the country. John McCormack, the president and cofounder, helped start this business in 1977. Visible Changes has grown to 15 locations in Houston and Austin, Texas, with expected 1985 revenues of \$12 million (Growing With Style 1985).

The business plan of visible changes called for a chain of high-volume, no-appointment hair salons located in indoor shopping malls--a new twist at the time. What the company did not figure on, however, was the lukewarm reception from bankers and mail developers, who considered beauty salons high-turnover, low-margin propositions.

McCormack knew that if Visible Changes salons were to grow and multiply, he would have to find ways of assuring quality control, while building managerial strength. To him, that meant the development of a strong employee training program, as well as compensation and promotion policies that encourage and reward

achievement. The salaries that the McCormacks offer are uncommonly high, stretching into the \$30,000 to \$60,000 range for managers and assistant managers. The company's profit-sharing plan is worth \$3 million. And the cream of the employee crop gets a chance to manage million dollar salons.

"A manager is what makes or breaks the salon," states McCormack. To continue Visible Changes' record of solid, sensible growth--the kind that McCormack wants to see a little more of before he ventures beyond Texas borders--he needs to be able to lean all the more heavily on the people he promotes.

Regis Corporation

Regis Corporation is owner of a network of more than 500 hairstyling salons. Similar to a fast-food franchise, Regis has salons that dot the nation's shopping malls.

Those among the Wall Street analytic community who know the chain extol the skill with which Regis has applied modem management techniques to one of the world's oldest and most lucrative small businesses. Says Francis H. Williams, research vice president of Cantor, Fitzgerald & Company, Inc., in Boston: "Regis is a unique company, which has brought real management and efficiency to a fragmented, inefficient \$14 billion industry" (Aakins 1985).

Before Regis arrived on the scene, the hairstyling business in America's minimetropolises was dominated by individually owned parlors and local chains or by women working out of their homes. Regis opened salons decorated to suit its image as a premium-priced product (\$14.50 for a shampoo, cut, and styling in Mankato, Minnesota) and raked in the money. Regis also has the advertising dollars to attract business into its tastefully decorated salons.

Since 1979, Regis has recorded a compounded average annual sales growth of 29.1 percent (1984 revenues were \$136 million), earnings growth of 35.8 percent, and return on equity of 34.2 percent. Adds Williams, "Regis has exceptional long-term potential not only to gain market share but to gain it at a profit."

The company's two major tactical challenges--and its competitive edge--lie in the location of its salons and its ability to control the local managers. The first requires the real estate skills to negotiate property leases on a favorable basis in unknown small towns. The second requires finding managers and systematizing the operation of a business that has little or no inventory on hand (1.3 percent of sales for fiscal

year 1984), a business that is run by stylists, who usually have no previous management training.

A typical 1,100 square-foot salon with about 10 or 11 styling stations costs about \$80,000 to set up, and once established, will average about \$270,000 in annual revenues. After 18 months, the salon will return 17 percent to the bottom line. Regis management projects that the hypothetical average salon will have \$20,000 in receivables and returning 76.5 percent on a cash-to-cash investment basis.

Regis has six regional managers overseeing local operations. They help the salon managers with problems ranging from how to fire a cooperative but unproductive hairstylist to how to get a plumbing leak fixed. The company also has "SWAT" teams buzzing about the nation training the operators in management and instructing stylists on the latest hair fashions.

Regis uses incentives to motivate and retain salon operators. The salon manager gets a salary plus a percentage of the store's gross revenues. In addition, every year Regis gives as a bonus to the top 15 to 20 percent salon managers a 1-week trip to such places as London, Copenhagen, or Monte Carlo.

Locating salons in high-traffic malls and paying the right price in the real estate transaction is equally critical to Regis' success. Regis management is willing to pay a premium price for a prime location in a mall, and will negotiate until they get the right location and an adequate lease term--the longer the better.

Despite their years of experience, Regis managers admit they did not do their homework when they purchased Your Father's Mustache Barber Shops (YFM), Inc.--a chain of 62 hair salons for men, women, and children--last year for \$7.1 million. Though the acquisition looked good on paper, many YFM stores were in weak locations and lacked management controls of individual managers. Regis now has replaced all YFM management with their own people.

Analysts expect Regis' long-term growth rate to hold steady at 20 percent for the foreseeable future.

Franchises and Independents

Independent beauty shops have a strong presence, and there always will be a need for the services only a small salon can provide. However, the hairstyling chains predict they will continue to expand and expect to eventually take over the industry. "Do you remember when 'Mom 'n Pop' grocery stores were around, and the big chains came in and took over? That's what's

going to happen to hair salons," says Harold Johnson, regional franchiser of Fantastic Sam's for Central Florida (Orlando Bus. J.).

In fact, business has been so good, Fantastic Sam's is planning to add 10 new Central Florida locations to the 23 it already has there. Fantastic Sam's, a chain based in Memphis, Tennessee, and operating throughout North America, is a little different than its competitors. The chain caters to children, decorating the walls of its shops with brightly colored cartoons. It treats its hairstyling shops like retail businesses, spending a lot of money, on advertising and offering haircuts and permanents at cut-rate prices.

Johnson prefers to sell franchises to business people rather than to hairstylists because the former can be trained to the company's system more easily. These franchises can then hire the stylists to do the actual haircutting. One Fantastic Sam's franchise costs between \$65,000 and \$90,000, depending on whether an operator buys or leases equipment, according to Johnson.

Whereas Fantastic Sam's specializes in quick service for a reasonable price, Showcase, an independent Winter Park, Florida, salon, specializes in personalized service for a higher price. It also offers more than just haircuts and permanents. Showcase performs nonsurgical facelifts using a machine that exercises the muscles of the face, Showcase Owner Jeanette Morrison reports. Eventually she hopes to offer an exercise bed, a six-machine apparatus that exercises different parts of the body without the person having to exert himself or herself. One bed costs between \$20,000 and \$30,000.

"Now people are looking for skin care, nail care, and exercise," Morrison says. "We're getting into more of a health and beauty world."

In contrast to the chains, Morrison doesn't advertise or offer discounts. She also notes that, even through the tough times, the hairstyling business usually survives. "It's a recession-proof industry," she says. "Even if people are out of work, they're looking for work and they will need to keep up their grooming."

Conclusion

The beauty salon industry is a personal service-oriented business that has experienced continued growth. Beauty shops have almost always been under competitive pressure from hairstyling products for home use, but generally they have been able to overcome this pressure by improving the quality of

service and of the service environment. Individual owner/operators and franchise operators who combine modern technical skills, marketing considerations, a sound financial operation, and good people-skills can succeed.

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APPENDIX

Associations and Selected Information Sources

World International Nail and Beauty Association
606 West Katella
Orange, CA 92667
(714) 532-2553

National Cosmetology Association
3510 Olive Street
St. Louis, MO 63103
(314) 534-7980

Association of Cosmetologists and Hair Dressers
1811 Monroe
Dearborn, MI 48124
(313) 563-0360

American Beauty Association
111 Ewacker Drive, Suite 600
Chicago, IL 60601
(312) 644-6610

National Beauty Culturists' League
25 Logan Circle, N.W.
Washington, D.C. 20005
(202) 332-2695

International Chain Salon Association
4211 Cambridge St.
North Burnaby, B.C. Canada V5C 1 H 1
(604) 291-7101
also 101 E. Ontario St.
Frankfort, IL 60423
(815) 469-3950

Hair International/Associated Master Barbers and
Beauticians of America
219 Greenwich Rd.
Charlotte, NC 28211
(704) 366-5177

Educational Programs

American Council on Cosmetology Education
1990 M St., N.W., Suite 650
Washington, DC 20036
(202) 311-9550
Sponsors professional training programs for cosmetologists.

Hair International/Associated Master Barbers and
Beauticians of America
219 Greenwich Rd.
Charlotte, NC 28211
(704) 366-5177
Conducts classes, seminars, and a national hairstyling show.

National Accrediting Commission of Cosmetology Arts and Sciences
 1990 M St., N.W., Suite 650
 Washington, DC 20036
 (202) 331-9550

Sponsors educational workshops on standards and professional team training workshops.

National Hairdressers and Cosmetologists Association
 3510 Olive St.
 St. Louis, MO 63103
 (314) 534-7980

Conducts national, state, and local seminars; continued and advanced cosmetology education courses; and degree programs. Also offers Salon Business Development Slide Programs and NHCA Bookkeeping Record System, which include tax and social security tables, cash receipts, expenditure records, and instructions.

National Institute of Cosmetology
 1221 Massachusetts Ave.
 Washington, DC 20005
 (202) 638-7260

Offers training courses in operating and designing techniques and business techniques. Sponsored by the National Beauty Culturists' League.

Educational Programs-Directories of

Directory of Accredited Cosmetology Schools

National Accrediting Commission of Cosmetology Arts and Sciences
 1990 M St, N.W., Suite 650
 Washington, DC 20036
 (202) 331-9550

Annual, fail. Free. Lists more than 1200 accredited cosmetology schools in the United States and Puerto Rico.

Directory of Educational Institutions

Association of Independent Colleges and Schools
 One Dupont Circle, Suite 350
 Washington, DC 20036
 (202) 659-4260

Annual. Free. Lists institutions (with branch campuses) accredited by the Accrediting Commission of the Association of Independent Colleges and Schools.

National Beauty Career Center

3839 White Plains Rd.
Bronx, NY 10467
(212) 881-3000

Maintains current lists of cosmetology schools arranged by state.

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