

Shaping up: Improving macroeconomic factors will likely drive industry revenue growth

IBISWorld Industry Report 81211 Hair & Nail Salons in the US

December 2019

Thi Le

2 About this Industry

2 Industry Definition

2 Main Activities

2 Similar Industries

3 Additional Resources

4 Industry at a Glance

5 Industry Performance

5 Executive Summary

5 Key External Drivers

7 Current Performance

9 Industry Outlook

11 Industry Life Cycle

13 Products and Markets

13 Supply Chain

13 Products and Services

15 Demand Determinants

15 Major Markets

17 International Trade

18 Business Locations

21 Competitive Landscape

21 Market Share Concentration

21 Key Success Factors

21 Cost Structure Benchmarks

23 Basis of Competition

24 Barriers to Entry

25 Industry Globalization

26 Major Companies

26 Regis Corporation

27 Sports Clips Inc.

27 Drybar Holdings LLC

28 Operating Conditions

28 Capital Intensity

29 Technology and Systems

29 Revenue Volatility

30 Regulation and Policy

31 Industry Assistance

32 Key Statistics

32 Industry Data

32 Annual Change

32 Key Ratios

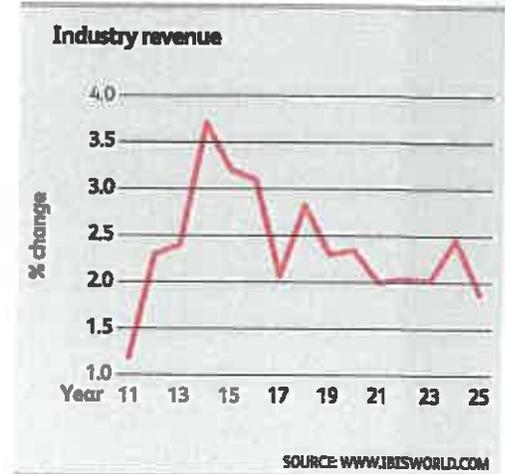
33 Industry Financial Ratios

34 Jargon & Glossary

Industry Performance

Current Performance

Over the five years to 2019, operators in the Hair and Nail Salons industry were able to capitalize on healthy macroeconomic conditions, which paved the way for increases in service sales. Many salons were able to offer an expanded array of products and services that boosted revenue and capitalized on rising consumer spending. In specific, the low unemployment rate has fueled demand for services as consumers are willing to incur expenses on cosmetic services provided by the Hair and Nail Salons industry. When consumers engage with eight hours of work daily, they have less time available for self-care and thus, will likely opt to industry services. Consequently, revenue is forecast to grow at an annualized rate of 2.7% to \$62.8 billion over the five years to 2019.



Improved demand conditions are anticipated to continue through 2019, with revenue expected to rise 2.3% this year due to growing per capita disposable income.

Increasing profit

Profit margins remained strong during the current period, primarily due to increased products and services sales, as well as rising consumer spending on high-margin products and services. The average profit margin for an industry operator is projected to reach 8.9% in 2019, up from 6.9% in 2014. Moreover, many stylists and nonemployers are leveraging online platforms, such as Instagram and Facebook, to reach customers directly, thereby increasing exposure and expanding their customer bases at a minimal cost.

Revenue growth is also attributable to strong industry expansion over the past five years, with the number of industry

establishments expected to have increased at an annualized rate of 1.0% to 1.3 million. Likewise, employment is anticipated to increase at an annualized rate of 1.3% to 1.7 million people. However, the average wage has remained relatively unchanged for certain industry services during the five-year period, heightening concern over poor labor conditions. A highly publicized piece in The New York Times during the beginning of the current period exposed the poor conditions of many industry workers and spurred nationwide public outrage. Consumers are anticipated to increasingly opt for salons that offer fair wages to their employees.

New offerings

Salons have expanded their service offerings to encourage consumers to purchase higher-value products and services. For example, gel services have been a high-growth segment for the

industry and include brush-on gels, soak-off gels, hard and traditional gels, colored gels and gel topcoats. Besides, as nail health concerns grow, customers have increased their demand

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalization

Market Share Concentration

Level
Concentration in this Industry is Low

The Hair and Nail Salons industry is highly fragmented; a significant majority of industry operators are nonemployers, or small business owners running their own salons. Less than 5.0% of industry market share is controlled by major companies. In fact, the industry is dominated by nonemployers, which are estimated to make up over 90.0% of companies in the industry. This includes hairstylists and nail technicians that are

sole proprietors and rent their booths from hair and nail salons. Nonemployers collectively generate just over half of the industry's revenue. The market leader, Regis Corporation, controls less than 3.0% of the total market. In addition, barriers to entry are extremely low for the industry, further contributing to a high level of fragmentation and making it difficult for one company to serve a large portion of the entire market.

Key Success Factors

IBISWorld Identifies 250 Key Success Factors for a business. The most important for this industry are:

Business expertise of operators

It is critical to have experience and skills in managing and operating all aspects of a small business to achieve financial success.

Having a loyal customer base

A highly satisfied client base will encourage repeat customers, who make up the majority of clients.

Access to niche markets

Operators that develop niche areas of service and expertise reduce the effects of local price-based competition.

Maintenance of excellent customer relations

Operators that strive for positive customer relations will promote customer satisfaction and encourage positive word-of-mouth recommendations.

Must have license

Employees must possess the appropriate licenses to operate.

Accessibility to consumers

A salon in a convenient and easily accessible location may benefit from walk-in patrons and repeat business.

Cost Structure Benchmarks

The Hair and Nail Salon industry is highly fragmented, with the majority of industry companies catering to local clientele.

Wages

Wages account for the largest industry expense, given its emphasis on personal service and skilled labor. Salons employ barbers, hairstylists, cosmetologists, nail technicians, shampooers and other administrative staff. Wages are estimated to account for 43.2% of industry revenue. Over the past five years, growth in industry employment has pushed up wages' share of industry

revenue. Salons can either compensate employees on a commission-based model or a booth rental model. Under commission-based models, employees retain a specified percentage of their earnings with commissions generally ranging from 35.0% to 60.0%. Under a booth-rental model, salon owners charge stylists a fixed fee for booth rentals.

Purchases

Purchases represent a considerable expense for industry operators. IBISWorld estimates that purchases account for 14.7% of expenses. Salons regularly purchase merchandise such as

Operating Conditions

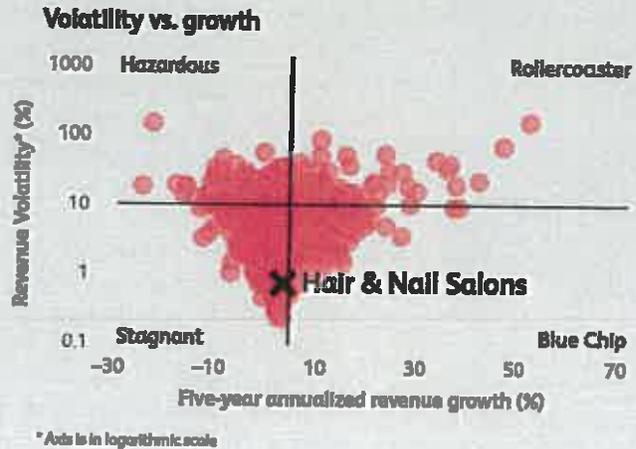
Revenue Volatility Continued

rather than more expensive services from salons. Furthermore, consumers will continue to purchase basic haircuts from industry operators despite fluctuations in

the economy. As the majority of services offered are relatively inexpensive, revenue declines remain moderate during periods of economic decline.

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment.

When a firm makes poor investment decisions it may face underutilized capacity if demand suddenly falls, or capacity constraints if it rises quickly.



Regulation and Policy

Level & Trend
The level of Regulation is Medium and the trend is Increasing

The Hair and Nail Salons industry is subject to a moderate level of regulation at the federal and state levels, due to licensing requirements, franchise laws and consumer protection laws. Several of the major regulations that affect the industry are listed below.

Federal regulations

Salons are subject to advertising and consumer protection laws. Under federal and state law, ads that mislead or deceive consumers are unlawful. The Federal Trade Commission (FTC) can take legal action if a salon's ads are misleading.

Typical zoning and real estate land use restrictions also apply to salons. Landlords must obtain all necessary zoning approvals and permits for the site to be used as a retail establishment. Salons with franchise operations must also abide by the FTC's Trade Regulation Rule on Franchising. Franchisers must provide information about subjects such as franchiser-initiated lawsuits against

franchisees. They must also provide contact information for former franchisees that have left the franchise in the past year; franchise turnover information; the dangers of buying non-exclusive territories. Finally, they must include the franchiser's use of confidentiality clauses that stop current or former franchisees from talking about their experience with prospective franchisees and contact information for independent franchisee groups.

Furthermore, hair salons must comply with the Health and Safety in Employment Act of 1992. Operators must identify workplace hazards such as exposure to chemicals and they must take all practical steps to prevent harm from occurring to stylists and clients. Salons must also check premises for compliance with the public health legislation and associated codes and guidelines that contend with issues such as cleanliness, construction, sterilization and usage practices of equipment and personal