



SPECIAL REPORT

Rental REALITIES



THE STATE OF CHAIR & SUITE RENTAL
IN THE PROFESSIONAL SALON INDUSTRY

MODERN SALON Media is unique in that we proudly cover and work with all segments of the professional salon industry. From students to cosmetology school instructors and owners, to stylists in salons and those working solo, to independent salons, chain salons and salon suites, to manufacturers, manufacturer's reps and distributors, our team connects with virtually every audience in the salon environment.

This wide range of contacts and dialogue deliver valuable insights into what's trending. Recently, everyone has been asking, **"What is happening with rental?"**

Most see rental as impacting our industry, but also as the "elephant in the room" no one talks about publicly.

At MODERN, we decided it was time to facilitate a meaningful conversation. We started by conducting a **major research project** focused on renters, non-renters, former renters, and owners of traditional, commission- or salary-based salons. By comparing these groups, we were able to benchmark the "reality of rental"—who's involved, their perceptions and the real numbers. We also talked to people about personal experiences and explored the topic's legal, tax and business-related implications and responsibilities.

Over the past six months, we've taken that information to the salon market and have presented to groups representing stylists, owners, distributors, manufacturers and chains. Knowing how emotional—and

personal—this issue can be, we realize it's a difficult topic for many to address. At the end of every presentation, however, there was always consensus that open dialogue means all are better prepared to weigh options, as well as related challenges and opportunities.

People in beauty
make important
decisions every day,
and having the right
information is crucial
to make *good* ones.

Most of you have devoted your life to professional beauty. With more than 90 years of communications history with the salon community, MODERN shares that commitment. We are here to serve you and help you advance your career and your business. Please reach out and let us know your thoughts, challenges and stories so we can support each other and keep the conversation moving ahead. For updates and to add your voice, visit modernsalon.com/rental.

To your success,



STEVE REISS, PUBLISHER
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WHAT WE'VE LEARNED

- Renters have been **part of the salon economy** for a long time, they're just more visible now
- The movement toward self-employment is **not specific to our industry**—it reflects larger societal and economic trends
- Salon employees and renters are **similar in many ways**—particularly in their demographic profiles
- But they are **different in other ways**—such as their personality types and motivation
- **Former renters** view rental somewhat differently than current ones
- Renters and employees **both think they have it best**
- **Most salon owners say** rental is prevalent in their area, but a majority say it had either no impact or a positive one on their business
- A significant percentage of salon owners are renting out space in their salons, **right next to their commissioned stylists**

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RESEARCH STUDY
AND ANALYSIS BY

MODERN SALON Media
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SPECIAL REPORT

Rental REALITIES

CHANGE HAPPENS

Where and how people work keep evolving. As society goes through changes in culture, technology, lifestyle and values, so, too, do our work environments, habits and attitudes. From the tools we use to the hours we keep, from how we communicate with customers and each other to how we define our work space, it all changes—decade to decade, year to year. Even trends in how we are compensated and how we define our businesses are subject to shifts. That is **not necessarily good or bad**, right or wrong, but it is reality.

CHOICES ABOUND

For salon professionals, there have always been choices on how and where to work in beauty—from the type of salon to the type of clientele to professional niches like editorial stylist, platform artist or cosmetology instructor. Now, more than ever, stylists have a wealth of employment and work-style options. To make the right, personal decisions about what type of work to do and what type of compensation or business model to embrace, salon professionals must **understand the nuances** of each.

KNOW THE FACTS

Change can create opportunity, but also confusion. As salon business and rental models have evolved, misunderstandings and misperceptions have created challenges as well as benefits for the professional beauty community. In this exclusive report, based primarily on data from a recent MODERN SALON Media research study underwritten by Neill-TSP, we explore the larger and salon-specific workforce trends impacting the salon marketplace. Our goal is to help **all members** of the professional beauty community **achieve success** in today's changing world.

LET'S GET STARTED >>

INDUSTRY PERSPECTIVES

Because the debate about rental in salons is a complex, layered conversation, MODERN SALON asked leaders from across the salon community to share their opinions and experiences. Here is a sampling of those thoughts. We will be gathering and sharing more at modernsalon.com/rental.

“In my 50+ years in the beauty biz, the only constant is “what’s new.” Salon suites is just another new concept, one that provides a number of benefits and connections to independent operators. I also see an opportunity for an organization who is in the suite rental business to take an aggressive approach to retailing by establishing a retail product center at front of the location and working out the details with individual tenants to include the products being use by the tenants in the retail section and have a policy about paying commissions to every tenant who recommends products to their clients.”



MIKE NAVE
PUBLISHER, BIR

I believe many motivated, independent salon professionals seek more control over their work environment and more personal freedom in their lives. Whether she is a former salon owner seeking to simplify her life, a new mom looking for more flexibility, or a stylist managing his career as a national educator, they move to a salon studio to take control of their schedule, environment, product selection and potential income. To successfully run a salon, a stylist needs more than just move-in ready space. That’s why our recent focus has shifted to providing more access to education. I believe that together we should embrace the passion and entrepreneurial spirit that embodies these independent stylists.”



STRATTON SMITH
CO-FOUNDER,
SOLA SALON STUDIOS

Chair and suite rentals now have become an integral and high-growth part of the U.S. salon industry, forming around 47% of salons and garnering 36% of all salon service revenues. The number of traditional independent salons is on the decline, with many lapsing into some form of rental: chair, suite or hybrid (rent plus commission in one location). Major corporate rental chains are growing. Some in the industry still look down on them, but manufacturers, distributors and all service sectors of the salon industry must learn to adapt and service rentals, which are here to stay, with the U.S. the only market in the world to have this huge rental sector. However, independent, artistic, commission-based salons will always exist, due to high-end clientele.”



CYRUS BULSARA
PROFESSIONAL CONSULTANTS
& RESOURCES

As an employee-based salon for 25 years, we have had to rebrand and rethink today’s workforce to compete with all the different types of salons today. If your staff can see that you can lead them to success through great culture, teamwork, consistency and flexibility, you shouldn’t have to worry about everyone around you. Since opening, our salon has been across the street from a big box salon/retail center, and a suite rental operation opened right behind them two years ago, and we haven’t lost anyone from our team to either. We let staff know that they are taken care of here—with ongoing education, photo shoots, advertising, business-building events and, most important, stability. The average person who rents doesn’t realize how a business runs until they start. More people are interviewing with us, because they realize that without advertising and a solid reputation, it’s hard to survive on their own.”



OLIVER STEINNAGEL
OWNER, OLIVER’S HAIR, OVERLAND PARK, KS

The lure of the rental model is strong: it makes running your own business look simple. As a distributor and school owner, we see many stylists leave for promises of increased freedom and paychecks. The reality is, many of them return to the traditional salon after a couple of years because of these hidden factors:

- **It’s a lot of unpaid work** due to responsibilities like taxes, ordering, scheduling, marketing and more.
- **It’s hard to attract more clients than you lose.** Traditional salons offer support, but with Booth Rental, it’s all on the stylist. There will always be clients who leave; you have to bring in more than you lose.
- **Enforcing costs is hard**, such as raising prices and charging for no-shows. It’s tough to be firm without a company policy to back you up.
- **Clients suffer—then split.** There’s no greeting, no team support when you’re running behind, no cup of tea while they wait. Technique stagnates as education access declines. Many clients who initially followed their stylist revert back, missing the experience of the “full-service” salon.

At Aveda, the Neill Corporation and The Salon People, we support growth and opportunity for stylists. This is why we believe commissioned and salary salons provide the best environment to work in. Too many promising stylists are stunting their careers because they are not getting all the facts.”



TOM PETRILLO
PRINCIPAL, THE SALON PEOPLE,
EXCLUSIVE AVEDA DISTRIBUTOR

“ Our salon endeavors to create a business model that develops, supports and challenges everyone to be their best. Salon suites use aggressive marketing and sales to entice stylists out of salons and into their own mini salons. They promise extended hours, privacy, autonomy and creative freedom. Once that lease is secured, there is no telling what happens. Consumer reports show that the average salary of stylist in the state of California is on the decline largely attributed to income sheltering. Students are having a hard time finding work once they get their license as there are fewer salons hiring assistants and virtually no renters are providing education or employment. Continued education is on the decline, as most booth renters are not motivated to pursue education. Our tactic is to simply turn up the dial. We engage in ongoing conversations with our stylists about what is possible in the salon environment for themselves and for the industry as a whole. We provide ongoing education opportunities and continue to find inspirational opportunities outside of the salon. We are educating the next generation by visiting cosmetology schools and letting them know what salons and salon owners provide. For us it is about leveling the playing field. ”



DANNY LECLAIR
SALON OWNER, STUDIO DNA
SALONS, HOLLYWOOD, CA

“ Cosmetologists Chicago has championed the interests of salon professionals and owners for more than 100 years. Our membership is open to all licensed cosmetologists, estheticians and nail technicians, along with cosmetology students, regardless of their location. We support all cosmetologists who follow the guidelines and rules inherent to professional licensing requirements issued by local, state and federal entities. We do not support any beauty industry business or individual that does not adhere to the rules set forth by the regulatory bodies that oversee our industry. ”



PAUL DYKSTRA
CEO, COSMETOLOGISTS
CHICAGO/AMERICA'S
BEAUTY SHOW

“ As an owner of multiple salons, I choose my employees carefully, and have always hired 90% of my staff from among recent graduates. One of the reasons Zano Salons are successful is due to the culture and environment we have created. Because of the education we provide, our team is consistent in serving our guests. Our senior staff also enjoys the rewards that come from mentoring the newest members. We also educate our entire staff in the necessity of following every rule and guideline our local, state and federal governments establish regarding proper business practices. ”



DENISE PROVENZANO
OWNER, ZANO SALONS & SPAS
PRESIDENT, COSMETOLOGISTS CHICAGO

“ The membership of Intercoiffure America Canada is made up of commission-based salons. It is our belief that one of the greatest needs all people have in life is a sense of belonging, and that's what commission-based salons provide. They are built around teamwork and culture and offer support, education and an environment where the individual is not alone in his/her pursuit of success.

It's just like how working out at the gym or in a group-fitness class challenges you more and is therefore more productive than working out at home alone.

Many members offer employees not only a career path, but benefits such as health insurance, retirement and profit sharing plans, paid vacation, professional retail partnerships, advertising and providing their customer with an enhanced experience. More important, they get a learning opportunity they just won't receive working alone. ”



FRANK GAMBUZZA
PRESIDENT, INTERCOIFFURE AMERICA CANADA
OWNER, SALON VISAGE, KNOXVILLE, TN

“ Rental is a rapidly growing sector and comes with the need to reevaluate how to reach and touch this group. Does this stylist have different buying patterns and business practices? How will this affect the brands and products that we sell and how do we need to change our offering or approach to meet their needs? We understand that a great deal of their purchasing is done in a distributor store, and are focusing attention on how we can get this stylist's attention and interest at shelf level. We've gained insight about the shopping habits and needs of the distributor store stylist: their purchases are made very close to time of need, and many average three trips weekly to their local distributor store. A result of this insight has lead several of our manufacturing partners to offer smaller prepack options to support these "just in time" purchasing patterns. Most importantly, we continue to learn that when change occurs, seeking to understand unlocks opportunity. ”



JANE CARIS
PRESIDENT,
THE KIRSCHNER GROUP

“ As a capitalist and an advocate of free enterprise, I believe that anyone who wants to work within local and federal laws should be able to, with as little interference as possible. I believe the fear and opposition to rental comes from salon owners who feel threatened by the competition these models represent. Many are losing staff to the growing national trend. Unless business models change, many salons will not be able to cope with the appeal this concept offers to the individual in our industry who is driven by independence, entrepreneurship and income growth. To compete, salon owners will need to step up to the plate and provide amenities the renter receives in the way of flexible scheduling, relaxed rules and environments, and the opportunity for financial growth. The business models of the past will need to be massaged, oiled and improved in order to survive. Is that such a bad thing? I think not. ”



CHARLES A. PENZONE
FOUNDER & CHAIRMAN,
THE CHARLES PENZONE SALONS,
COLUMBUS, OH

INDUSTRY PERSPECTIVES

“ I am concerned about the health of the professional beauty industry, having witnessed a major shift over my 40+ year career as a licensed cosmetologist, salon owner and now, as a distributor. In the '70s, a transition to a new salon model galvanized stylists to develop systems and further careers and pride. Today, the employee vs. renter issue has been divisive and challenging. At a time when commercial competition seeks to capture consumer focus with convenient beauty options and sources, our industry needs to unify in elevating the salon experience for the client who desires to be educated on personal service and retail options. Instead, we have been fractured, which challenges sustainability and growth within both the service and retail realms. ”



SYDNEY BERRY
CO-OWNER, SALON SERVICES

“ The impact of the suite trend is transformational, as we see many salon professionals becoming truly self-employed for the first time. We know that in open floor rental salons, the stylists may be 'self-employed' technically, but without the privacy of a suite and with a salon floor manager in place, their work and environment are still controlled by someone else. We see low turnover at our locations—an indication of suite success. ”



GINA RIVERA
FOUNDER, PHENIX SALON SUITES

“ In my opinion, stylists who rent chairs or suites are still part of the hairdressing community and shouldn't be judged because of their choice of where to work. Do I agree with the overall rental model? No, but I don't agree with fast food chains, either. Respecting each other's businesses has my full support, as long as those business have the “best intent” for hairdressers and our industry.

For me, a busy, social, loud, education-based salon is my favorite. There are plenty of guests for us all. ”



JEFF SOUTH
OWNER, SALON INTRIGUE
ATLANTA, GA

“ Cosmoprof has always been committed to meeting the needs of the salon industry and all its participants. We've seen the industry evolve with new generations and their social and buying habits, and have had to continually adapt to stay relevant and valuable to our customers. Regardless of how stylists choose to run their business, they will always need education, support and professional products, and our ongoing commitment is to providing all three. We connect with people in many ways—through our representatives, through our stores, at our events and online. These, too, will evolve to meet the needs of the market. We're not sure what the future will bring, but we will be there to ensure our customers will succeed. ”



PAT NEVILLE
DIRECTOR OF
BUSINESS DEVELOPMENT,
COSMOPROF BEAUTY

“ The Professional Beauty Association respects the rights of an individual licensed professional to choose their form of business. We support the option to work as an independent contractor within the beauty industry if all the requirements and legal business obligations are correctly met and maintained by the licensed professional.

There are many successful independent contractors who take pride in operating a professional, compliant business. Most importantly, they are not disillusioned about the financial gain or the amount of work and the number clients they must maintain to make a clear profit. These successful independent, self-employed have correctly managed to build clientele, operate their business, and meet the legal tax and reporting obligations required by law.

Compliance and professionalism increases the value, respect, and integrity of our professional beauty industry. Whichever way an individual chooses to conduct their business, it is our hope that they uphold the ethics and standards we are all striving to maintain. ”



STEVEN SLEEPER
EXECUTIVE DIRECTOR, PBA

Changing WORKFORCE

People who work for themselves have always existed. But recently, self-employment has grown, and it's been predicted that **by the year 2020, 50 percent of the workforce will be self-employed.**

What's happening and why?

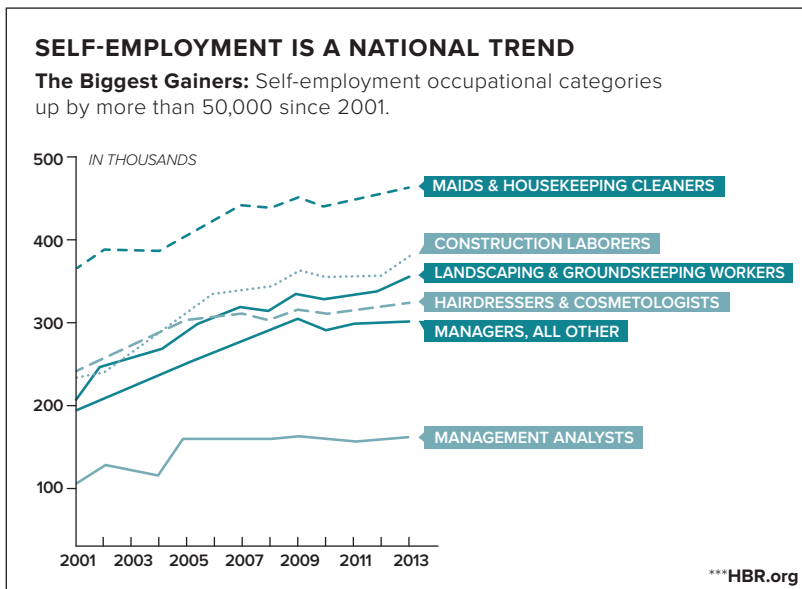
THERE ARE FOUR MAIN DRIVERS OF THE GENERAL UPTICK IN SELF-EMPLOYMENT:

Technology: It's easier than ever to run your own business. Websites, online booking, PayPal, Square, software and social media allow you to run a business from your computer, or even your phone. For example, stylists who work solo are using apps to book styling appointments—their phones to take credit card payments.

Generational Factors: Unlike Baby Boomers, who may have been happy to work for someone else, many **Millennials** don't want to be company lifers. Research shows that 72% of them want to be their own boss and 74% want flexible work schedules.* Almost 85% favor work/life integration, which means blending work with the rest of their life more seamlessly.

Economy: Even though it improved after the Great Recession (2008), many companies looking to staff up did not want to add full-time employees, and focused on using independent contractors to have a more flexible work force.

Flexibility Fits: Occupations most affected by the self-employment trend include **creative** ones (hair stylists, graphic designers, editors, musicians, fitness trainers) and white-collar specialties (accountants, financial advisors, web developers, mental health counselors).**



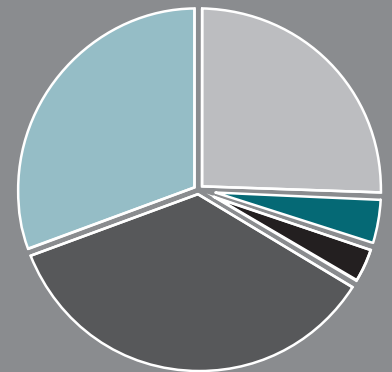
* Source: CCA's Intelligence Group Studies.

**Source: The Harvard Business Review.

***Chart excludes incorporated self-employeds, who tend to be white-collar/higher income.

2013 U.S. SALON REVENUES

In the salon industry, all these drivers—plus the increased availability of salon suites—have led to the growth of rental. It is now estimated that rental is the industry's largest revenue market segment, passing independent salons.



- Chair/Suite Rentals**
36% // \$36 billion
- Independents**
31% // \$17 billion
- Chains (National & Regional)**
26% // \$15 billion
- Schools/Academics**
4.5% // \$2.6 billion
- Single Chair - Home/Kitchen**
3.7% // \$2.1 billion

Chart and information courtesy of Chair & Suite Rental Study, Professional Consultants & Resources, ProConsultants.us

THIS IS NOT SPECIFIC TO SALONS

The move to self-employment is part of much larger societal and economic trends, and is not specific to salons. In professional beauty, it initially expanded from nail salons and barber shops to full-service operations. Now, there are suites and even mobile salons. Stylists have more choices than ever in how and where they work.

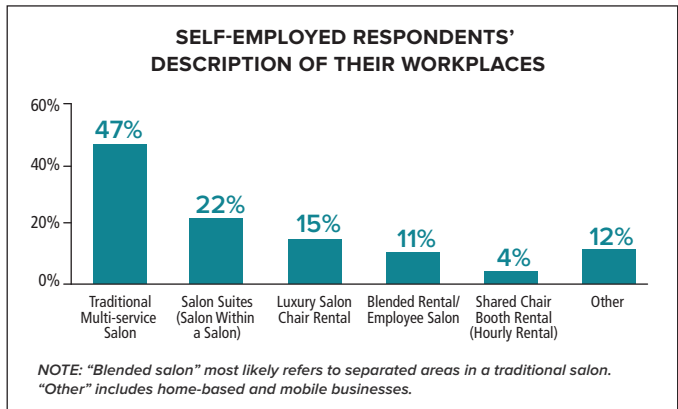
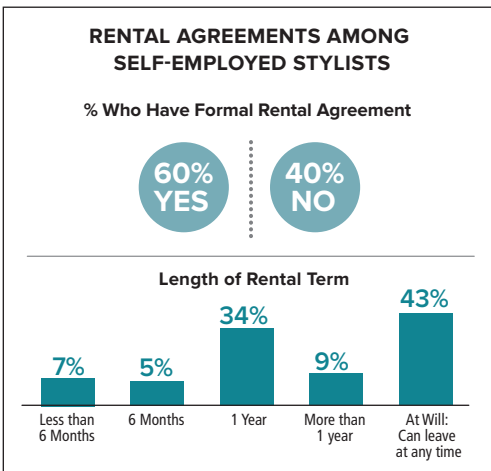
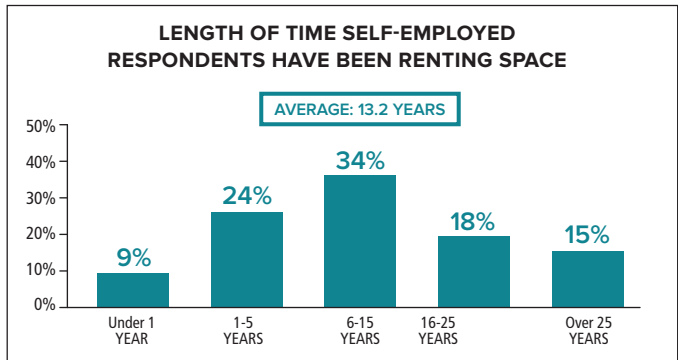
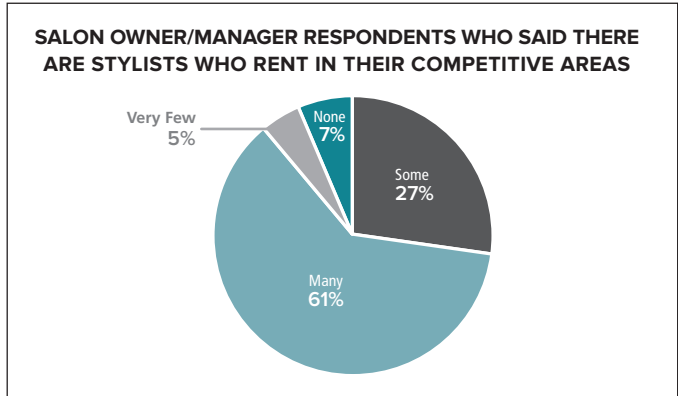
Consider: Is going solo a good or bad option for you? What will you gain and what will you lose, and do you really understand everything it involves?

Changing SALON BUSINESS

THE LANDSCAPE

There is nothing more constant than change. And the move toward self-employment has been changing the salon business for some time. Here's what the MODERN SALON Media study on rental revealed or confirmed:

- **Rental is common** in many areas.
- **“Renters” have been around for a long time.** Self-employed stylists in our study said they have been so for an average of 13.2 years.
- While many stylists have been renting for a long time, our research also showed that one-third of respondents became self-employed within the past five years. Much of this recent movement is likely due to the easier availability of suites.
- **Rental is pervasive within traditional salons.** Our research showed that almost half (47%) of self-employed stylists rent chairs alongside salon employees, the percentage increasing when you view related “arrangements.” This has been the source of much of the confusion because almost no other profession has “renters” who work next to employees every day under one roof.
- **Contributing to the confusion, there is no one way** that salons or suites handle rental. For instance, research revealed that just 60 percent of those who said they rent space have formal rental/written agreements, and the terms of their agreements vary widely.



How Stylists WORK TODAY

What are the most common options in how stylists and other beauty professionals work, and how is each defined?

OPTION 1: SALON EMPLOYEE

Salon employment is often a stylist's first choice. New grads need training and experience, and want a regular paycheck. Many experienced stylists like the job security, the support services, the easy access to education and mentorship, and the collaborative, team atmosphere.

What You Need to Know: Independent and chain salons offer a set structure, opportunities for advancement and many forms of support, ranging from insurance and benefits, to training and education, and to marketing, promotional and desk help. These benefits and services will vary by company, so it is important to ask and clarify what each offers.

OPTION 2: SELF-EMPLOYMENT

Self-employment means just that—you buy or rent everything you need to run your own business.

A

CHAIR RENTAL IN A “TRADITIONAL” MULTI-STATION SALON

This is the most common option among the salon industry self-employed. You rent a chair in an existing salon, share common areas like the back bar and work for yourself, but not in isolation.

What You Need to Know: Situations varies by region. In response to the lack of standard business structures, New Jersey and Pennsylvania have made this form of “booth rental” (not self-employment) illegal. Other states (New York) now require an Appearance Enhancement Business license for self-employed stylists anchored within an existing salon. There are also IRS guidelines with which the owner and renter need to be aware of and comply.

B

SUITES—A SPACE OF YOUR OWN

Salon suites offer a relatively plug-and-play solution for salon facilities, complete with commercial leases. You rent space and equipment, and in some cases may be able to buy training or back-bar products.

What You Need to Know: You are in complete control and are responsible for all activities and decisions about your business including marketing yourself, gaining customers, purchasing products, managing retail sales and pursuing continuing education. You must be comfortable working somewhat isolated from other stylists.

C

HOME-BASED OR MOBILE SALONS

About 12 percent of self-employed respondents to MODERN SALON's survey to benchmark rental practices and realities described their workplace as “other,” which includes home-based and mobile stylists, editorial/TV hair artists and session stylists.

What You Need to Know: Many states require home-based salons to be completely separate areas that can be inspected. Mobile businesses are also illegal in many states, or are only allowed for clients who have medical needs. Often, you work completely away from other stylists.

WHY EMPLOYMENT IS BEST FOR ME



For Ashlee Schmidt, it's all about the team.

Ashlee Schmidt is a fan of working in a salon as an employee, and of working at **Salon Laurie & Company** in Baltimore, Maryland, in particular. She's been there for her entire 13 years as a stylist—despite the fact she is surrounded by salon suites.

"We are on team-based pay, so no matter what my week looks like, I can plan around it," she says. "What we earn is based on working more and meeting goals, and we get a new goal at each team meeting. By meeting goals, we can get raises as often as we want. We also work to build up one another's book, to get team bonuses."

Schmidt says she believes she makes more than she would if she were self-employed.

She's also over-the-moon about her benefits, including paid vacation, 100 percent employee-matching IRA and team retreats.

"I'm a responsible person, but if were self-employed, planning for retirement and saving for a vacation would be hard," she notes. "As an employee, I can avoid the stress factors of all those things. I don't have to pay quarterly taxes or spend time ordering products and managing inventory. The way we work, we are all invested in the salon. When you feel ownership, there is no need to actually own a salon."

I would only change my salon work situation if: "I were unfairly compensated."

RENTAL: MULTIPLE CHOICES



Photo by Bob Franklin

For Jenine Raby, motherhood meant work and life changes.

Jenine Raby has experienced it all. In her 15 years as a hairdresser, she loved being a salon partner for more than seven years (she held company shares), and helping train others. But when she became a mother, the time demands didn't suit her new lifestyle.

So, she rented a suite at **Studios West** in Knoxville, Tennessee, which met her need for freedom and flexibility. It also allowed her to service those with special requests, such as cancer patients who need privacy and young mothers, whose new babies would not be so welcome in a traditional salon. That was a great experience, she says, but as a true people person, she missed a busy salon atmosphere and camaraderie. So after a year, she became a self-employed stylist who works next to other solo artists and employees at **Trendz Salon** in Knoxville.

"The choice all comes down to personality: whether you want an intimate environment or the excitement of working with others," says Raby. "Now, I have flexibility, lower overhead than in a suite and shared common areas. I like to watch others work! I control my own business, but I also have support through online scheduling and my own account with a personal distributor."

Hairdressers are artists who travel through different life stages, and you have to find the right place for you.

FROM SCHOOL TO RENTER TO APPRENTICE



Being an assistant was the help Lynn Smith needed.

The day after **Lynn Smith** graduated from cosmetology school in 2010, she asked a friend who owned a barber shop if she could rent a chair. Smith, who is from a small town outside of Jacksonville, Florida, says she didn't feel like she had a lot of options.

"I wanted to work when I wanted to work, so I took a pretty big risk," she admits. "I paid weekly rent and had a small room of my own in the shop. I knew it would be tough, but it was right down the street from my house and convenient, except for the days I didn't make any money."

Struggling to pay bills and find a clientele, Smith soon realized she may have made a mistake, but stayed with renting a couple years. More worrisome than inconsistent bookings was fact that she knew she wasn't growing or getting an education. She missed the creativity and buzz of what she had imagined her career would be.

"I was stuck," she recalls. Discouraged, she left beauty and took an office job for about a year.

"But I missed doing hair," she says. Then, a friend began working at **Cortello Salon** in Jacksonville Beach, a bigger town an hour away, and recommended Smith to the owner, Courtney Costello. "She offered me a position, as long as I was willing to earn it."

Smith went through Cortello's full apprenticeship, paid an hourly rate as an assistant in the upscale salon and attending a full load of classes. "It was hard work, but I knew the benefits."

Smith finished apprenticeship in November 2014 and now works alongside 16-20 other stylists daily. She has a growing book at a Level 1 rate of \$40 for a cut, style and blowout and knows what she needs to do to get to Level 2. She feels fortunate she got a second chance to pursue her passion. "It is much easier and more gratifying to work as part of a team."

GOING SOLO IN A SUITE



Sometimes, says Jeff Stuckey, a suite is a gateway.

After 15 years as a salon employee, **Jeff Stuckey** had a full book of clients. Many had followed him when he moved from his previous location. But unanswered requests for repairs from his salon owner ultimately became too much to bear. When a friend told him about his new rental in **Salon Lofts**, in Columbus, Ohio, he said “Tell me how it’s going in six months.” Six months later, he rented his own double suite, in a building with a fast-response maintenance staff.

“It was in the neighborhood and about 85 percent of my clients followed me,” recalls Stuckey. “With the lower volume and the fact that I lost my blow-dry assistant, I knew I’d make less money at first, but I got to be my own boss. I have seen young people who need guidance fail at rental, but I knew what I had to do.”

What was hardest at first, he said, was keeping track of phone numbers and constantly calling clients. Then, Salon Lofts built a website with online booking.

Now, he spends 5-6 hours a week running his business, doing paperwork, online marketing and tax prep. He strives to “work smart” the rest of the time, developing effective booking strategies clients and using professional product purchase points (he buys a lot of color) to take classes in NYC whenever he wants intense education. His book is full and he even refers clients to other Salon Loft renters.

Now, after 10 years of being self-employed, he’s exploring what’s next: “I’m incorporated as an S-corporation, and I’m thinking of hiring an employee,” he says.

WHY I WENT BACK TO A SALON



For Anthony Perez, the devil of self-employment was in the details.

The idea of self-employment was so alluring to **Anthony Perez** that he struck out on his own after just seven months in the business. He rented a chair in a salon and says that after six months, he was making \$3,000-\$5,000 a month. He was able to provide for himself, but running a business turned out to be grueling.

“I was getting worn out,” recalls Perez. “I’m an artist, and numbers aren’t really my thing. The taxes, managing a fluctuating income flow, buying products and placing orders. Nothing had a schedule; it was all over the place.”

After three years, Perez says he was “worn out.” Then, he met Michael Haskett, who owns **Domu Salon**, in Indianapolis. Haskett had a well-run, busy operation, but Perez still took time to think it through.

Now, he’s been at Domu for nearly two years and says he loves working with a real team he can turn to for support. He also discovered that he makes more money and enjoys the steady income.

“After weighing pros and cons, I decided I had to make the change,” he says.

“My stress and worry about numbers are over,” he says. “It’s changed my life. Now, I can do all the things I love, but I don’t have a business to run at the end of the day. It makes hairdressing the best career possible. I love that every day I go to the salon and put out my best work to make others happy!”

MOVING INTO AND EMBRACING RENTAL



Finding the right situation was key for Howie Held.

Howie Held has worked at **A Tamara Dahill Salon** in Toluca Lake, California, for less than a year, after moving from out-of-state. He started as a commissioned stylist, because it was the more common model where he came from, but quickly embraced and transitioned to rental once he realized the opportunities it presented to him.

A strong self-promoter with seven years previous experience, Held built business fast by handing out cards to “people I’d want as clients.”

Why does rental work for him? “I can take vacation when I want, and I make and keep more money, which has changed how I live,” says Held. “Also, I have a key to the salon and can open any time to accommodate clients, unlike a rental salon in a mall, which would limit me to mall hours.”

Held admits that he is unusual in that he works almost every day—he likes it that way because he runs his own show. From his point of view, even doing his own booking is a plus.

“In the past I’ve had appointments wrongfully booked and all sorts of other confusion. “Now, I can own up for anything that might go wrong and fix it.”

Held also buys technical DVDs and takes outside, hands-on classes often: “It’s my responsibility to keep up with education,” he stresses.

I would only change my situation if: “Commission salons allowed the income and freedom of rental.”

Stylist

PROFILES, PREFERENCES AND PERCEPTIONS

What do we learn when comparing stylists who choose to be employees with those who are or have been self-employed? This may not come as a surprise: salon professionals like to mix it up.

STYLIST PROFILES

Salon employees and self-employed contractor stylists have a lot in common, with some key differences.

- **Demographics:** Employed stylists are almost identical to renters in age, gender, marital status and number of years in the industry. From the outside, they are the same people.
- **Family matters:** There was one key difference in their profiles: self-employed stylists are more likely than employees to have children at home.

WORK STYLE PREFERENCES

Employees and renters also differ in “what they are looking for” in a career as a stylist.

- **Salon Employees:** The most important job aspects for current employees are teamwork and camaraderie, and learning, training and education. They enjoy being part of a salon environment, and like the support that is provided. They don’t want to be involved in business activities including marketing, paperwork and booking appointments. They are less motivated by independence and money than by focusing on being a stylist.
- **Renters:** The most important job aspects for the self-employed are flexibility, freedom, independence and money. They are less motivated by being a part of a team and sharing the salon camaraderie, and have strong self-confidence that they can successfully manage their careers.

INCOME

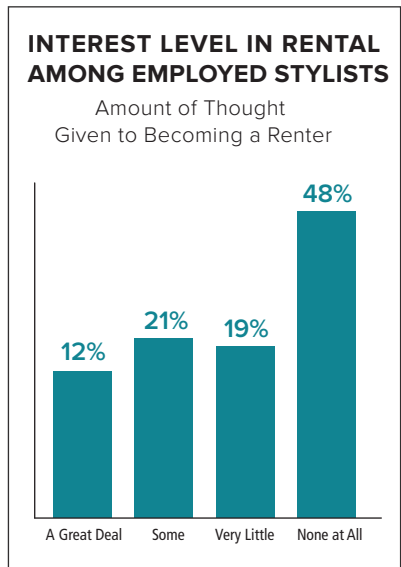
The perception among many is that many stylists move to rental because they believe they can make or keep “more money. Reality? Not so.

The MODERN SALON research showed that, on average among respondents, salon employees and self-employed stylists generate virtually identical revenue per hour. This is not that surprising given how similar their experience level and general demographic profiles are. But, lifestyle choices create a gap in weekly income, and that’s where renters differ.

- **Fewer hours, fewer clients:** Research showed that the self-employed stylist averages fewer hours and services fewer customers per-week than employed stylists. Understanding that many renters took this path because of their desire for greater flexibility, and the fact that they are more likely to have children at home, this was not surprising.
- **Flexibility tradeoff:** Because they work fewer hours and see fewer clients, on average self-employed stylists make less per week. This is a natural result of the more flexible work-life balance they pursue.

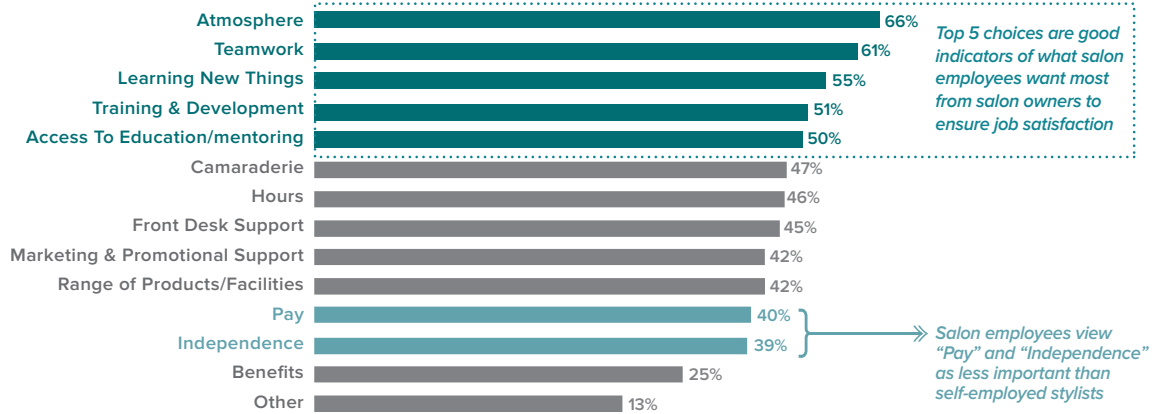
INTEREST LEVEL

While there has been a lot of attention paid to chair and suite rental in salons recently, the MODERN SALON research shows that many stylists simply aren’t interested. Given that there is a lot of confusion about what rental is and isn’t, this may change. But currently, 67% say they have little or no interest in rental.

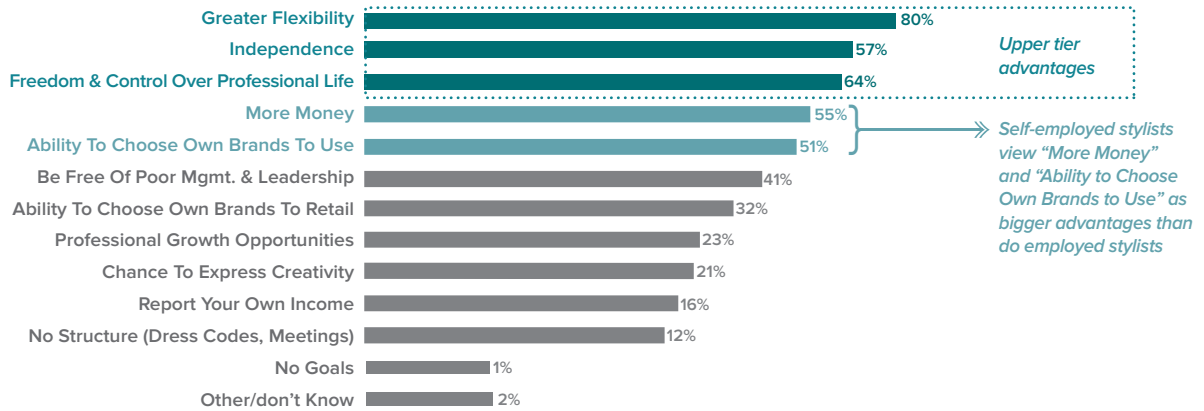


AVERAGE	SELF-EMPLOYED	EMPLOYEES (STYLISTS/COLORISTS)
Number of Customers (per week)	22.6	30.3
Hours Worked (per week)	30.7	38.0
Gross Earnings (per hour)	\$48.73	\$48.48
Gross Earnings (per week)	\$1,496.12	\$1,842.24

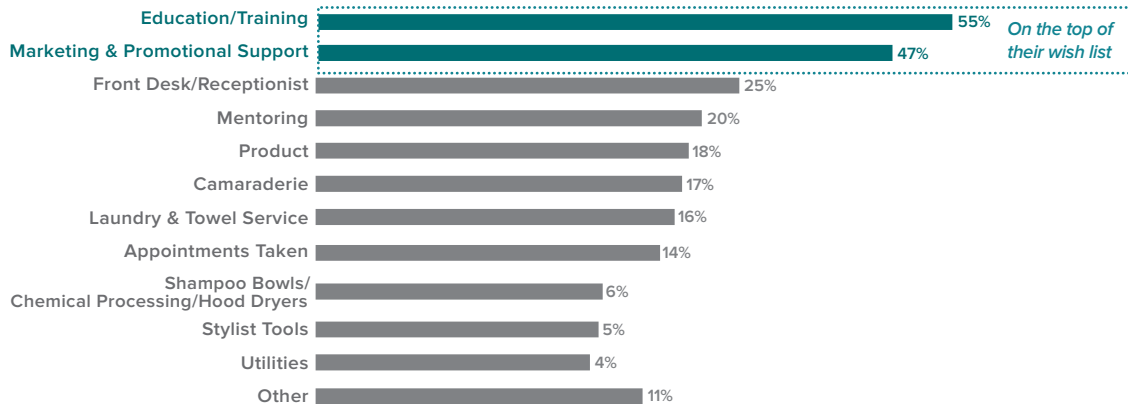
WHAT SALON EMPLOYEES LIKE MOST ABOUT WORK



WHAT SELF-EMPLOYED STYLISTS CONSIDER TO BE ADVANTAGES



BIGGEST NEEDS AMONG SELF-EMPLOYED STYLISTS

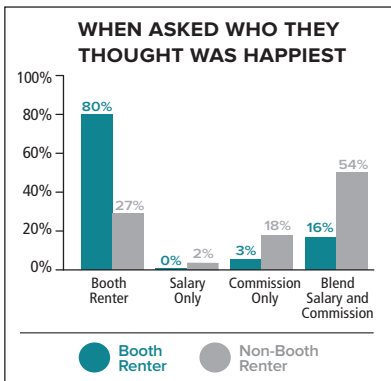


Who Has it Better? EMPLOYEES OR RENTERS

The answer is “everyone.” We found that the majority of both employed and self-employed stylists think they have it best. Each thought they were the happiest, earned the most money and had the best opportunities. This likely reflects that they were in situations where they felt comfortable and which played to their strengths.

So, if the majority think they have it best where they are, why all the back and forth? There are a lot of reasons:

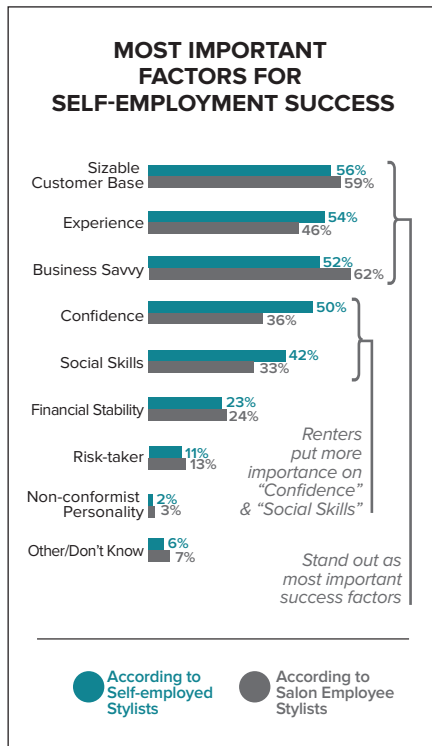
- wanting to try something new
- unrealistic expectations about a new environment
- not really understanding the options
- not really understanding my own strengths and weaknesses
- being unhappy with management
- being unhappy with income



As the salon community becomes more familiar with the options and people make more-informed decisions, we’d expect to see less back and forth, and more people purposefully choosing salon situations that best suit their needs.

WHAT IT TAKES TO BE SELF-EMPLOYED

All the groups MODERN surveyed agreed on what is most necessary to succeed when going it alone: a sizeable customer base, experience and business savvy. Although perceptions are different among self-employed and employed stylists.



RESEARCH SHOWS STYLISTS ARE FLUID IN THEIR BEHAVIOR

Stylists often move back and forth between rental and employment. This may not come as a surprise: salon professionals like to mix it up.

TOP 5 DISADVANTAGES OF SELF-EMPLOYMENT ACCORDING TO FORMER RENTERS WHO RETURNED TO EMPLOYMENT:

- Tax requirements of self-employment
- No traditional employee benefits
- Managing paperwork
- No teamwork
- No marketing or promotional support

- Thirty-eight percent of employee respondents to the MODERN SALON survey said they had once rented space. Research suggests many initially left for rental because of management issues and the easy availability of suite options.
- Research indicates they returned from rental to employment because they weren't ready to go it alone. Self-employment wasn't all they expected, so they often weren't happy or successful. Some disliked the time-consuming business aspects. Others missed teamwork and really just wanted to be with people and do hair.

Rules and RESPONSIBILITIES

As the MODERN research and this special report profiles prove, working for oneself in the salon business has evolved into an interesting yet complex mish-mash of options. One thing is, however, very clear. The IRS is paying attention. Not just to salons, but to all the businesses affected by

those societal shifts and trends toward self-employment. To ensure they keep track of all taxable revenue, plans continue to unfold to move every business toward set standards that meet each state's Department of Labor regulations and IRS rules.

No matter what people in the salon business call ourselves or our business models, the Internal Revenue Service has very strict rules about who is called an employee, and who is considered self-employed. It simply looks at tax payers as business owners, employees and

non-employees. That's it. What the industry calls booth/chair renters, are actually defined by the government as self-employed business owners.

Why this matters: This is a big deal, because salon owners who “rent out space” cannot treat a self-employed person as an employee.

If a salon owner tells a “renter” how to service clients or insists on having his or her clients pay at the salon front desk, the IRS might rule that person to be an employee. To the IRS, there is no such thing as a “booth renter.”

Titles, Legalities AND LEASES

In this special report, those who rent space are referred to as “self-employed stylists,” and not as independent contractors. There’s a reason. Here’s a quick overview of what salon owners and stylists need to know:

EMPLOYEES

Those hired to work in one business during set hours with set rules

Salon owners give them:

A yearly W2 tax form, job benefits like paid vacation

They give salon owners:

A tips reporting document

INDEPENDENT CONTRACTORS

Someone who is hired for one job with a beginning and end. Usually works in many locations/for different businesses.

Could be a specialist hired for a spa party or your web developer

Salon owners give them:

A yearly 1099 tax form for services over \$600

They give salon owners:

A bill for the job

SELF-EMPLOYED STYLISTS

Those who run their own independent salon business

Salon owners give them:

A lease, if they rent space in the salon

They give salon owners:

A yearly 1099 for the rent, if it is over \$600

CORPORATIONS

An incorporated business. Self-employed stylists can incorporate themselves but if they are LLCs (limited liability corporations), they still pay self-employment tax rates.

Self-employed stylists give them:

If you rent from a corporation that owns suites, do not give them a 1099; renting space is their primary business. When in doubt as to whether a salon owner is a corporation, or if the salon blends employees and the self-employed, issue a 1099 for the rent.

THE TAX GAP PROBLEM

Historically, when traditional salons began renting space, owners began calling the self-employed terms like “renters” or “independent contractors” and stopped collecting and paying taxes for them. As a result, the IRS began auditing salons to see if they were misclassifying actual employees as non-employees. If the IRS ruled that they were employees, the consequences were grim.

Because the salon owner had not collected taxes, including social security, Medicare and unemployment, those taxes had to be paid—all the way back to the date any renters began renting. In some cases, this was as much as \$750,000, plus penalties and interest. And if the misclassification was found to be intentional, jail was a possibility. While most of the consequences fell on the owner, many renters didn’t realize they couldn’t collect unemployment. And, they were suddenly called “employees” when they didn’t want to be.

WHAT THE IRS REVIEWS

So, how does the IRS make a determination? It once used 20 points, which were then realigned into three major factors. Don’t be confused by terminology: while some IRS documents refer to “employee or an independent contractor,” the IRS is fine-tuning to simply determine who is an employee and who is self-employed. Issuing a 1099 to a self-employed stylist who rents space within a salon is a red flag to the IRS. Why? Because if you are a self-employed stylist, the salon owner should not even know how much money you make.

THE IRS’S THREE FACTORS ARE:

- **Financial Control.** The self-employed set their own prices, collect their own money, can realize a profit or incur a loss, invest in their own business, pay all their own taxes at self-employment rates and report their own income.
- **Behavioral Control.** There can be no dictation of dress code, hours worked, products used, continuing education or how a job is done.
- **The Relationship.** Is there a written contract describing the relationship—a lease? The self-employed can come and go as they please during a salon’s normal business hours (think of any business in a mall), pay a flat-rate rent (the value of the space does not change week to week and owners shouldn’t know your finances) and receive no benefits.

GET IT IN WRITING

If you rent space, getting a written lease is key. And if you rent space in a traditional salon, what’s in it is critical (formal suites usually have clear-cut, commercial lease agreements). A local attorney should write the lease and nothing in it should indicate anything but a landlord/tenant agreement. At minimum, it should include:

- Both parties’ names, the flat-rate rental fee, rental late fees, the square footage of the space and time span of the lease, plus days/hours of operation the space is available for lease. Also, include use of common areas, like the back bar.
- State Board and all separate licensing requirements, such as a business license, liability insurance and other documents. In Texas, a “mini” salon license is required if you rent within a traditional salon (versus a suite).
- What will breach the lease, such as failure to pay rent, illegal activity or failure to secure a current license. State laws usually dictate how soon a landlord can evict a tenant and for what—or when a tenant can break a lease.
- Responsibilities of the lessor (the salon owner). For example, the salon owner might maintain the building and include heat, electricity and hot water in the lease. If the owner does not own the building, note the right to sublet.
- Responsibilities of the lessee (the renter). Note that the renter is self-employed, and pays all city, county, state and federal taxes. Then prove it, detailing that the renter sets prices, books clients, gathers money, carries all licenses and liability insurance. Include keeping areas clean and responsibilities for station maintenance, repair and damages.
- Whether or not renters can hire assistants and that if they do, that they will provide proof of an employment agreement with the assistant.

NOTE: This is not intended as legal advice, but a partial guideline. Owners should always ask a local attorney to write leases; renters should have their attorneys review them.

What's Going on WITH OWNERS?

Some salon owners would never consider renting out space; others prefer to do so. MODERN SALON's research showed that a fair number of owners—34 percent—are accommodating in-salon rental, which accounts for the high percentage of renters working in traditional salons. And, when owners do rent, their salon is predominantly (75 percent) rental.

WHY OWNERS DO AND DON'T RENT SPACE:

Just like stylists, salon owners wrestle with paperwork and management issues. Our research also revealed why salon owners do and don't rent space in their businesses.

The Upshot: Owners and managers base their situations on personality, just like stylists. Those who like to focus on the business aspects and want to protect their brand and their culture, don't usually want to be involved with rental. Those owners who want to be less involved in management, education and paperwork may rent to the self-employed, who handle those things themselves. It's a trade-off between short term solutions and long term risks that owners should understand before making any shifts.

TIPS FOR SALON OWNER SUCCESS:

If you rent out space in your salon:

- Know how to do it legally
- Make it profitable. Base calculations on the percent of overhead the space represents, desired profit and what's common in your area.

IF YOU DON'T RENT OUT SPACE IN YOUR SALON:

- Use this report and research to better understand what each of your employees cares about and what motivates them.
- For those who like atmosphere, teamwork, learning/training, make sure they are aware of the advantages of working for your salon. How do you provide a creative environment and give them the opportunity to focus on their art? Also understand what they don't like – perhaps paperwork and marketing – and make sure they are aware of the support you provide.

- For those who care about independence and flexibility, find ways to accommodate their needs, in a way that makes business sense. If they want more control over their income, show them specific ways they can make more money at your salon with targets, products and service. Provide a career path with growth opportunities, like tiered pricing.
- For both groups, enlist their ideas for how to provide / fund benefits they want.
- Rely on your industry partners for help with business and education: manufacturers, distributors and MODERN SALON Media.

ACCORDING TO SALON OWNERS

Top Reasons for Renting:

- No Payroll
- Less Management
- Guaranteed Income
- Simplify Business/Increase Revenue
- No Workman's Compensation

Top Reasons for Not Renting:

- Can't Control Stylist/Services
- No Loyalty to Salon
- No Consistency in Stylists' Performance
- Not Worth the Hassle
- IRS Risk



CREATING YOUR OWN COMPETITION

"You can't put your head in the sand about rental," stresses David Gould.

Gould's Salons has existed since 1932, when co-owner **David Gould's** father opened the business. Now, it has 12 locations, 400 employees, and a separate build-out for renters.

"A handful of our long-term employees came to us and said they wanted to try being their own boss," says Gould. "They wanted freedom to set their own hours, take long weekends and choose their own haircolor brands. I knew there were

many suites around the country, but none in Memphis...yet. I also knew they would come, so I decided I wanted to be first."

So, Gould created a separate space that is adjacent to one of his locations. Clients enter through the salon's main door, and then go into the original salon area or into the separate suite area, which is divided into 12 blocks. Each has a complete set-up behind glass doors.

Some of the rental stylists retail and some don't, but all book and bill their own clients, and have their own keys, adds Gould. They also have extensive one-year leases, which

include everything from keeping the glass doors clean to maintaining a business license and liability insurance, to passing State Board inspection. About six stylists moved over from his salons (some were already renting in-house), and the other chairs filled up fast.

"I was going to lose those stylists; instead, I filled their chairs with new employees and still get rental income from them," he says.

Gould stresses that self-employment is not for everyone and those who moved to his suites all had full books: "We also have employees who had tried rental elsewhere and wanted a job again," he says. "They hadn't planned well or paid quarterly estimated taxes, and got quite a shock come tax time."

What's Best FOR YOU?

So now that the main salon work model options have been spelled out, along with the basic legalities, how do you determine what's right for you? As noted, if you love a bustling atmosphere, teamwork, structure, on-going education and security...and dislike paperwork and risk... you'll probably be happier as an employee. If freedom, flexibility and independence are most important to you...and you are a confident risk-taker...AND you won't miss being part of a team... going solo may be right for you.

PROS, CONS AND QUICK QUIZZES

Keeping emotions out of decision making can be difficult—especially when business blends with highly personal feelings. To help you focus on facts, here's a quick pro and con list. **CHECK THE ONES YOU PERSONALLY CONSIDER A PRO OR CON** for the situation you are in, or are considering. Then add up the checkmarks.

EMPLOYEE		SELF-EMPLOYMENT	
PROS	CONS	PROS	CONS
<input type="checkbox"/> Group atmosphere	<input type="checkbox"/> Set hours/days	<input type="checkbox"/> Flexible hours/days	<input type="checkbox"/> No employee benefits
<input type="checkbox"/> Work with a team/camaraderie	<input type="checkbox"/> Management conflicts	<input type="checkbox"/> Independence	<input type="checkbox"/> Work alone
<input type="checkbox"/> Learning, education, mentoring	<input type="checkbox"/> Pay (how, how much)	<input type="checkbox"/> Control your own business	<input type="checkbox"/> No business/marketing/education support
<input type="checkbox"/> Job security	<input type="checkbox"/> Lack of big picture control	<input type="checkbox"/> Keep own money	<input type="checkbox"/> Higher tax rates
<input type="checkbox"/> Support systems	<input type="checkbox"/> Dependent on others	<input type="checkbox"/> Free of management	<input type="checkbox"/> Paperwork/recordkeeping
<input type="checkbox"/> Minimal paperwork	<input type="checkbox"/> Lack of benefits	<input type="checkbox"/> Choose own brands	<input type="checkbox"/> Pay all business costs
TOTAL: _____		TOTAL: _____	

Did you check more “pros” in either category? Did you personally consider most of the cons to be negatives or not? If you liked the same number of pros in both categories, where were most the negatives, to you? Think about what you checked and why.

Can a management conflict be solved? Can you work for yourself and get business/educational support? Where do your checkmarks place you—as an employee or a solo artist?

NOW, IF YOU ARE CONSIDERING A CHANGE IN STATUS, ANSWER THE FOLLOWING QUESTIONS. RATE EACH ONE FROM 1 (STRONGLY AGREE) TO 5 (STRONGLY DISAGREE), THEN ADD THEM UP.



<input type="checkbox"/> I know the reasons I want to change <input type="checkbox"/> I know exactly how I want to work <input type="checkbox"/> What I want to do uses my strongest skills <input type="checkbox"/> I can make enough money doing it	<input type="checkbox"/> The change I'm considering will help me get where I want to be in 5 years <input type="checkbox"/> There is little or nothing I'll miss from my current situation	If Considering Going Solo: <input type="checkbox"/> I'm self-disciplined <input type="checkbox"/> I have strong business skills <input type="checkbox"/> I can run my business alone	If Moving to Employment: <input type="checkbox"/> I love working with a team <input type="checkbox"/> I want to fully focus on my artistry <input type="checkbox"/> I don't want to run my own business
TOTAL: _____		TOTAL: _____	
<p>.....</p> <p>Low score (6-12): definitely ready for a change. High score (30- 24): unlikely you're ready for a change. Middle score (13-23): you have more thinking to do.</p>		<p>.....</p> <p>If you did not rate all three factors in the corresponding category as a 1 or 2, you'll need to learn more or get ample support before considering a change.</p>	

Thriving IN ANY SITUATION

Whether you are an employee or self-employed, many of the same factors contribute to success as a salon professional:

- People skills
- A strong educational foundation
- The ability to build and keep a clientele
- Knowledge of current trends/techniques/products
- The ability to recommend retail

EMPLOYEE ENGAGEMENT

Lifelong learning is key to stylist success. From superior consultation skills to the development of a high-end specialty, keep on learning and training. Additional tips:

- If you want to increase your income, set a goal, break it down into dollars-per-day, and work with management to find ways to meet your goal.
- When management issues arise, be open and honest and discuss it in private, not with others in the back room.
- Understand all your measurable benchmarks—from productivity and retention to retail and requests—and their relationship to income.

What's NEXT?

As more becomes known about those who enjoy employment and those who prefer self-employment—and what it takes to go solo—everyone will be able to make better decisions. For a time, salons will continue to see stylists come and go, as they experiment with career options. The cycles may turn, with some of today's self-employed stylists becoming tomorrow's salon owners.

OTHER THOUGHTS:

- At some point, **the number of suites will level off**. Rapid growth often leads to saturation and self-employment will only be attractive to certain stylists. As competition heats up, suite owners may offer incentives to keep their suites fully occupied.
- **Online education** will be more easily accessible and will provide great opportunities for the self-employed. However, hairdressers will always want and need hands-on training.

- Don't put all the responsibility for building and maintaining a clientele on the salon owner. Take advantage of client development programs. If clients leave happy, ask for referrals and online reviews.
- Pre-book all your clients.

SELF-EMPLOYMENT SMARTS

You've got the independence and flexibility you want, now be sure you are disciplined and have the support you need. Here's how:

- Learn how to use social media to market and promote yourself. There are tons of free online resources. Even Facebook has an online booking app.
- Take all the salon business classes you can. Learn how to read and analyze your P&L statement.
- Develop a simple system for paying quarterly taxes, keeping records and filing receipts for items that are allowable tax deductions.
- Consider a suite that sells you the extra services you want.
- Develop partnerships and a network for education. The MODERN SALON Media community, including **MODERN SALON, Salon Today** and **First Chair**, all offer valuable peer-based information, education and best practices. Go to **ModernSalon.com/daily** to sign up for our information.

- **Technology will continue to simplify** business and marketing. Tracking everything will be easier, particularly as we move closer to a cashless society. Information management will be the new challenge for all types of businesses.
- Manufacturers and distributors will look for **ways to reach** both large salons and the self-employed. New online efforts from suppliers allow any stylist to have an online presence and make money retailing to their own clients. Manufacturers will continue to partner with salons via close distributor sales consultant relationships, tailored offerings, online communities and education.
- As the suite model is relatively new, there is no accepted model to manage certain challenges—such as retail sales and walk-in traffic. Models will be developed, and **how these models comply with IRS guidelines** will be a key consideration.
- Ultimately, **what consumers want** is the biggest driver of change. Like stylists, consumers have different personalities. Some like the privacy, intimacy and total focus they get in a suite. Others will want a place to go and see friends, interact and enjoy the energy—which is a role salons have always played. Just as stylists gravitate to situations which best meet their needs, so will consumers.

RESOURCES & MORE INFORMATION

Thank you for reviewing the information in this special report. MODERN SALON will be adding information, posting updates and continuing the dialogue at **modernsalon.com/rental**. Check out the following for additional industry or business support.

ASSOCIATIONS

American Association of Cosmetology Schools
beautyschools.org

Cosmetologists Chicago
americasbeautyshow.com

Intercoiffure
intercoiffure.com

International Salon & Spa Business Network
salonspanetwork.org

Professional Beauty Association
probeauty.org

TAX HELP/CLARIFICATION

IRS.gov

Extensive information on employee misclassification. Search for "self-employed" or "independent contractor" or "salon audit techniques"

ADDITIONAL RESEARCH

ProConsultants.us

A State of the Industry / Chair & Suite Rental research report is available from Professional Consultants & Resources. For purchasing information/questions, contact Cyrus Bulsara at cbulsara@augustmail.com

INDUSTRY & BUSINESS INFORMATION

modernsalon.com

Education, inspiration and community for stylists and owners

salontoday.com

Business & technology information for owners

modernsalon.com/daily

First-look reporting on beauty trends, techniques & breaking news

METHODOLOGY

MODERN SALON Media research featured in this special report was conducted in July 2014 by Vance Research Services with the generous support of Neill-TSP. Results were based on professional salon industry respondents, representing salon owners and managers, self-employed stylists, employee stylists and stylists who were formerly self-employed renters of salon chair or suite space.