

THE STATE OF THE SALON INDUSTRY: TAKING CHARGE

BY VICTORIA WURDINGER

It's a daunting task to determine what trends and statistics mean for your individual salon, but helping you adapt, adjust and succeed are professionals who've paved the way.

DIGEST THEIR WISDOM, THEN BORROW AN IDEA FROM GEORGE LEARNED, CO-OWNER OF SALON SERVICES AND SUPPLIES IN SEATTLE.

Years ago Learned and partner Sydney Berry created Club 40, groups of salon owners who meet every six weeks to share failures, successes—even financials. The salon across the street might not join your networking group, but the one a few miles away probably will.

Get together and start talking about these six take-charge strategies for snapping your salon out of the economic doldrums and going for the grow in 2004.

1. REBOOT HAIR COLOR

Much of the industry's 2003 growth came from hair color, although that growth rate has slowed from previous years. The salon's primary challenges: to lure clients from home color—of the 55 percent of American women who color their hair, 36 percent do it at home—and build a future base with the youth market, which is more prone to do-it-herself.

Jet Rhys, co-owner with husband David Rhys of Jet Rhys salon in San Diego, California, says the 50-year-old home color user presents her with the biggest challenge because her biggest obstacle to buying salon color is time.

The salon uses a color accelerator to shave processing to 13 minutes—something you can easily promote—and focuses on correcting the too-dark shades home users usually have.

"These women love the softer salon shades,"

says Jet, who now works as a full-time educator.

In addition, the salon saw a 50-percent increase in young clients in 2003, including a substantial number of men.

"The key to the youth market is to make color affordable and easy," explains Jet. "We get young people in for our training program, for which we need live heads. We go to all the colleges, fashion institutes and international language schools. When you get a teenager as a \$15 model who will let you do anything you want, you can do incredible work."

Jet adds that young people enjoy having someone who speaks their language pamper them, and that most of her salon's former models became clients.

Doing young models is also great training for your staff, she says, because a mannequin head can't teach colorists about body language and communication. Once young clients accept you, they will tell all their friends, who'll also become clients.

So many consumers are getting color that Jet has a hard time finding virgin heads for her classes. With that demand, there's no reason you can't reboot your color business in 2004, she argues.

"The number one cause of a dwindling clientele is the colorist got stale," comments Jet. "With so many salons in the country, clients get bored of the same old thing. If you aren't doing a lot of color today, it's because you don't have confidence in your skills or have rusty ideas, which can be poisonous."

Jet's newest client-pleaser is the Color Cocktail, which she introduced on the television show "48 Hours" this February.

It's a blend of essential oils, her own deep conditioning treatment and a 14-karat gold glaze. It's mixed in a martini glass—shaken, not stirred. (For more ideas to increase color business, Jet offers a video of 11 new techniques for \$20; call 619-291-7511 for more information.)

2. GO WHERE THE BOYS ARE

The type of man who goes to a spa isn't the same one who goes to a men's salon.

The first was probably referred by a woman and is in search of high-end pampering; the second has a 75 percent likelihood of being single, is 20 to 40 years old and seeks style with simplicity.

That's just one observation by Zsuzsanna Gal, owner of Zsuzsanna's Hair Salon and Day Spa in Harrisburg, Pennsylvania, and Cobalt, the men's salon across the street.

"Cobalt has not taken any men from the spa because men who go to Cobalt feel uncomfortable asking about products or getting hair color in front of women. They chose the salon because it's straightforward and simple," says Gal.

"WITH SOCIETY BECOMING SO APPEARANCE-FOCUSED, MANY MEN WANT SOMETHING MORE UPSCALE THAN A BARBERSHOP, BUT THEY'RE OVERWHELMED BY A SPA OR A BUSY ATMOSPHERE."

"With society becoming so appearance-focused, many men want something more upscale than a barbershop, but they're overwhelmed by a spa or a busy atmosphere."

Another male-centric issue that makes the divisions work in her businesses: free-and-footloose guys don't want to book appointments well in advance or pre-book, and day-before bookings work at Cobalt ... so far. But with business growing between 2 percent and 5 percent a month, one day its male patrons may have to call sooner.

In making Cobalt downtown Harrisburg's newest male attraction, Gal developed a cobalt blue and mahogany red theme (it's a fallacy guys don't like a little color, she says), selected one men's product line to ease male shopping stress and partnered with businesses that attract men.



San Diego salon owner Jet Rhys makes her color services attractive to clients aged 18 to 60.

For instance, a photo of Cobalt and brochures are posted on the bulletin board of a nearby health club and in local hotels. Restaurants are another great business partner.

"Cobalt offers cuts, hair color, steam towels with a shave and manicure," says Gal. "Men want strong exterior lines in a cut but you can do them perfectly in half an hour, which is important because men want to get in and out fast."

If you don't want a second, male-only salon, a separate area in your current operation serves just as well, if it looks and feels right, and lets the guys get a stylish look with minimal fuss.

With either set-up, men will display at least one female-centric trait: They'll tell one another about your operation, and check out the segregated space just to see what it's all about.

Since men at Cobalt pay \$5 more for a cut than the guys at Gal's spa do, they clearly think a place of their own is worth it. >>>



Make a distinction between high-spending and quick service male clients, advises Harrisburg, Pennsylvania, salon owner Zsuzsanna Gal.



Merlisa Lawrence Corbett, owner of NuYu Salon & Spa in Alexandria, Virginia, targets affluent clients of all ethnic groups.

"Cobalt gives men a sense of male expertise and the feeling they're getting special attention," she adds.

3. DIVERSIFY CLIENT PORTFOLIOS

What happens when your blue chips slip? With the best of clients stretching visits, it's a question that applies equally to investments and schedule books.

But diversifying isn't easy, says Merlisa Lawrence Corbett, owner of NuYu Salon & Spa in Alexandria, Virginia, whose staff and clients include African-Americans, Caucasians, Asians and Hispanics. Start, she says, by looking for salon markets that are both diverse and affluent.

"Affluent people tend to be better educated, so they carry fewer prejudices," explains Corbett.

"Next, re-educate your staff and clientele to look at hair and skin as a type. Hair is hair, and any great stylist can do a relaxing service as easily as a perm. I train my staff to look at hair as bone straight, straight, wavy, curly and extra curly; one is no more of a mystery than the other.

"Still, we are asked if we 'do black hair' but we never get asked if we do facials for darker skin, which actually is different," she comments.

If you're ready to look at each client's hair and skin pigmentation as unique, offer customized service solutions and market to add "flava" to your books, here are Corbett's top tips.

- Make it your mission to hire a diverse staff. African-American women are the least likely to trust someone of a different race to do their hair because they're afraid of the results, says Corbett. But with a diverse staff and try-out discounts for new stylists, she has more African-Americans in her hair area than in the spa, and with time, they do cross over to Caucasian, Latino and Asian stylists.
- Underscore diversity in your ads, website and collateral.
- Educate your staff in both techniques and consumer verbiage. Relaxing services, dreadlocks and extensions are easy to do when you're trained, says Corbett. You'll learn that when African-Americans say they want a perm, they really mean a relaxer. Asking about hair type and whether or not they've had previous relaxers clarifies things, she notes.
- List all services straightforwardly on your menu: blow-dry and style, lock treatments, wrap and iron curl, roller set. Corbett's advanced hair styling techniques include Japanese thermal reconditioning, extensions and color correction, because they all require a consultation.

"When you simply discuss the service, you'll find Caucasians will get marcel curls, which stay longer; they never knew they could get them."

- Carry product lines that reflect diversity, particularly in color cosmetics and skin care.

Last year, NuYu was nominated for Small Business of the Year by the Alexandria Chamber of Commerce, and Corbett credits her salon's credibility and client recognition. "You can get 30 types of dog food at the supermarket; you should be able to get diverse services in every salon," she adds.

4. COURT WOMEN OVER 50

In 2003, Deborah Pastore, owner of Accent on Beaute in Jenkintown, Pennsylvania, saw five new clients a week; 70 percent of her clients are women over the age of 50.

Her secrets to success, she says, are a dynamite Yellow Pages ad with a high-fashion photo, consistency in the salon's work and the ability to get women of a certain age out of a style-stuck mode.

"I've dealt with this age group since I started doing hair," says Pastore. "These women definitely want to look stylish, and they want to go to a full-service salon that offers hair, nail and skin care services. When you have a good ear and you listen, when these clients know they will leave your salon looking good every time, they'll stay with you and refer their friends."

The biggest mistakes salons make with older women, adds Pastore, is to make their hair color too light or dark for their skin tones or leave them in a style rut.

"The color that makes clients look younger is a semi- or demipermanent shade that blends gray to start, followed by a move to a permanent color that's two levels lighter than natural, or a high-lighting service," notes Pastore.

"Forget high-lift blonde and very dark brown. For fine or thinning hair, avoid geometric cuts that are too choppy. We offer concave convexity cuts that follow the shape of the head and permit slightly longer layers. For thicker hair, razor- and dry-cutting create more edge."

Stressing that regardless of age, today's woman wants to think she's fashion-forward, Pastore says >>>

THE NUMBERS

IN 2003, SALON BUSINESS WAS FLAT, PRIMARILY DUE TO A FEEBLE ECONOMY.

ACCORDING TO PROFESSIONAL CONSULTANTS AND RESOURCES, A PLANO, TEXAS, MARKETING AND CONSULTING COMPANY, IN 2003, TOTAL SALON SERVICE REVENUES WERE \$57.6 BILLION, A 3 PERCENT INCREASE OVER LAST YEAR.

Sales of all professional salon products, not including backbar or service products, grew by 3.3 percent to \$3.14 billion in manufacturer dollars, or roughly \$5.7 billion at retail.

The latest National Accrediting Commission of Cosmetology Arts and Sciences Job Demand Survey notes there were 312,959 beauty, nail and skin care salons, barbershops and spas in 2003, or 5.6 percent more than in 2002. On average, this creates a salon income of \$184,049 but once you account for high-grossing spas and smaller operations, it's a consistent industry estimate that the majority of salons gross below \$100,000 a year.

The service that generated the most income remained, as in years past, cutting and styling, which represented \$23.8 billion in 2003, a 3 percent increase over last year. The second biggest dollar generator was hair color, which grew by 4.3 percent this year to \$10.8 billion.

Salons did slightly better at retailing than last year, selling \$1.05 billion worth of hair care products in manufacturer dollars. Most the 2003 sales came from shampoos (\$258 million) and conditioners (\$201 million), which salons re-emphasized as a way to combat hair damage.

Specialty-product sales had the strongest growth among retail categories, representing \$134 million, or a 6.8-percent increase in sales to consumers. Overall, retail product sales were up by 3.2 percent over 2002.

Interestingly, at the mass level, formerly the hair care powerhouse, almost every category lost ground in 2003. According to Information Resources Inc., sales of the top 15 brands of

CONTINUED ON PAGE 115

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CIRCLE 53

keeping up-to-date on techniques and trends is a must. It's one of the reasons her 20-something stylists have no problem retaining their 50-something clients.

As for consultation skills, Pastore stresses them, but doesn't subscribe to the theory that words like "aging" are musts-to-avoid.

"We're upfront and straightforward without being insulting; even a 30-year-old is aging because we all are," she notes.

"Women over 50 are our bread and butter who come back every four weeks. Younger women will milk a cut or do their own color, but of course, if they make a mistake, they won't look as bad as older women would. The mature client wants professional services she can count on to look her very best."



Deborah Pastore of Accent on Beaute in Jenkintown, Pennsylvania, added five new clients a week last year by marketing to women over the age of 50.

5. PUMP UP PROFITS

The "average" salon makes a 4-percent to 7-percent profit, but distributors say nearly 70 percent of salons show zero profit. The difference: whether or not the owners' salaries, car payments and more come out of the business.

Even if you're making a good living now, that's a problem. If you can't show a profit on paper, forget getting bank loans, offering benefits and jumping on opportunities. The first step: Cut fixed costs from the bottom up, then grow revenue. Seattle-based Salon Services and Supplies' Club 40 members are making headway by tapping their human resources.

Sally Flink, owner of Peppers Salon in Puyallup, Washington, has operated under leasing, commission and salary structures at various times.

When leasing chairs, she couldn't raise rents to match increasing expenses; under a commission structure, her too-slow client flow couldn't combat compensation costs that reached 56 percent.

But by paying an hourly wage in 2003, she moved from a 7-percent loss to 2-percent profit. Her service payroll is now 47 percent including added benefits—her goal is 45 percent.

"To transition employees, I took their last six months of pre-tax income, calculated the weekly gross and divided it by the number of hours worked," says Flink. "No one made less money."

In fact, stylists now make more (from a maximum of \$18 to \$20 per hour), and they have extra benefits, including paid medical and optical care, and three weeks vacation. Including tips, Flink's top stylists make between \$40,000 and \$45,000.

Each month, Flink tells the staff her real expenses (\$64,500 a month to break even), and shares 25 percent of everything over break-even in bonuses. >>>



Sally Flink of Peppers in Puyallup, Washington, managed costs by switching to an hourly compensation rate—with benefits.

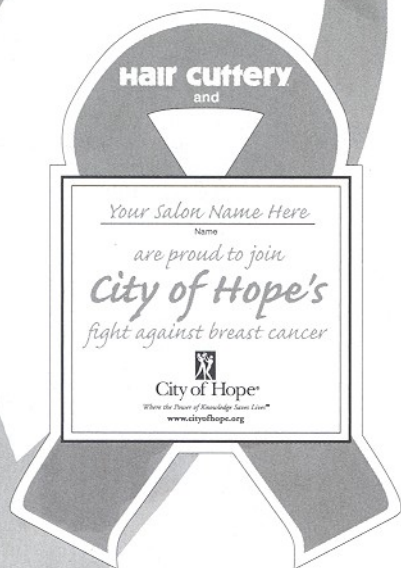
"I don't take anything out of the salon but my wages. My banker has now given me everything I want for a second location," says Flink. "Last month, each full-time person got a \$200 bonus."

At James Alan Salon in Shoreline, Washington, co-owner Matthew Fairfax pays commission. In 2003, his salon grossed \$1 million, and he estimates profits will reach 5 percent. Compensation, benefits and the owners' salaries represented between 53 and 55 percent of gross, he says.

"If salons have no profit, it's because they are not retaining clients, they don't know what they do best or they're overpaying compensation," says Fairfax. "Things other than high commissions keep teams going."

His 2003 profit strategy: A bonus pool that relates to the salon's values. To determine the pool, which was \$30,000 last year, Fairfax checked his numbers and decided what he could afford if he hit all his targets. Four measures determined the portion of the pool actually awarded. Full-time

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employees got 100 percent of their share and part-timers got a percentage based on hours.

Those who did not regularly attend staff meetings got zip.

In 2003, the amount awarded was \$14,600; full-timers got \$1,026. To determine the portion of the pool awarded, point values from one to 10 were assigned the following items, then the point values were averaged.

- Customer referrals. The "only way to measure customer satisfaction."
- Community involvement. Each employee must give back to the community by getting involved in six events a year.
- Efficiency. Employees were challenged to reduce all controllable costs.
- Revenue increase over the previous year, which was 13 percent in 2003. >>>

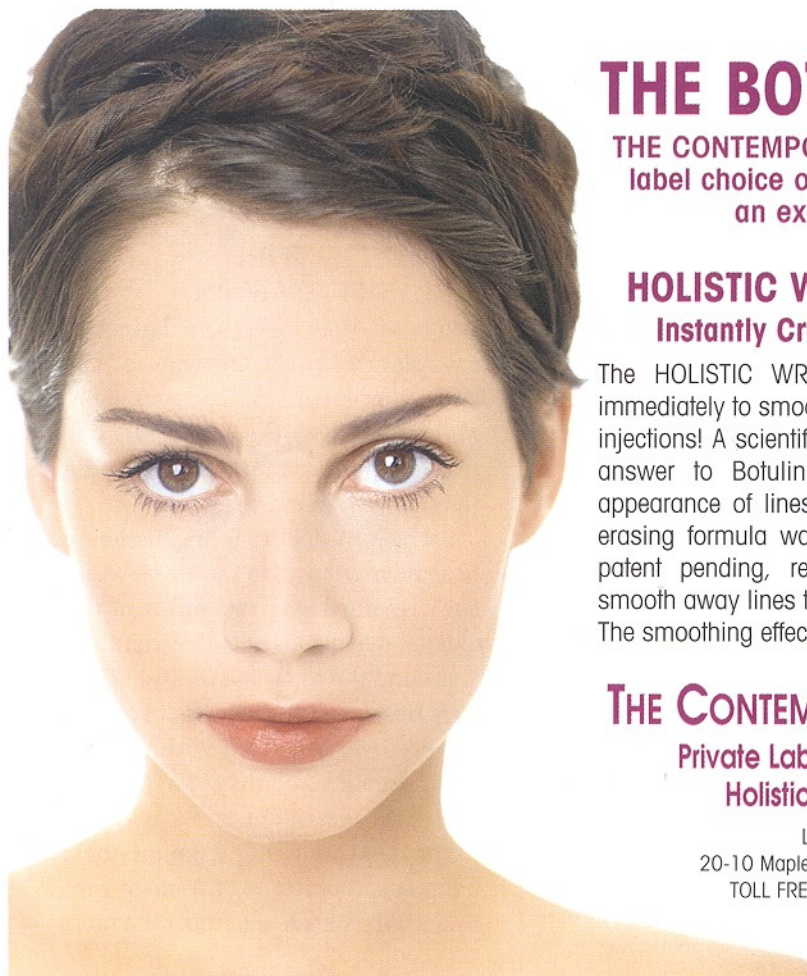
THE NUMBERS FROM PAGE 111

both shampoos and conditioners in food, drug and mass merchandise outlets were down 1.5 percent for the 52-week period ending November 30, 2003. Hair color sales fell about 3.1 percent.

Those IRI figures do not include Wal-Mart, the elephant of the mass channel, accounting for more than 30 percent of all shampoo sales at mass. Yet even with the mega-retailer, mass performed worse than salon. As a measure, for the 52 weeks ending August 10, 2003, sales for the top 10 shampoo manufacturers including Wal-Mart stood at 1.9 billion (a lackluster .4 percent dollar increase); their sales for the same period excluding Wal-Mart stood at \$1.3 billion, a 1.1 percent decrease.

While statistics indicate slow growth of mainstay products and services, fierce mass-market competition and a growing number of salons with fewer than five chairs, the picture becomes more complex when you consider

CONTINUED ON PAGE 117



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"Things other than high commissions keep teams going," maintains Matthew Fairfax, co-owner of James Alan Salon in Shoreline, Washington.

"In 2003, the average was 5.75; if it had been 10, we'd have awarded the full \$30,000," adds Fairfax.

"I didn't have to remind stylists to send thank-you cards; their team members did it for me. Because we hit \$1 million this year, we're all going to Hawaii for our annual retreat. And, we have cash flow and profit."

6. STOP THE TALENT DRAIN

You train, they leave. The danger zone, says Nancy Brown, co-owner of Ladies and Gentlemen Salon and Spa in Mentor, Ohio, is the year and a half to two year period; another crucial point is the five-year mark.

Yet over the last 10 years, her business has grown from 38 to 140 employees, and she's retained over two-thirds of them—and her salon does not allow tipping.

Among the top reasons stylists leave, says Brown, include the fact young people are over-extended with credit and car payments, and they can't wait to get their own apartment.

They end up going from business to business, looking for the most money. New stylists leave the field for a more >>>

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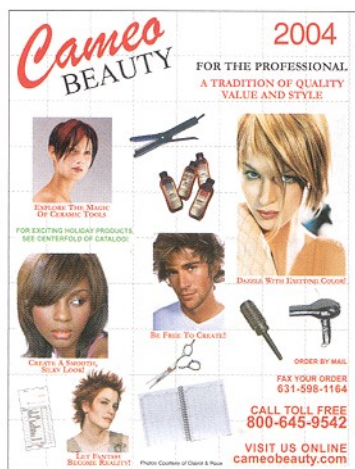
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THE NUMBERS FROM PAGE 115

other products and services unique numbers to the salon industry.

According to PC&R, perming and relaxing service revenues remained flat at \$8.7 billion. Skin and body care services grew by 4.3 percent and 4.9 percent respectively, accounting for \$1.94 billion and \$640 million. Nail services, now accounting for \$4.82 billion, grew by 3.7 percent.

While hair color is the economic engine in many salons, its growth is slowing, and the number of consumers buying off-the-shelf is growing. Keeping current business and building new will be essential for color to continue its integral role.

Yet for all services, baby boomers and women in particular are the driving sales force, and that won't change soon.

Kline & Company's The U.S. Professional Skin Care Market 2003 observes that professional skin care product sales are outperforming standard ones, thanks to spas. Pro skin care sales grew by 10 percent per year over the last five years, while the traditional market grew 5.4 percent during the same period.

Physician-endorsed skin care hasn't sold as briskly as predicted; physicians aren't good retailers. However, that may change with the advent of retail skin care clinics. (Just one, Nuvio International, offers medical and esthetic treatments and promises prescription-strength products at its "unintimidating" shopping mall locations.) Plus, several mass retail chains are considering testing spas.

Euromonitor International's The Market for Cosmetic & Toiletries in the USA, 2003 reports that salon hair care sold to consumers (which it measures as primarily shampoo, conditioning and styling products), represented \$2.82 billion in 2002—

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CIRCLE 59

"stable" profession, without giving themselves the opportunity to slowly build a clientele. For their part, salons fail to offer consistent training and career pathing, Brown says.

She recommends a one-on-one mentoring program. Since her salon is large, she uses one-on-one rotation training. Stylists learn from seniors with different expertise.

Never hold a good stylist down, she says. Adjust training to a new hire's skill set. Brown created a 90-day training program for stylists who came from topnotch schools; others train eight months to a year, learning to be a stylist, not an assistant.

"New stylists shouldn't just do shampoos," she stresses. "It's hard for young people to grasp that they have to sweep floors or do laundry. Stylists shouldn't order them to do something; they should do it with them. Never make an assistant feel 'less than.'"

Twice a month, Brown's trainees must pass mandatory classes.

In smaller salons, the busiest person can "clone" their professional skills to a trainee. At the newbie's own pace, she can take the senior's overflow, booking one day a week until her book is full, then two. After two years, the trainee becomes the master.

Using this method, says Brown, allows you to grow from a staff of five to about 25 in four years. >>>

THE NUMBERS FROM PAGE 117

almost 30 percent of the total U.S. retail hair care market.

The increase over 2001 came from higher price points, a new emphasis on shampoos and conditioners for healthy hair (at some expense to stylist sales), unique stances like aromatherapy and consumers' desire for little luxuries. The company forecasts that by 2007, salon hair care will represent nearly \$3 billion.

Sales could get a boost from a trend the gurus at www.trendtracking.com call "Maturalism." It's a baby boomer preference for "professional-grade" goods, and it's driving sales of many types of products with a professional stance.

Euromonitor analysts also say, however, that consumers' preference for premium brands slowed as the economy worsened, resulting in a boost for "masstige" products, which resemble prestige, department store and salon brands via high-tech ingredients and packaging, and are now available at lower price points.

Packaged to be nearly indistinguishable from salon hair care, these products are creating a strong threat to salon sales, according to Datamonitor. Examples: Celebrity stylist Ken Paves launched Flawless by Paves Professional in Walgreens at \$5.99 per item; Rite-Aid offered its own 411.Hair Info, touted as "salon-style hair care."

Researchers expect the salon industry to respond with products aimed at consumer types, as opposed to hair types. At buying conferences, mass marketers are being told they must cross all selling channels or risk losing market share rapidly.

Datamonitor's U.S. Professional Hair Care 2002 reports the com-

CONTINUED ON PAGE 120

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BACK TO NATURE

Tempting flavors that will empower you.

For information contact: C & J Distributing, 1657 Belltower Dr., Lewisville, Texas 75067 or call: 1-800-657-9523




Nancy Brown of Ladies and Gentlemen in Mentor, Ohio, structures both her training program and her service price schedule to maximize employee retention.

Training is one issue, career pathing is another. To create an environment of opportunity, Brown learned from Adam Broderick. Her new stylists get \$30 a cut and make 50-percent commission. After 90 days, if they meet productivity, retention and retail goals, they make 55 percent; hitting goals again, they get 58 percent. Then, they move up to the next level—a \$40 cut—and repeat the tri-tiered process.

Add Senior (\$50 cut), Signature (\$60) and Master (\$70 and up) levels, and you won't lose stylists for 60-percent commission across the street.

Other keys: Brown takes the exact product charge off the top, and says on the P&L, your total compensation costs shouldn't be over 50 percent.

"All hairdressers look at how much they made in a day and how much of it they kept. All employees want real recognition of real accomplishments more than money," comments Brown.

"If you do everything you can to give someone a great career, a good life and the opportunity to succeed, they'll stay with you." 

THE NUMBERS FROM PAGE 118

pound annual growth rate of salons offering both hair and beauty services was 4.1 percent between 1996 and 2001. (Hair-only salons grew at a CAGR of 1.4 percent during the same period.)

The ratio of population per salon dropped by 2.3 percent between those years, indicating an increase in number of salons above and beyond any population increase. Tom Allen, sales and marketing manager for B&B Beauty supply in Lithonia, Georgia, confirms this growth, citing as many as 40 small salons—three in a single mall—in a small Alabama town. He adds that while the owners complained about overhead, when he asked why they don't consolidate, "none of them wanted to work for someone else." Programs that nurture and retain employees loom large.

On the demographic front, according to *Happi* magazine, 45 percent of American women have curly or wavy hair, and more than \$6 out of every \$10 spent on "ethnic" HBA is spent in beauty and barber stores or salons. Datamonitor notes: "Despite representing a sizeable portion of the population, African-American women are an under-served consumer in terms of professional hair care and services."

According to a Harris Interactive survey, 65 percent of African-American women strongly agreed with the statement, "It's important to look one's best at all times," compared to 32 percent of Caucasian female respondents. A diverse staff is key to attracting these clients.

Finally, Euromonitor notes that American men showed a strong demand for men's grooming products; between 1997 and 2002, sales of those products rose by nearly 42 percent in current value terms. Datamonitor reports, "Men are increasingly comfortable visiting salons and are spending time on their appearance, thanks to changes in what is socially acceptable and sustained media focus on fashion and style." If your business is not attracting men, it's time to refocus.

While the economy vexed everyone, salons were most affected by elongated client visits, extreme mass-market competition, service prices that did not keep pace with the costs of doing business and failure to tap ripe markets.

Datamonitor analysts say the American salon industry is the most consolidated in the world, and while independent salons remain plentiful, over time, competition from chains will make their survival increasingly difficult: "It is very likely that within five years, salon chains could have double the global market share." 