NHBF

Supporting the hair, beauty and barbering industries

State of the Industry Survey Summary – January 2024

Key findings

The sector recovery has been slow and steady through 2023 and into January 2024:

- Making a profit/loss: There has been a slight rise in businesses making a loss (20% up from 14% in September) and fewer businesses (40%) are making a profit.
- Prices: There was a reduction in businesses putting up prices over the previous three months (39%, down from 55%); a further 64% (up from 51%) will do so over the next three months.
- Reliance on external support remains high but is stable. Over half of businesses (58% up slightly from 56%) are either partially or completely reliant on Government support.

Business costs

- Businesses are most concerned about energy costs (70%). Concerns about increases to the National Minimum Wage/National Living Wage at 67% (up from 59%) is the highest recorded.
- Energy prices: two-thirds (66%) of businesses are paying more for energy than they were six months ago. When the Energy Bill Discount Scheme ends on 1 April, for half of businesses (49%) prices will go up by up to 20% and for two-thirds (68%) they will go up by up to 40%.
- Business debt: Debt levels in the sector remain high; 56% of businesses are in debt (similar to in July 2023), and levels have increased for 32% over the last six months. Of most concern is the fact that 45% say that it will take them between 2 and 5 years to clear.

Staffing, recruitment and apprentices

- The workforce has stayed the same over the last three months for more businesses, nearly two-thirds (63%, up from 57%).
- However, recruitment intentions have taken a dip. In the next three months, only 17% (down from 27%) were definitely or likely to take on new staff and fewer businesses (9%, reduced from 20%) would take on apprentices.

Looking to the future

- Turnover: turnover expectations are similar to in September, with a slight rise in businesses expecting turnover to decrease, 25% (up from 22%); 46% (up from 40%) expect it to stay the same over the next three months.
- Business survival expectations remain more positive with 72% of businesses confident of their survival.
- Growth intentions are similar to September with slightly fewer 41% (down from 45%) saying that they intend to grow the business either rapidly or moderately and more staying the same size (44% up from 40%). A consistent 15% are planning to downsize or hand over the business.
- Barriers to growth: the current economic conditions are still the biggest challenge for sector businesses (66%) although this has eased slightly (from 68%). Businesses still have issues with recruiting experienced staff (43%) and finding apprentices (23%).

Key insights

1. The results show that the sector recovery has been slow and steady through 2023 and into January 2024. Resilient sector businesses are still under pressure from sticky inflation, high winter energy costs, rising wage costs in April 2024 and the lack of availability of experienced staff to grow their business.

2. Of most concern in the results, with rising wage costs is the reduction in the number of businesses planning to take on staff or apprentices. This is a key concern for the future of the sector and talent development and should be counteracted by further targeted support to employers. Due to the sector shift to self-employment, many businesses find it challenging to run a profitable and successful salon that employs staff. The sector skills crisis which we outlined in the NHBF *Careers at the Cutting-Edge* report[1], continues with a lack of experienced staff and reduced apprenticeship starts.

3. A further barrier to growth is cited as the burden of VAT and the disincentive to growth created by the threshold. This also features strongly in the comments around the survey. The NHBF has published through the *Avoiding the cliff edge report*[2], calls for reduced rates of VAT or a smoothing mechanism, to support business at a crucial time.

4. Reliance on external support is stable and survival prospects remain largely positive. However, debt lingers and for many, this will take between 2- 5 years to clear. Businesses have been putting up prices in January at the start of the year to cover rising wage costs in April. However, we need to find ways to unlock the sector's full potential, particularly through supporting employers.

Background

Local Data Company data published in September shows, in the first half of 2023, a rise in the number of barbers, beauty salons and nail bars yet a decline in the number of hairdressers on the high street[3].

This mirrors data from the Office of National Statistics (ONS) in 2022[4] showing that the sector is restructuring, with the number of hairdressing businesses in decline, but beauty, nail and barber businesses continuing to increase. The number of smaller businesses has risen, with larger businesses decreasing. The overall contribution of the salon and personal care services sector to the economy has declined.

The sector continues to show its resilience in the face of the challenging economic climate, with reliance on government support stable, business survival prospects remaining positive and growth intentions stable.

Further targeted support will be needed to help unlock the sector's full potential. The renewal of the valuable 75% business rates discount for retail into 2024/25 was hugely welcome. We need to provide further support to employers to counteract rising wages in the form of employment allowances and employer incentives. This would allow sector businesses to grow and provide valuable employment.

The NHBF has conducted its latest State of the Industry quarterly survey to gain an accurate reflection as to how the industry has fared over the final quarter of the year and is looking ahead to the spring.

Responses

[1] Skills report 2022 summary - National Hair & Beauty Federation (nhbf.co.uk)
[2] VAT Reform - National Hair & Beauty Federation (nhbf.co.uk)
[3] Retail and Leisure Analysis - H1 2023 (localdatacompany.com)
[4] NHBF Industry Statistics 2022 Industry statistics 2022 sheet - National Hair & Beauty Federation (nhbf.co.uk)

The survey received 495 responses between 8 and 23 January 2024. It gathered views from a good representation of businesses in the personal care sector across all areas including city centres, town centres and villages in England, Northern Ireland, Scotland and Wales.

Respondents included salon or barbershop owners, chair or room renters, home-based business owners, mobile or freelance practitioners, employers and the self-employed. The vast majority (92%) of respondents were salon or barbershop owners. 7% were self-employed individuals and 5% were involved in the wider space renting, mobile and freelance part of the sector; this is either the sole focus of their business or in addition to being a salon or barbershop owner.

Full details of the responses to the individual questions can be seen on request in the survey data document. A summary report of two years of quarterly State of the Industry survey data 2020-2022 is also available[5]. We are grateful to the British Beauty Council for its continued support in promoting this survey.

The financial picture

The recovery is holding steady but the results for January show a slightly worse picture. Fewer businesses (40% down from 45%) are making a small or good profit and 41% of businesses are breaking even (similar to September). Slightly more businesses (20% up from 14%) are either making a small or substantial loss (Q7). We recognise that January is a quieter month and also that the results are better than in January 2023.

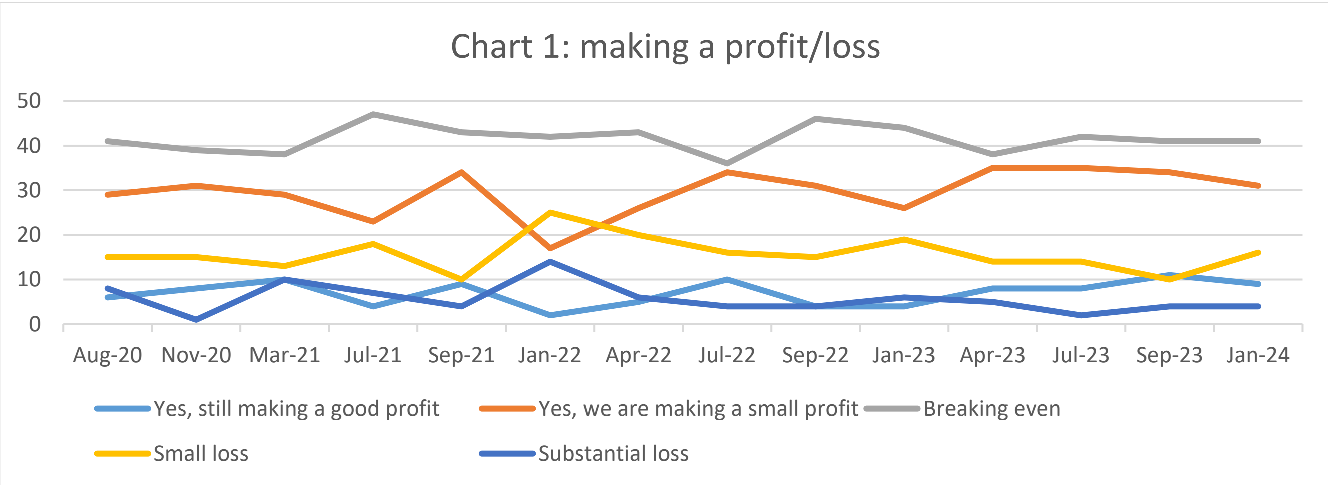


Chart 1a shows the profit or loss trend, illustrating previous recoveries to September 2021 and July 2022, with a dip again to January 2023[6] and slight dip from September into January 2024.

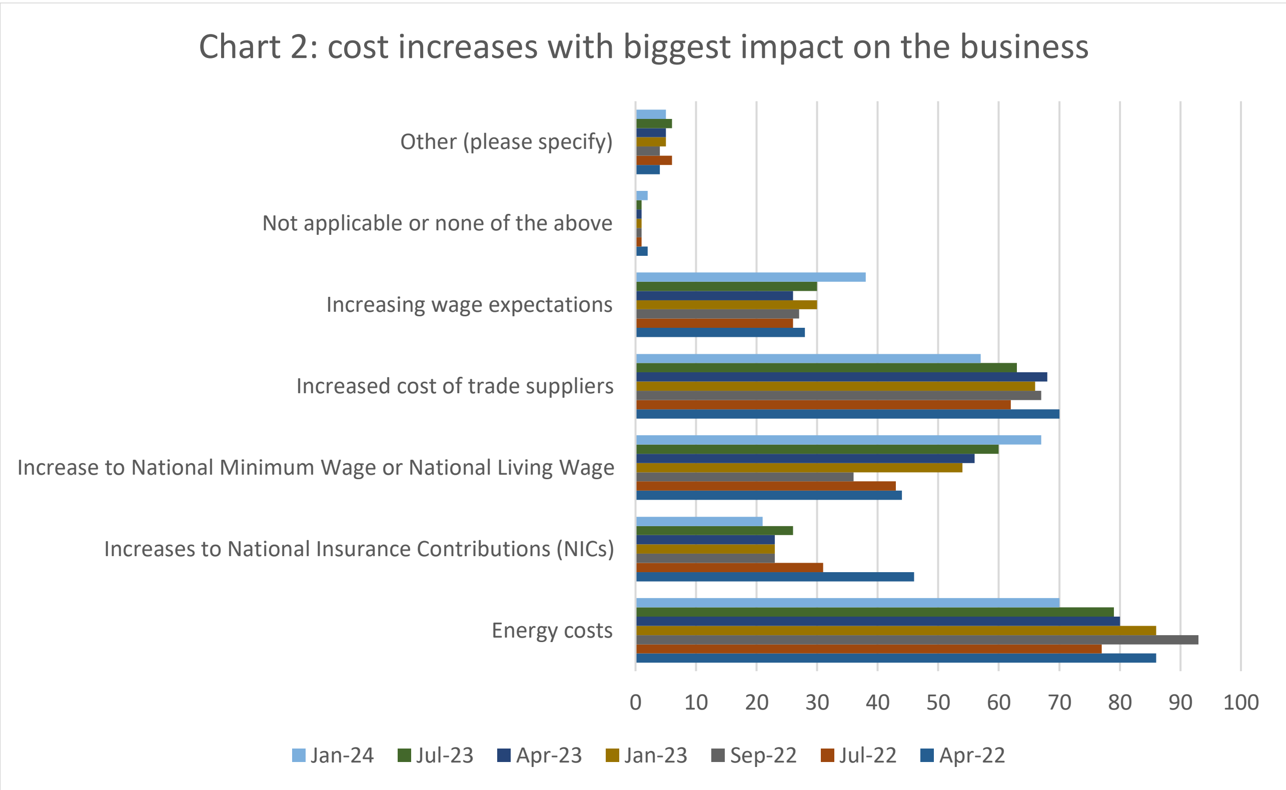
[5] NHBF Quarterly Survey – A hair & beauty survival story 2020-2022 - National Hair & Beauty Federation

[6] Note: The net trend is obtained by deducting the negative answers from the positive, while discounting the neutral answers. For example, the profitability net trend is found by deducting those reporting they are making a loss from those who say they are making a profit, and not including those who say they are breaking even.

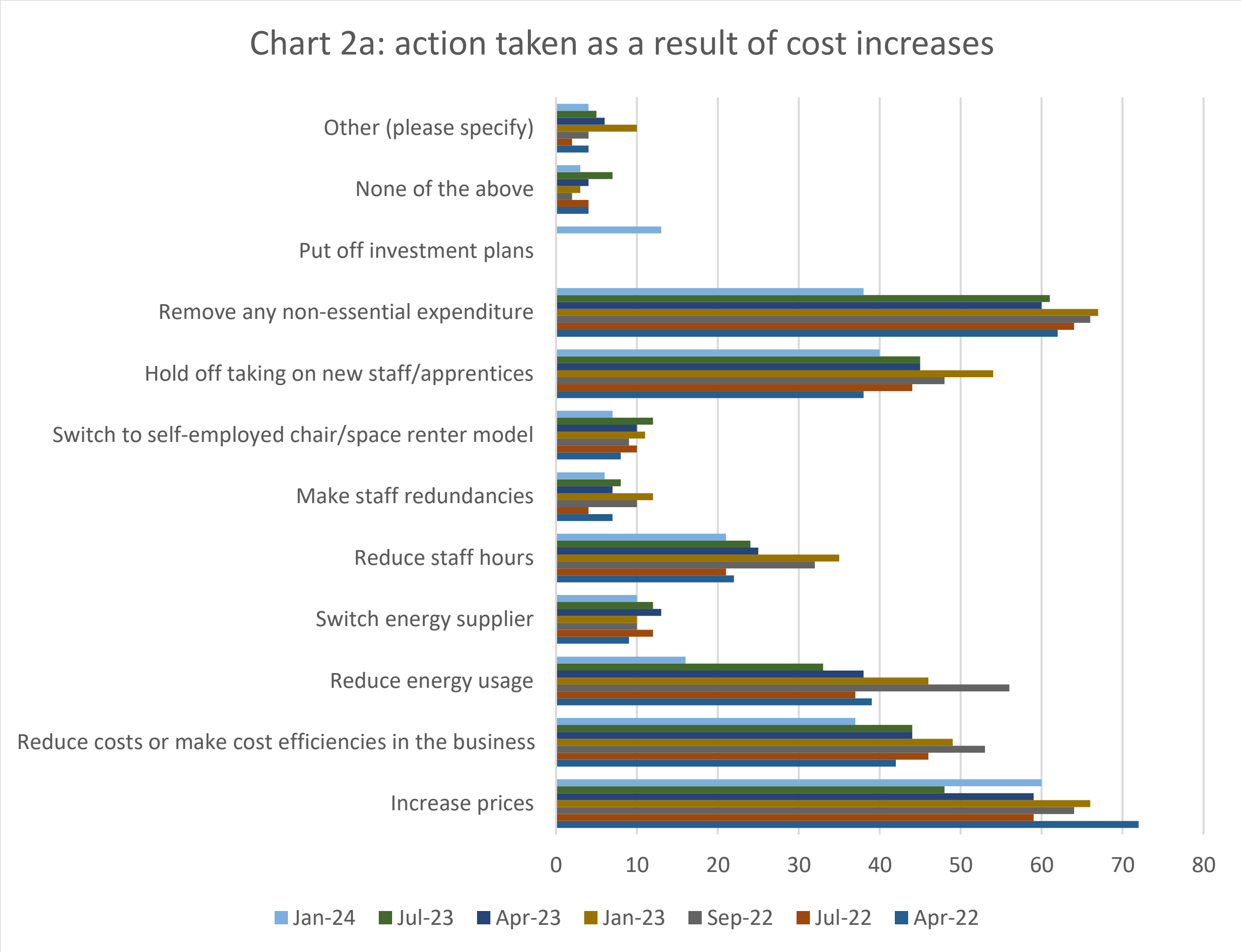
Business costs

In the context of sticky inflation and despite energy retail prices reportedly going down, energy costs are still a problem for businesses on the ground. We also see significant concern around rises to the National Minimum Wage/National Living Wage due in April 2024.

In terms of direct impact on the business, concern around energy costs has eased (70% down from 79%) but still dominates. Increases to the National Minimum Wage/National Living Wage at 67% (up from 59%) is the highest recorded. Cost of trade supplies is still a concern for 57% (down from 63%), along with increasing wage expectations by 38% (up from 30% and the highest so far). Increases to National Insurance Contributions (NICs) also feature at 20% (down from 26%) through freezes to the threshold (Q10).



In response to these costs of doing business, the most common actions that businesses are taking include putting up prices (60%, up from 48%) which is in the number one spot again in line with businesses putting up prices at the start of the year. Concerningly, holding off taking on new staff/apprentices features strongly at 40% (down from 45%) along with removing any non-essential expenditure (38%), reducing costs/making cost efficiencies in the business (37%), and reducing staff hours (21%) (Q11).



Current situation

With the caveat that January is the quietest month for the sector, the results have dipped but still are slightly more positive compared with January 2023. After the results holding up from spring to autumn last year, only 9% of businesses reported being busy (down from 24% in September) and 42% steady (down from 53%). Around half (49%, increased from 24%) of businesses reported that they were quieter or really quiet (Q6).

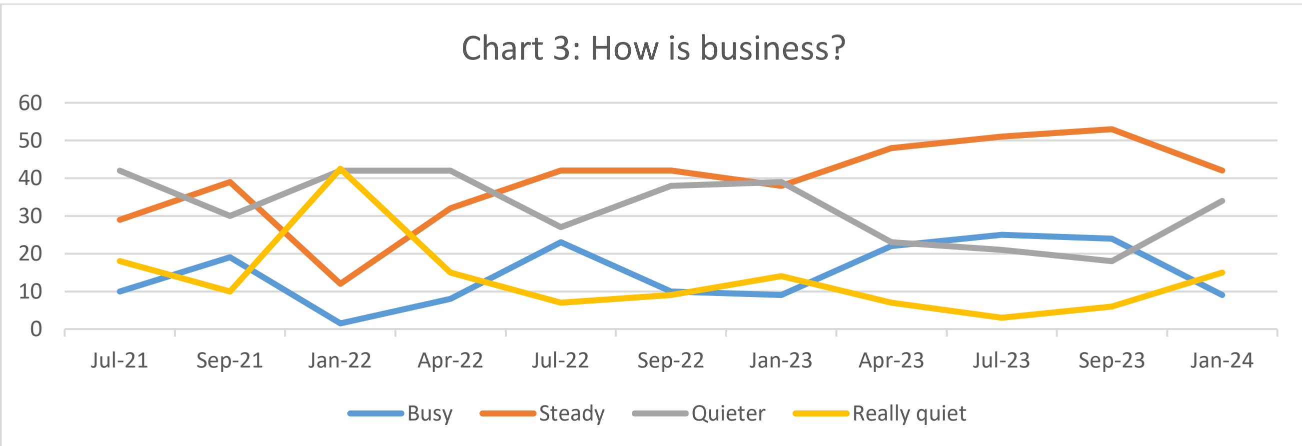
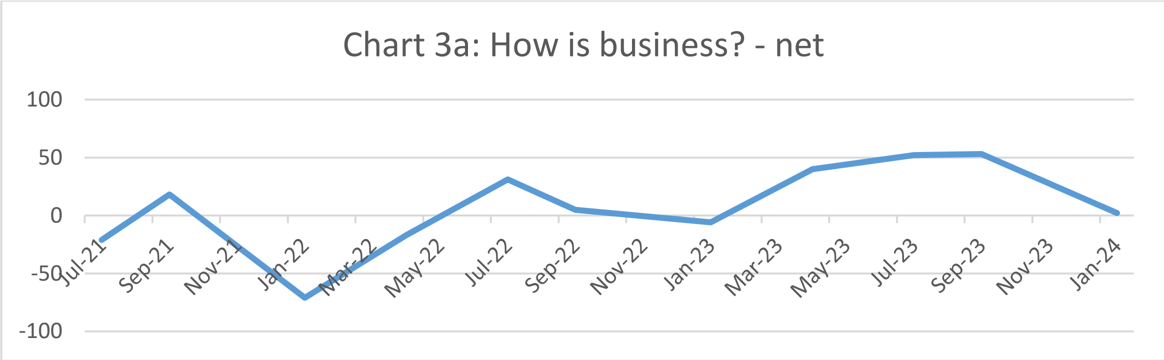


Chart 3a shows the business activity trend since July 2021. After lows in January 2022 and January 2023, the chart shows a recovery into the autumn 2023 and dip into January 2024.



Prices

There was a reduction in businesses putting up prices over the previous three months. They stayed the same for nearly two-thirds (60%). The general trend towards increasing prices continues to even off. Over the previous three months, 39% (down from 55%) raised their prices and a further 64% (up from 51%) will do so over the next three months (Q8, Q9).

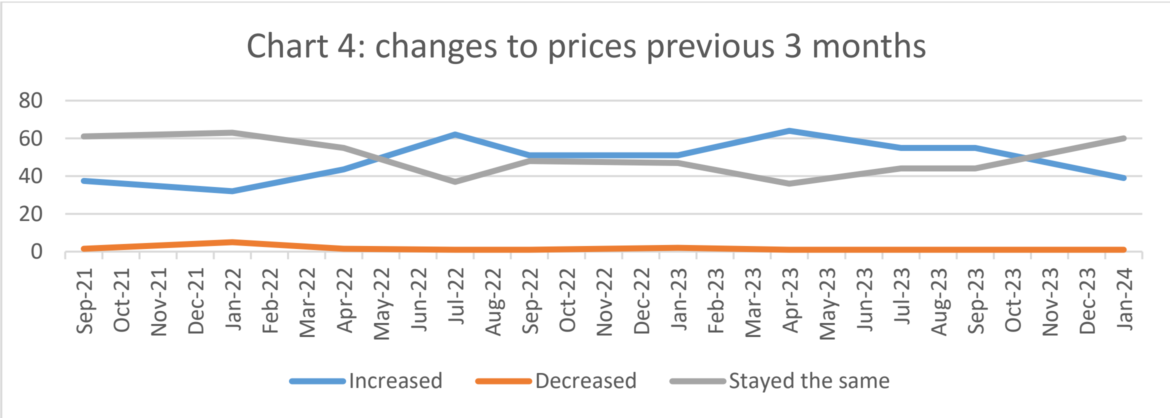


Chart 4a shows the decline in the rate of rising prices from Q1 2023.

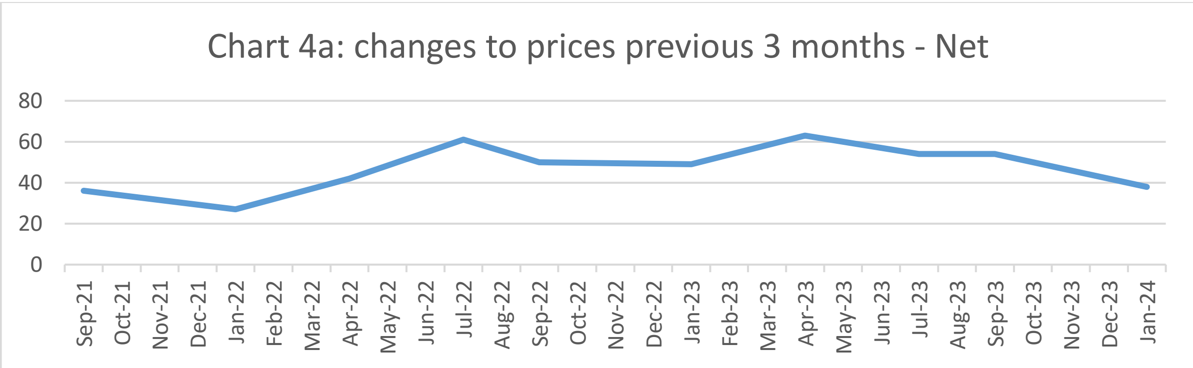
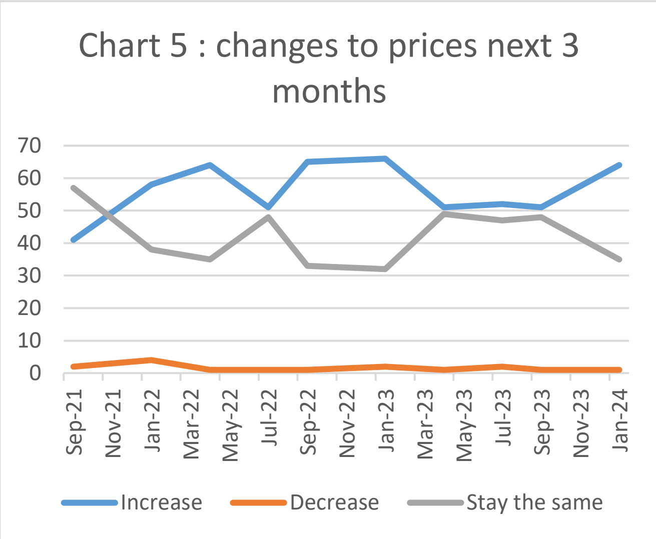
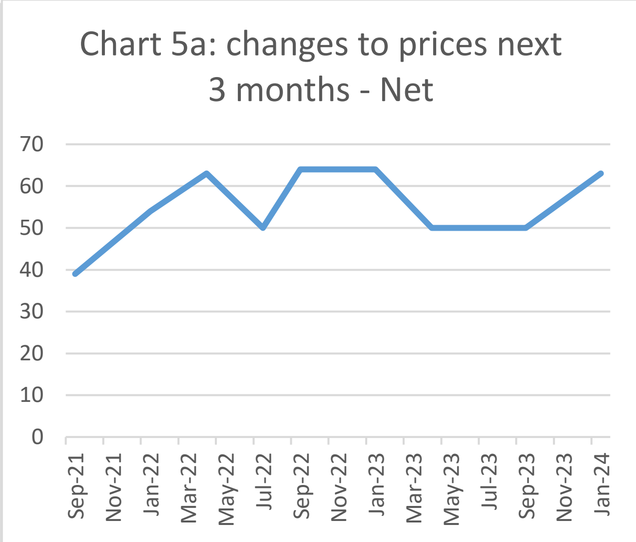


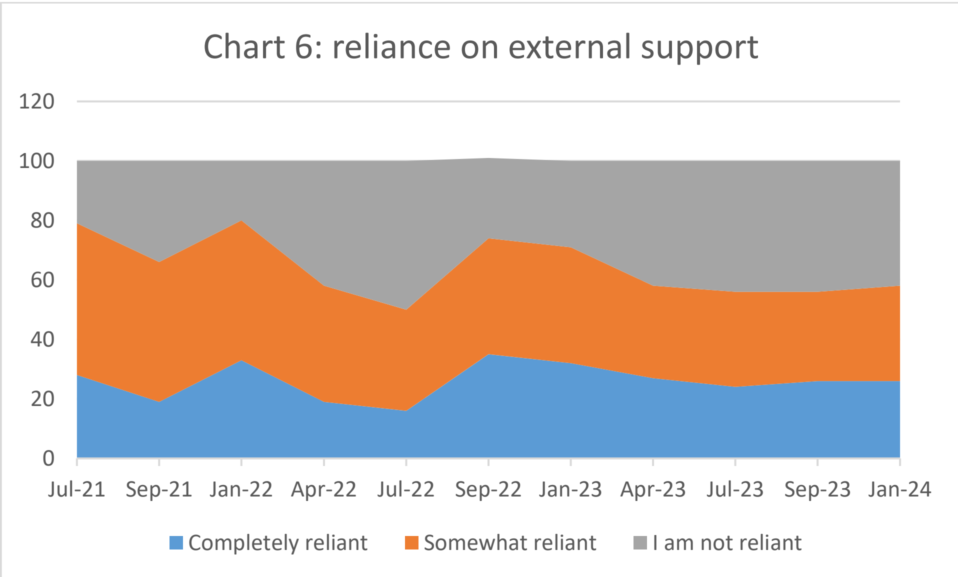
Chart 5a shows the trend in businesses putting up prices over the next three months, after stabilising from spring to autumn 2023, rising again to January 2024; probably to cover increased staff costs from April 2024 along with the trend at the start of the year in putting up prices.





<u>Reliance on external support</u>

Reliance on external support remains high but is stable and similar to in September. Over half of businesses (58% up slightly from 56%) are either partially or completely reliant on Government support. 42% say that they are not reliant on continued support (Q18).



Business costs

Energy prices

Despite the fact that Ofgem reports that retail prices are coming down, a significant two-thirds (66%) of businesses report that they are paying more for energy than they were six months ago. Energy costs are still a concern. Prices have stayed the same for 22% who are presumably locked into a fixed contract (Q12, Q13)

When the Energy Bill Discount Scheme ends on 1 April, for half of businesses (49%) prices will go up by up to 20% and for two-thirds (68%) they will go up by up to 40%; a further 11% say by 41-60%. In the comments, one business references an increase of 250% over the last five years and 3% of businesses still cited increases of more than 100%.

Business debt

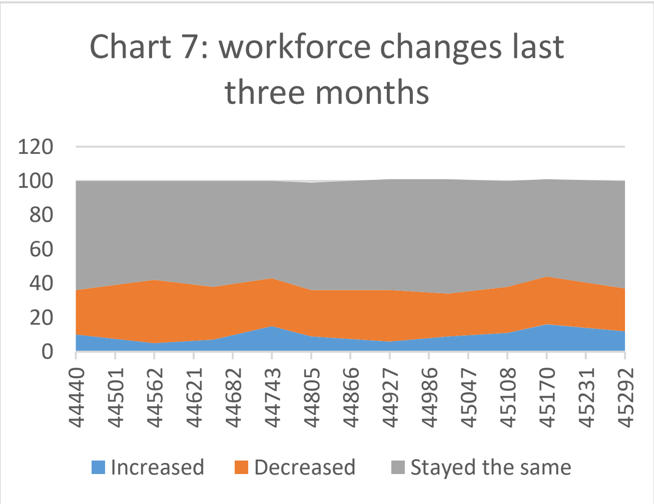
Debt levels in the sector remain high; 56% of businesses are in debt (similar to July 2023), and 43% are not. In terms of how levels of debt have changed over the last six months; for 47% of respondents with debt, levels of debt have remained the same over the last six months, but for one-third (32%) of businesses it has increased, either slightly or significantly so (Q14, Q15).

However, businesses are very confident (12%) or fairly confident (32%) (44% overall) that they will be able to repay the debt whereas 23% are not sure. Of most concern is the fact that 45% say that it will take them between 2 and 5 years to clear their business debts. In the comments, some businesses even refer to 7-10 years. The long shadow of debt remains (Q16, Q17).

Staffing, recruitment and apprentices

In terms of the number of people employed in the business, 43% of respondents employed 1-4 people, 25% 5-9 and 18% 10 or more, with 14% saying that they did not have any employees (Q23).

The workforce has stayed the same for more businesses over the last three months, however, recruitment intentions have taken a dip and are still in negative territory. The workforce has stayed the same over the last three months for nearly two-thirds (63%, up from 57% in September), 25% reported a decrease and 12% (down from 16%) had increased staff (Q24).



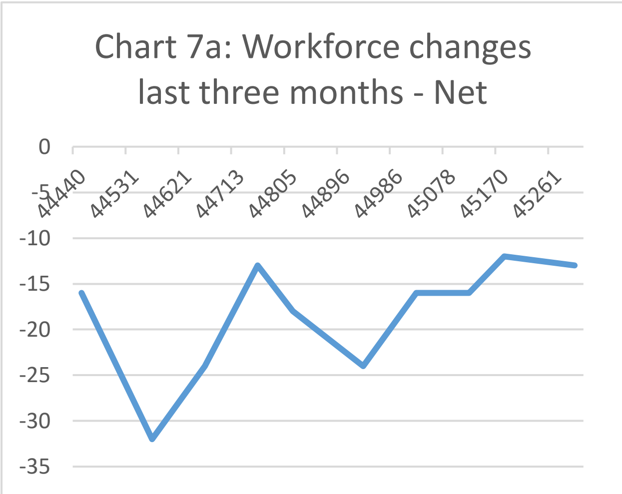
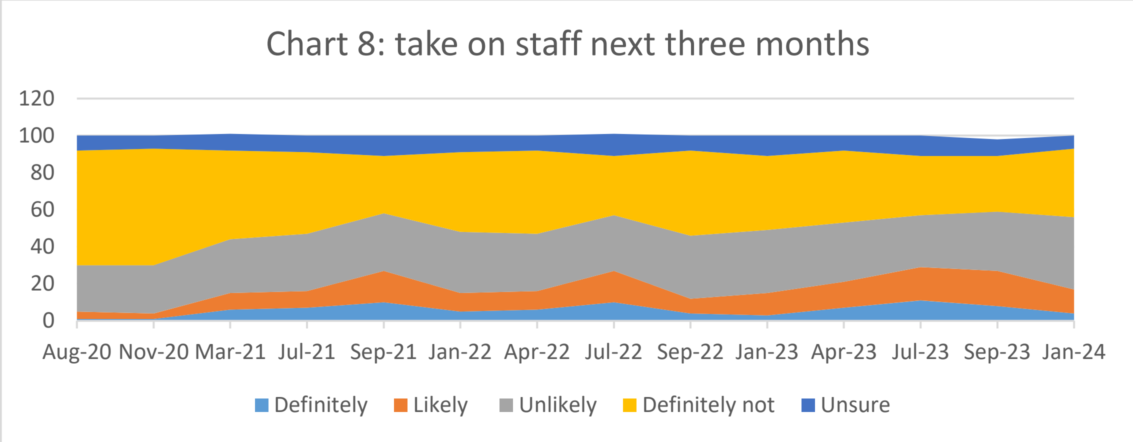
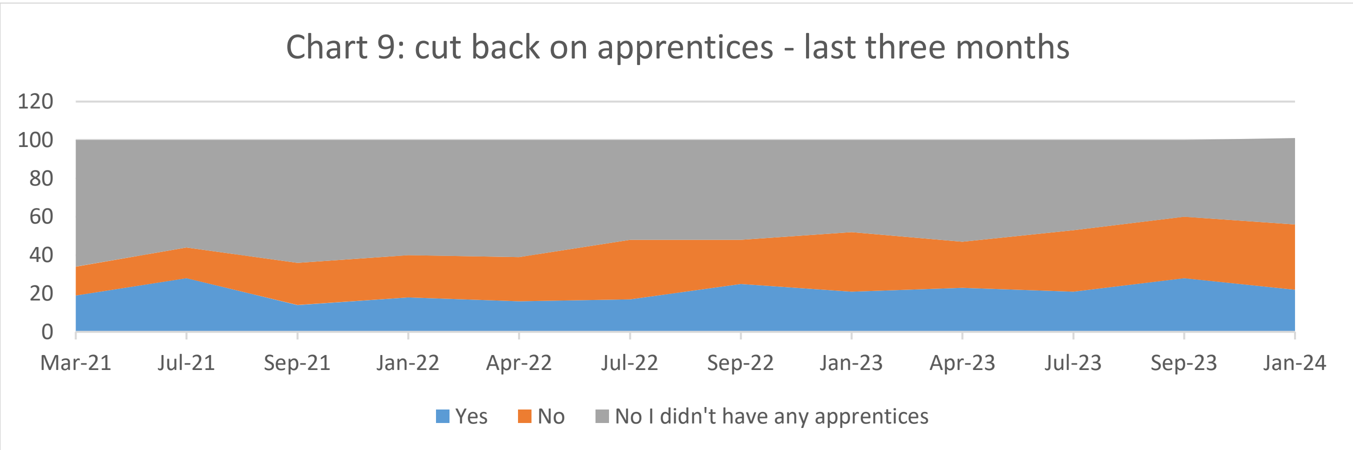


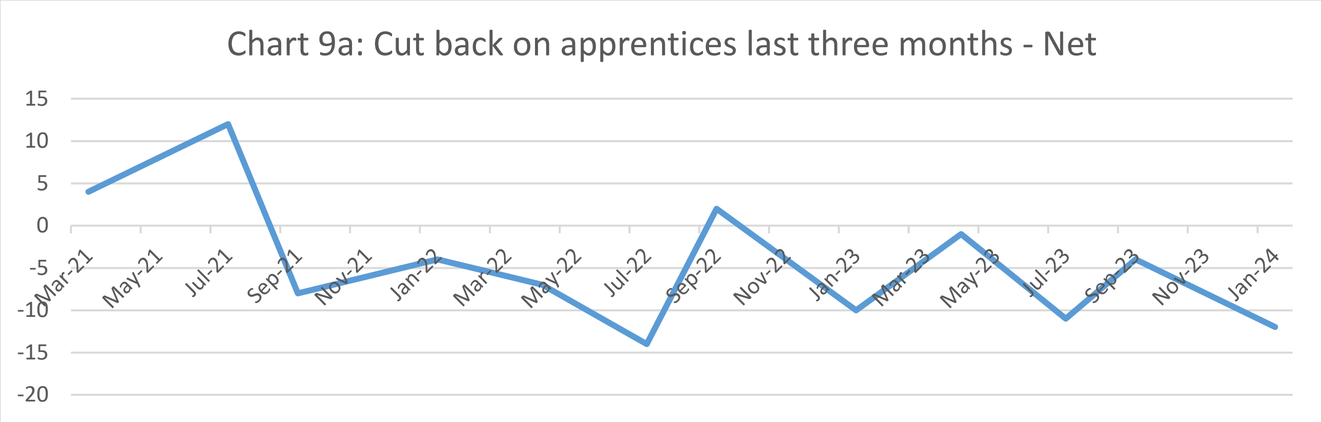
Chart 7a shows workforce changes for the previous three months in negative territory, with lows in January 2022 and January 2023, improving through 2023 and dipping slightly to January 2024.



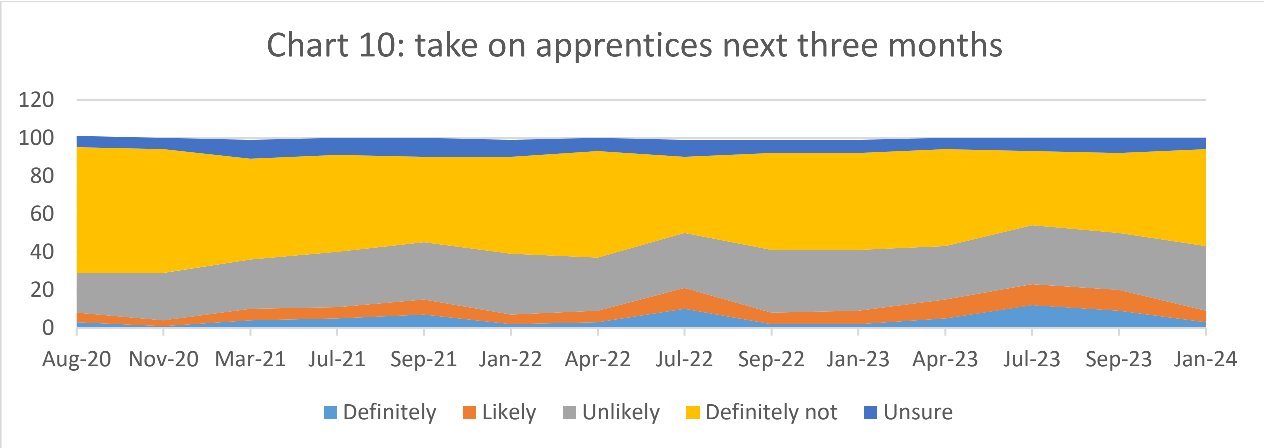
In the next three months, only 17% (down from 27%) were definitely or likely to take on new staff, with a significant three quarters (76%, up from 63%) saying that it was unlikely or that they definitely would not. Chart 8a shows a slight drop from July 2023 and that employment intentions remain negative. Of those intending to take on staff, 17% would add one person and 11% 2-4 people (Q25, Q26).

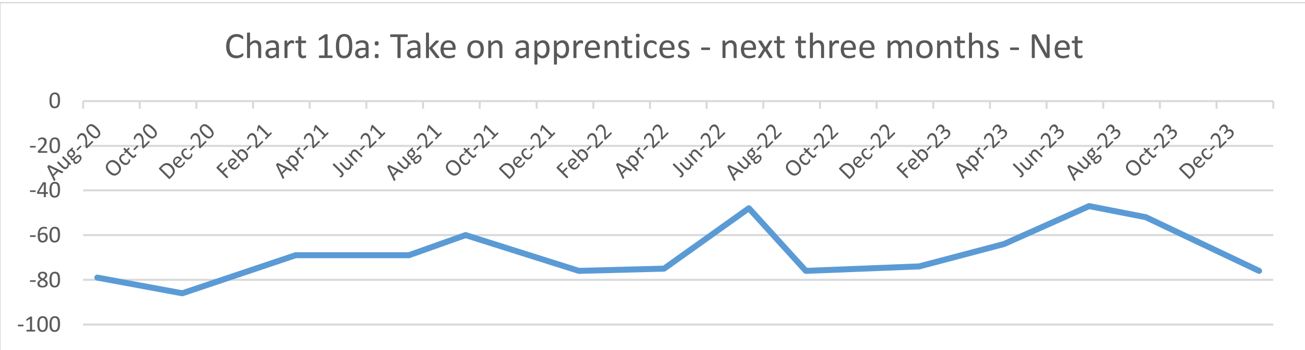
The NHBF *Careers at the Cutting Edge* report outlined the continued decline in apprenticeship starts in the UK. In line with this, over the last three months, 22% (reduced from 28%) have cut back on apprentices. Chart 9a illustrates the negative trend in taking on apprentices since March 2021 (Q28).





Fewer businesses (9%, reduced from 20%) were definitely or likely to take on apprentices in the next three months, with 34% saying it was unlikely and half (51%) that they definitely would not (Q28). It is a concern for the future of the sector that there is a dip in intention to take on apprentices which are still in negative territory (Chart 10a).

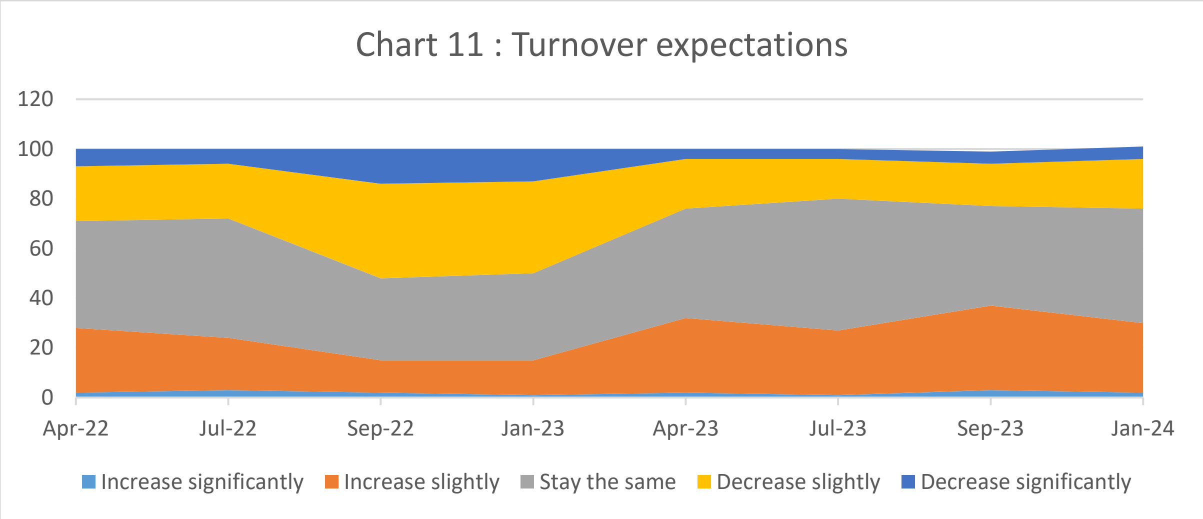


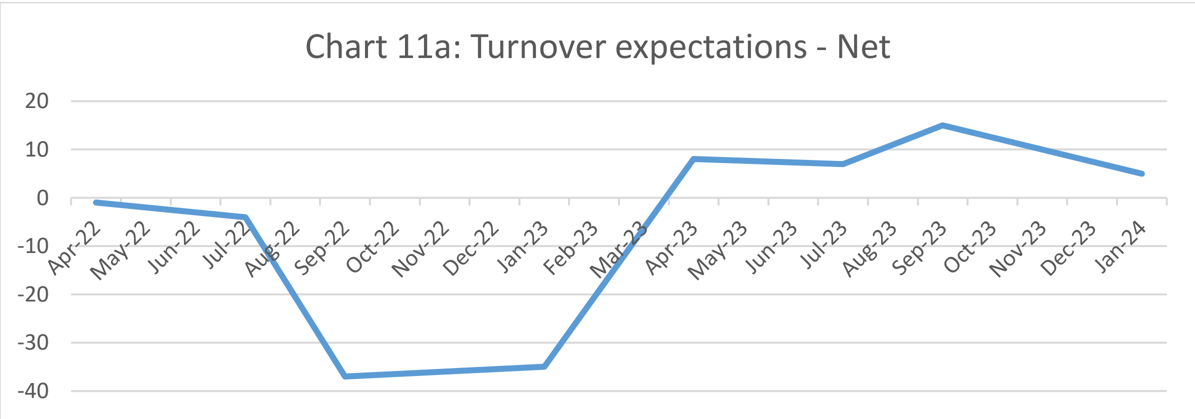


Looking ahead – turnover, survival, barriers to growth and aspirations

Turnover

After some positivity shown during 2023, turnover expectations are similar to in September, if not slightly worse with a slight rise in businesses expecting turnover to decrease; for 25% (up from 22% in September) either significantly or slightly. 30% (down from 37% in September) expect it to increase slightly or significantly and 46% (up from 40%) expect it to stay the same over the next three months. Chart 11a shows the trend since April 2022, now in positive territory (Q19).





Business Survival

Business survival expectations remain more positive but there is a slight rise in those businesses not sure about the future. 72% of businesses are now confident of their survival. The number of businesses that are not sure whether they will survive over the next six months until September 2023 is still significant at 25% (Q20).

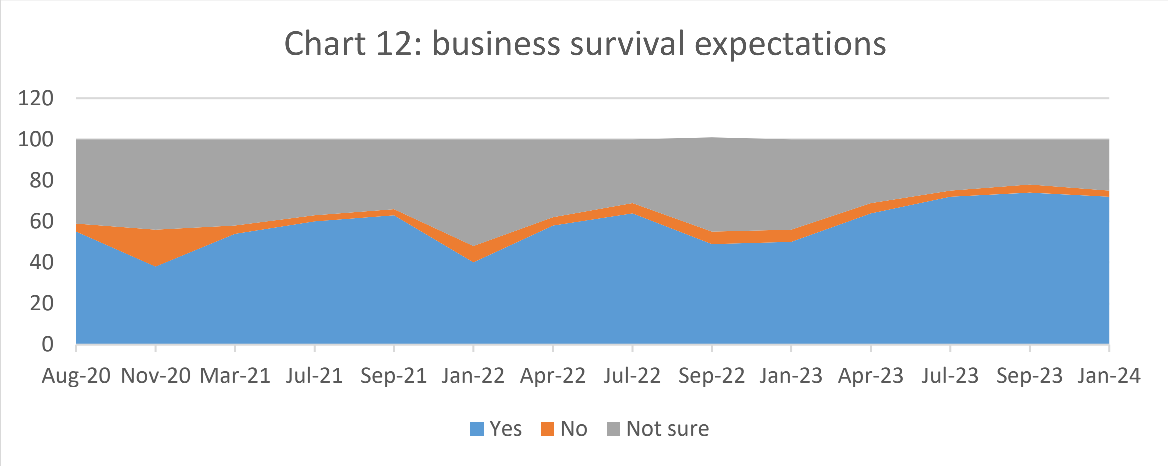
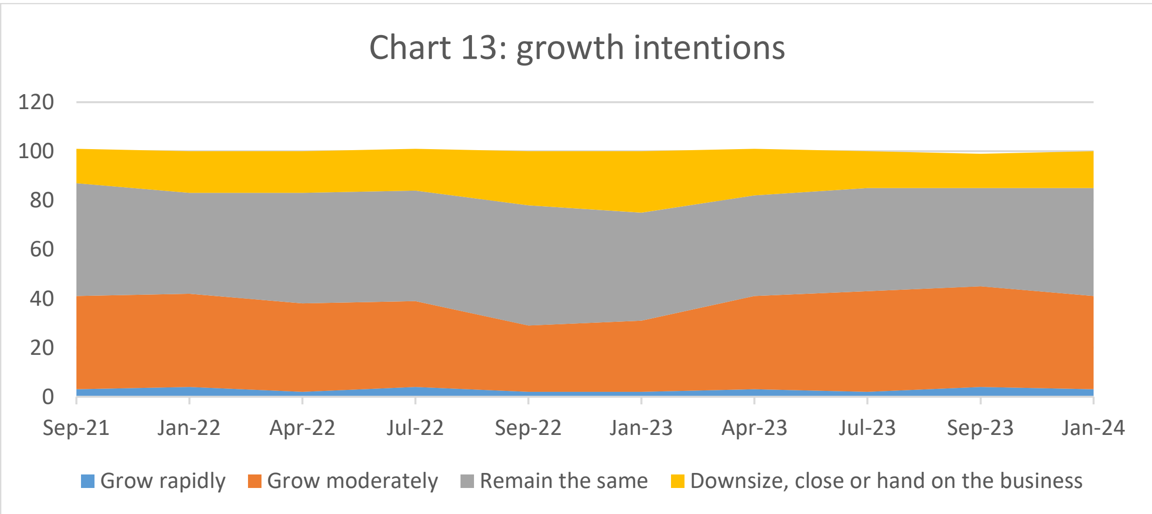


Chart 12a shows the rollercoaster trend for whether businesses expect to survive over the next six months. After dips in November 2020, January 2022 and January 2023 expectations hold up through 2023 to January 2024.

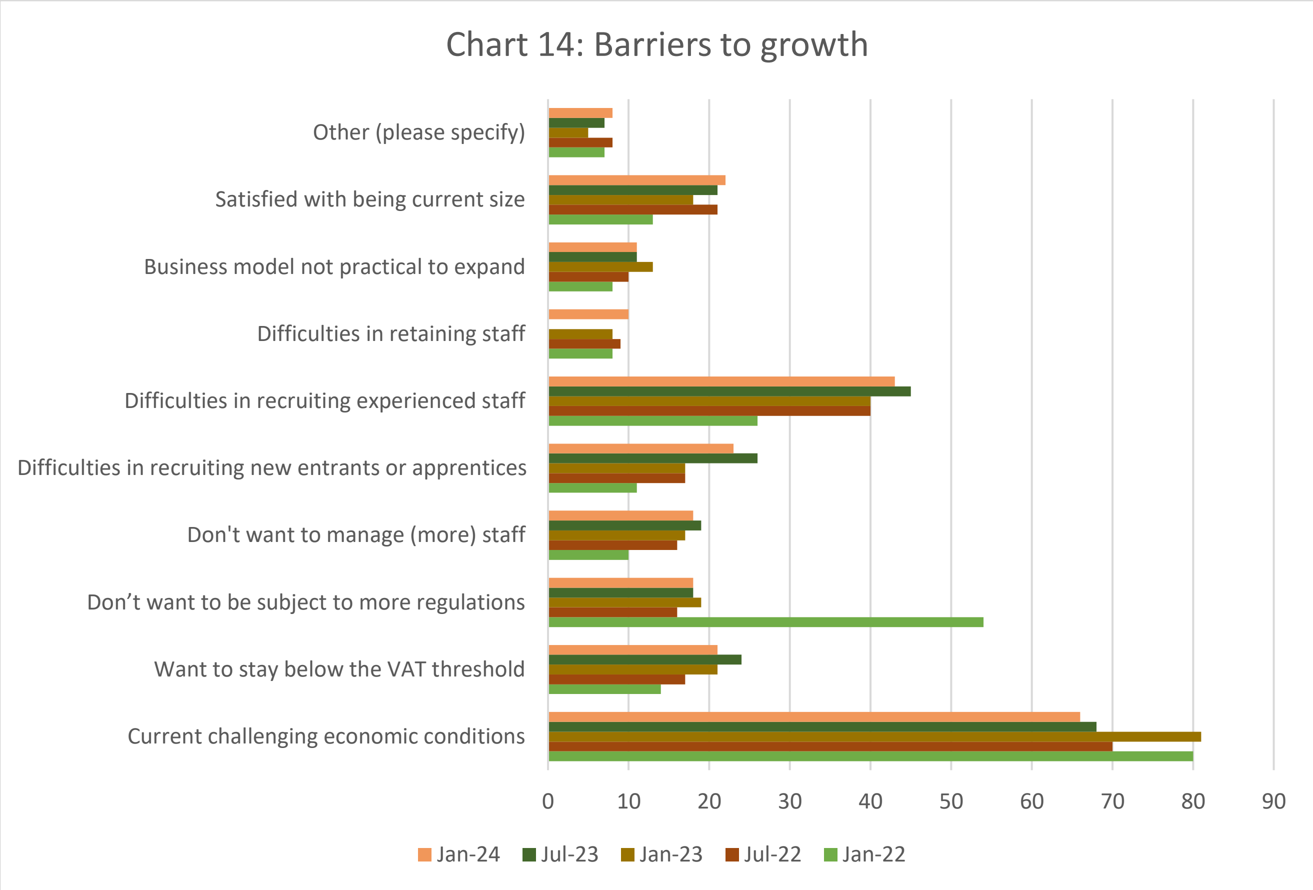
<u>Growth intentions</u>

Growth intentions are similar to September with slightly fewer 41% (down from 45%) saying that they intend to grow the business either rapidly or moderately and more staying the same size (44% up from 40%). A consistent 15% are planning to downsize or hand over the business, similar to September (Q21).



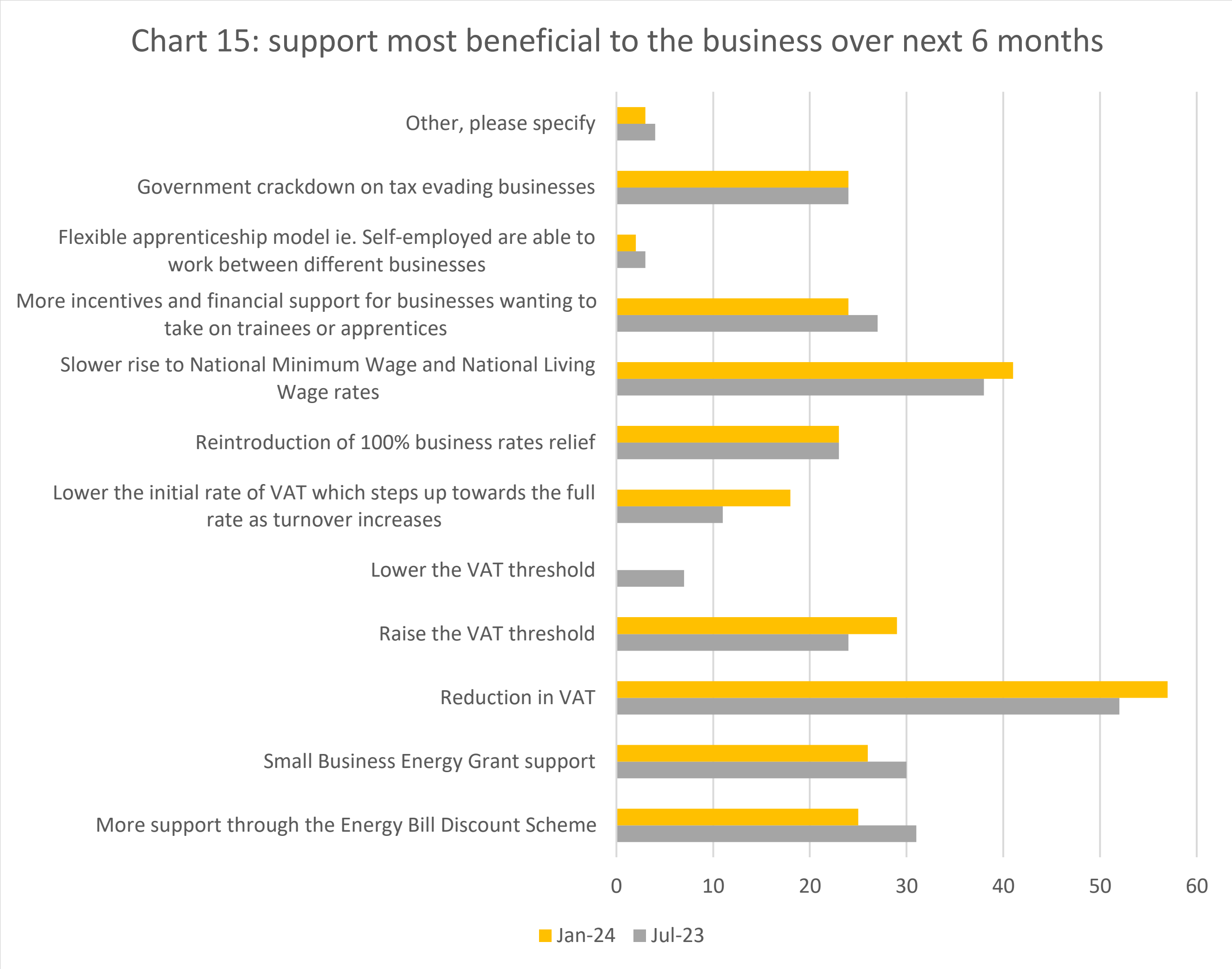
Barriers to growth

The current economic conditions are still the biggest challenge for sector businesses (66%) although this has eased slightly (from 68%). Businesses still have a major concern with recruiting experienced staff (43%) and finding apprentices (23%). Businesses also cited wanting to stay below the VAT threshold (21%), being satisfied with their current size (22%) and not wanting to be subject to more regulations (18%) (Q22).



Support most beneficial for the business

In terms of future support, businesses would find a reduction in VAT (57%) most beneficial, then a slower rise to the National Minimum Wage/National Living Wage (41%) or raise the VAT threshold (29%). 26% also pointed to small business energy grant support, 25% continued support through the Energy Bill Discount Scheme and 24% for more incentives for taking on apprentices (Q29).



Looking ahead to the spring, a continuing period of low growth, sticky inflation and a potential recession still looming, in addition to a sector skills crisis, lingering debts and high energy costs, will continue to challenge the sector.

Business views on VAT

'The VAT threshold [ ] is killing small business and does not encourage growth. Wages have risen and costs have significantly increased. The VAT threshold has not been raised for many years and many small business owners are opting to work from home in converted rooms… shutting down their salons and putting people out of work….

I have had to let a member of staff go because I can simply not afford to keep her on. As a salon owner, I am earning less now than 15 years ago and my salon is near capacity and I'm simply working to pay bills. I am extremely concerned about the future of both my business and the state of the hairdressing industry. I have been a hairdresser for over 35 years! I do hope something can be done to help and soon.'

Conclusion and recommendations

The sector has been showing signs of a slow recovery since the spring of 2023. However, of most concern for future growth, is the continued decline in apprenticeship starts, continual challenges to find experienced staff and the fact that recruitment intentions for both staff and apprentices are still in negative territory.

We were hugely grateful for the continuation of the 75% Retail discount announced in the Autumn Statement, as this is an important intervention for many sector businesses. However, with rising wages in April 2024 and a third (34%) of businesses[7] saying that these would be unaffordable for their business, further targeted support is needed to help hard-working businesses grow and take on more staff. Ahead of the Spring Budget in March, we call for further targeted support to this resilient sector:

- **Securing future sector talent:** The sector is keen to provide employment to more young people, but in a sector made up predominantly of small and micro businesses, the current climate makes it challenging to afford to employ trainees who do not generate revenue. We call on funding to be made available through redistributing unspent levy funds or retargeted cancelled sector T-level funding, to offer apprenticeship incentives up to £3,000 per employee. This would particularly help fund the gap between the apprentice wage and the national minimum wage for older apprentices aged 19+.

- **Supporting employers:** finding further ways to support employers e.g. through a further rise in the Employment Allowance from £5000 to £6500 giving support to employers through Class 1 National Insurance contributions, helping counteract the rise in wages for small employers.

- **Review taxation which is disincentivising growth**: We urgently need a fairer approach to the tax system to create a level playing field between businesses with employees and those using self-employed individuals. HM Treasury should carry out an urgent review of the way in which VAT is applied, including reducing the rate of VAT, raising the VAT threshold or introducing a smoothing mechanism or tiered rates to remove the disincentive to grow and remain below the threshold. The current system whereby a salon immediately becomes liable to a £17,000 VAT bill as soon as they cross the threshold is a powerful incentive to remain below this line.

- **A crackdown on tax-avoiding businesses:** We are working with HMRC on a sector communications and education campaign throughout 2024 raising awareness of good tax compliance and discouraging disguised employment practices. Some businesses are operating on a cash basis in the margins, not paying tax or VAT, which means they charge lower prices, undercutting and threatening the survival of responsible businesses and undermining pay legislation.

- **Targeted support on energy:** The Energy Bill Discount scheme will end in April 2024. Energy costs are the first or second largest outgoing for two-thirds of sector businesses. Despite reducing retail prices, businesses are still feeling the pressure of high prices on the ground. We would welcome further action and pressure from the Government and Ofgem to improve the customer service of energy companies. Businesses should be able to 'blend and extend' and pay off bills over a longer period of time. Further incentives to encourage renewable energy and reduce bills in the medium to longer term would also be welcome.

With further targeted support from the UK Government, we are confident that the personal care sector will continue to play an important role in the UK's economic growth, thriving high streets, population wellbeing and our sustainable future.

[7] NHBF State of the Industry survey (April 2023)