NHBF

Supporting the hair, beauty and barbering industries

State of the Industry quarterly survey – a hair & beauty sector survival story 2020-2022

Summary of key points

- The NHBF has issued the State of the Industry survey on a quarterly basis since August 2020. We now have two years of data charting how businesses have coped with periods of lockdowns, business closures and restrictions.
- Businesses have experienced the rollercoaster of over 240 days of lockdown closure in 2020 and 2021 with continuing restrictions into 2022, across the nations and regions of the UK.
- After an initial recovery in September 2021, businesses are only just returning to similar levels of business activity and confidence, in July 2022.
- Productivity of sector businesses is now increasing and looking more positive.
- However, businesses are putting up prices to cope with the 'cost of doing business crisis'. Costs of most impact on sector businesses include energy costs, supplier costs and rises to the National Minimum Wage/National Living Wage (NMW/NLW).
- Debt is an issue for sector businesses; 42% of businesses are in debt, with nearly two thirds (63%) saying it would take more than two years to clear. 68% have had to use personal savings to support the business over the last year.
- Sector reliance on government support for survival has been heavy, peaking at 80% in January 2022 but still high at 50% in July 2022.
- Sector businesses in particular benefitted from the Furlough scheme and SEISS (Self-Employment Income Support Scheme) in 2021. Business rates relief was accessed throughout the two years and the Additional Restrictions Grant (ADR) has been useful too.
- Businesses have been most worried about whether they'll get clients back, paying bills each month (peaking in January 2022), keeping staff/apprentices (peaking in July 2021), having no savings for another lockdown and concerns over mental health of owner and staff (high in 2021 and now reduced slightly).
- Employment intentions have been subdued and relatively static, with businesses only now slightly more positive about taking on more staff and apprentices.
- Growth intentions are balanced with many businesses wanting to stay below the VAT threshold. In July 2022, 39% said that they intend to grow their business either rapidly or moderately; a consistent 45% intended to remain the same size and 17% want to downsize or close the business.
- The main barriers to growth are the current challenging economic conditions and difficulties in recruiting experienced staff.

Background

Businesses have weathered the storm over the last two years and after 240 days of lockdown in 2020-21 and further restrictions in 2022, are finally starting to again show signs of recovery.

Even when businesses were open, social distancing measures left salons and barbershops operating at 70% pre-pandemic capacity. 'Business as usual' has not yet resumed for many due to clients visiting the salon or barber less frequently and having express rather than longer treatments.

An ongoing issue during the periods of restrictions has been businesses managing issues around self-isolating, with clients cancelling on a regular basis, due to being forced to self-isolate and some businesses forced to close or cope with staff shortages.

After the gradual reopening through the spring/summer 2021, sector businesses finally started to show initial signs of recovery in September 2021. They then experienced a difficult winter of the Omicron BA.2 variant and a challenging spring of rising business costs. However, they are finally starting to again show those signs of recovery from last autumn.

A range of Government support across the UK has been hugely welcome over the last two years and has allowed many businesses to survive. The overwhelming reliance on external support that peaked in January 2022 has now eased. However, half of businesses are still either partially or fully reliant on government support in some form to keep their operations going.

This continues to be a challenging time for businesses within the sector, as the continuing challenges of rising business costs (energy prices, supplies and staff costs) are coupled with the long shadow of business debt that will take many businesses more than two years to clear.

The Local Data Company estimates that, up to May 2021, 16% of the industry was lost to the pandemic. However, despite the lockdown and forced closures, the number of barbershops and beauty salons continues to grow. Hair and beauty businesses continued to show higher survival rates after five years than many other sectors[1].

With the latest wave in Omicron cases (BA.4, BA.5) and escalating costs set to continue through the remainder of 2022, business growth intentions are still balanced and the business environment remains uncertain. Further support is needed to ensure that this sector can continue to make a positive contribution to high streets, jobs and community wellbeing.

Responses and methodology

The quarterly online survey receives responses each time from between 500 to 2800 businesses. The survey is generally open for a 10-14 day period, each time gathering 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.

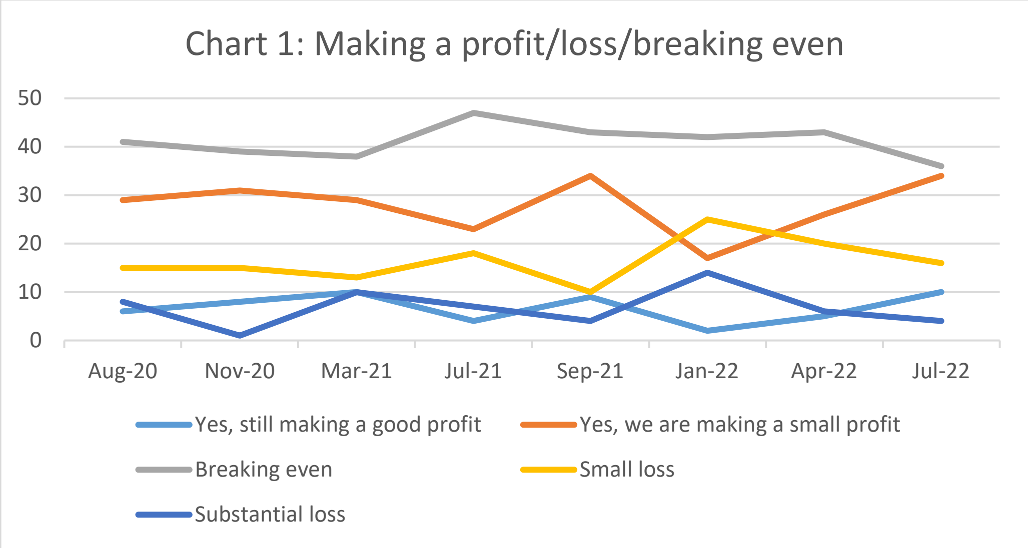
Respondents included salon or barbershop owners, chair or room renters, home-based business owners, mobile or freelance practitioners, employers and the self-employed. On average, during this period, the vast majority (around 80%) of respondents were salon or barbershop owners, around 10% are self-employed individuals and around 10% 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.

[1] Industry Statistics report (2021)

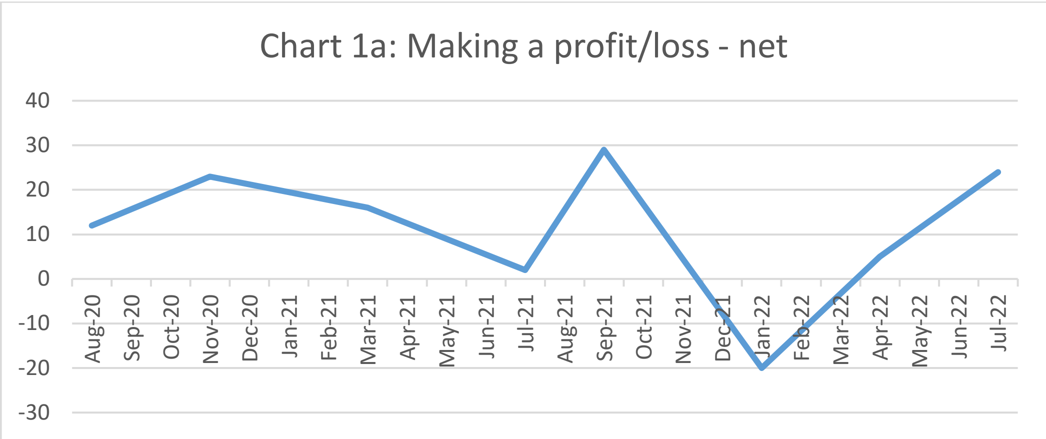
Section 1: Business activity and financial picture

Profit/loss

Since August 2020, the survey has asked businesses whether they were making a profit, loss or breaking even (chart 1).



In line with lockdowns and restrictions, chart 1a[2] shows the profit or loss trend, illustrating a slight improvement until the second lockdown was introduced in autumn 2020. We then see a recovery from July to September 2021 as restrictions lifted across the UK. However, there was then a fall in businesses making a profit to January 2022 with the emergence of the Omicron BA.2 variant, then a recovery again to July 2022.



Business activity

Since July 2021, the survey has been asking businesses whether they are busy, steady or quiet to gauge levels of business activity (chart 2).

[2] Note: Some of the charts in the report illustrate the 'Net' trend. This 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.

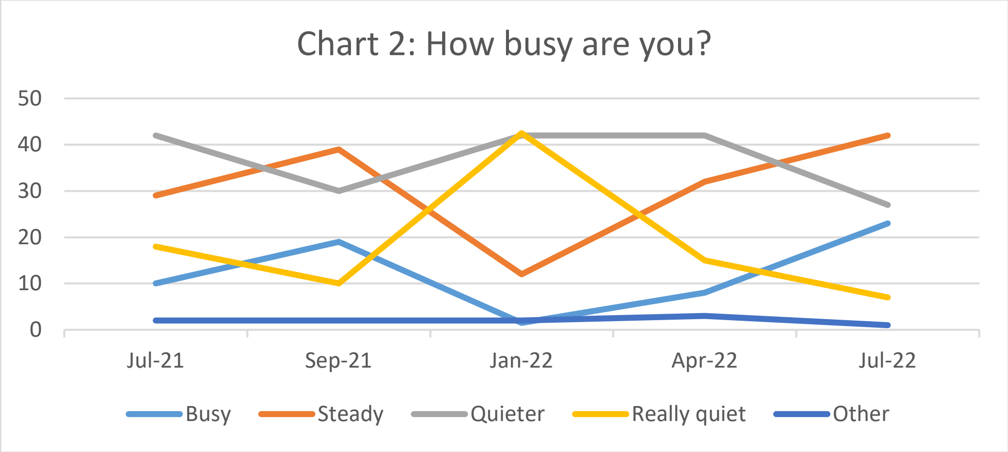
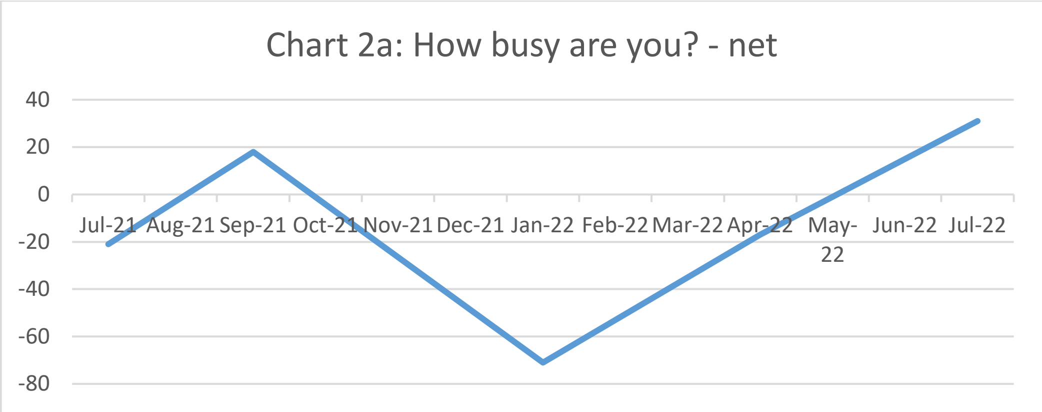


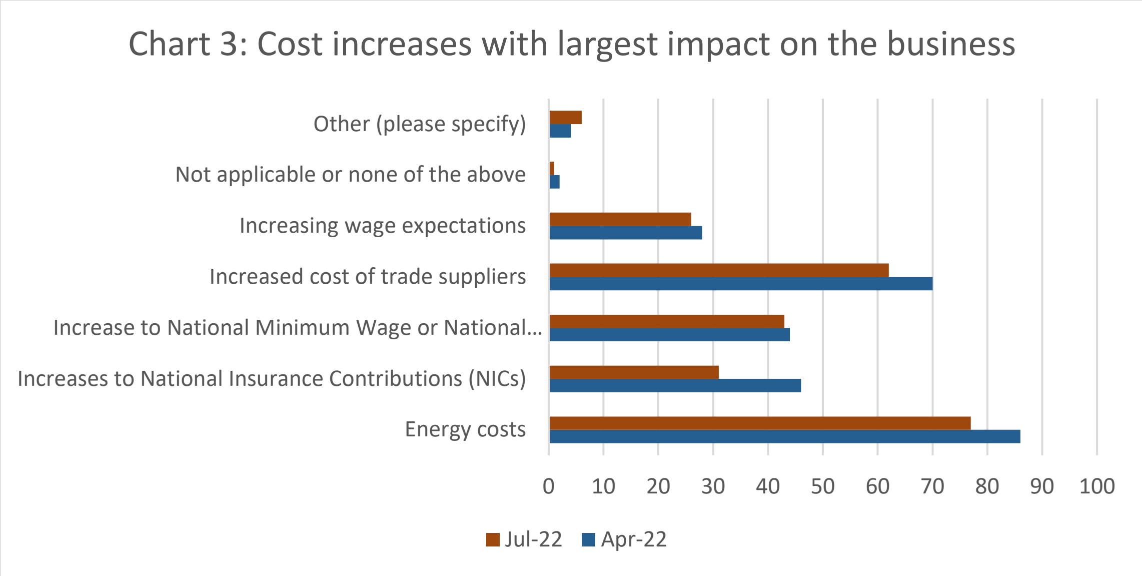
Chart 2a shows the business activity trend. The chart shows a recovery in business activity to September 2021, a fall in January 2022 with a recovery again into July 2022.



<u>Further insights - Business costs and business debts</u>

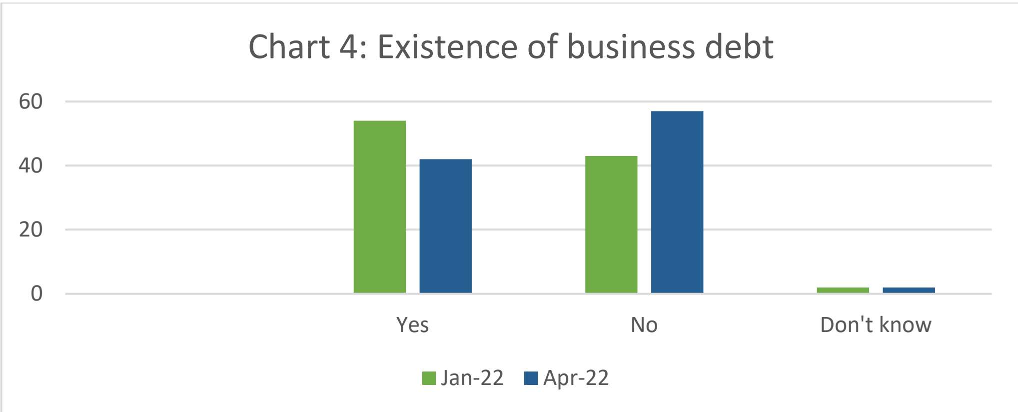
Since April 2022, the survey has asked questions about business costs. Businesses are currently experiencing a 'perfect storm' of rising energy and business costs. In terms of direct impact on the business, there has been most concern about energy costs, increased cost of trade suppliers and increases to NMW/NLW with particular concern around the increases to NICs in April 2022.

In response to the rising costs of doing business, the most common actions that businesses have taken include removing any non-essential expenditure, putting up prices, reducing costs/making cost efficiencies, holding off taking on new staff/apprentices and reducing energy usage.



Since January 2022, we have also asked about levels of business debt. In April 2022, the proportion of businesses with debts reduced slightly from 54% in January to 42%. For 63% of respondents, their levels of debt had remained the same over the last year, but for more than one quarter (27%) it had increased, either slightly or significantly so.

In terms of levels of confidence about repaying the debt, 41% were unsure whether they would be able to, whereas 37% were fairly confident and 16% very confident. The big concern in terms of the sector's recovery comes when businesses were asked about how long it would take to clear their business debts: 44% said from 3-5 years and 19% between 2-3 years. The long shadow of business debt will remain for some time.



In January 2022, more than two thirds (68%) have had to use personal savings to support the business over the last year.

Prices

Since September 2021, the survey has asked businesses about their prices: whether they had put up prices over the last three months (chart 5) or whether they intended to do so over the next three months (chart 6).

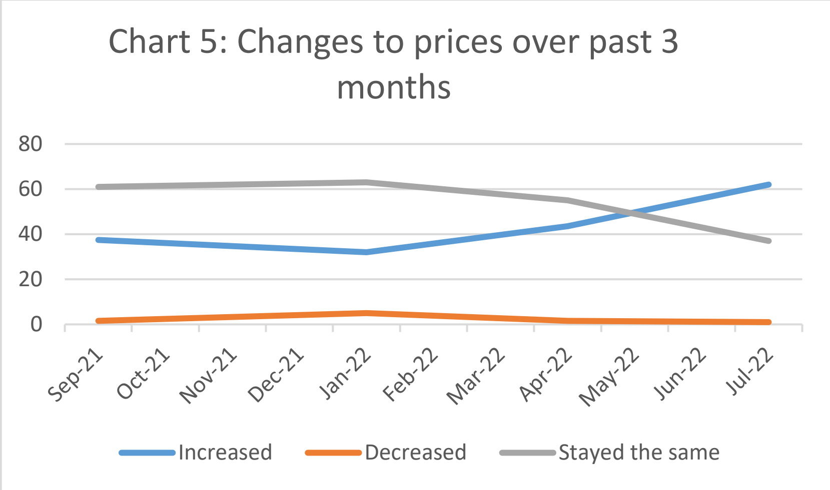
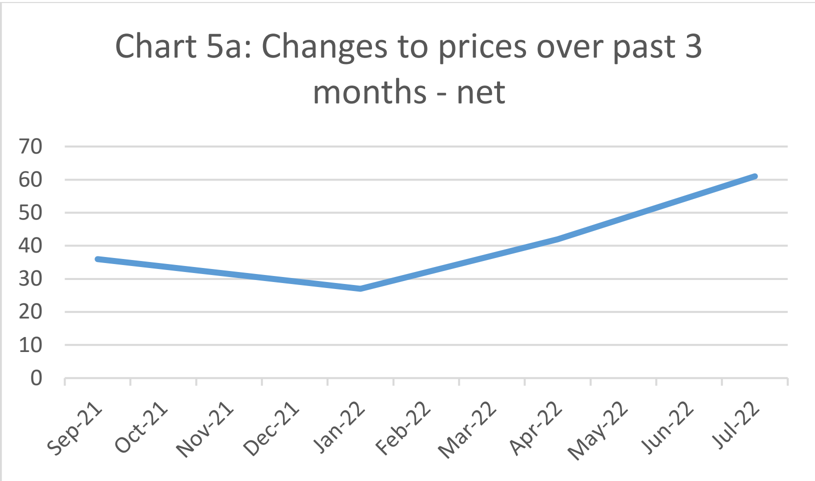
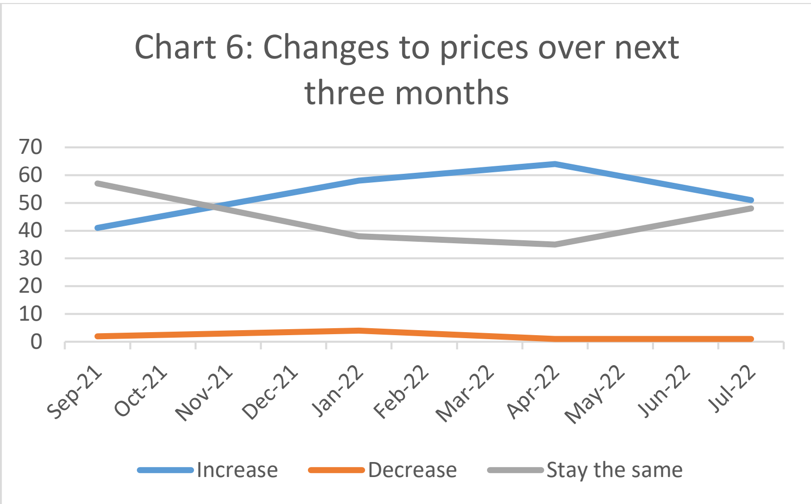


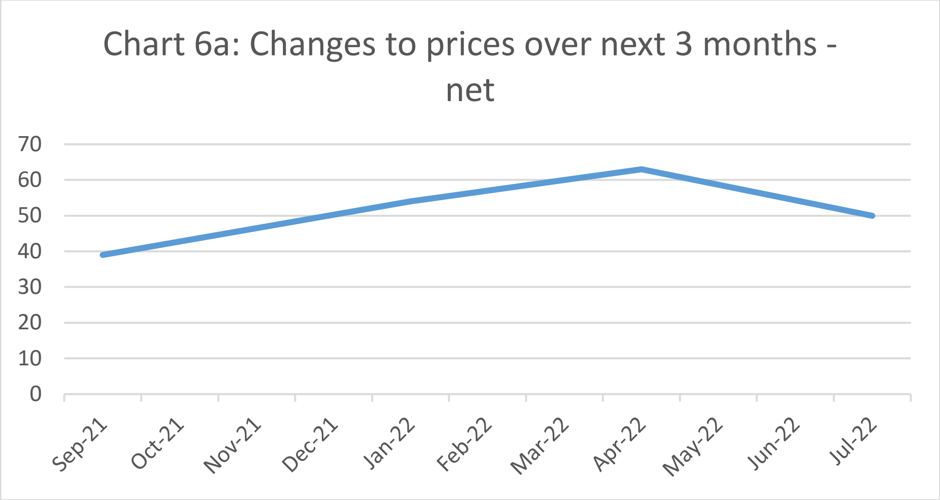
Chart 5a shows that since January 2022 there has been a consistent trend towards putting up prices in response to the difficult business environment, rising business and staff costs with the rises in NICs and NMW/NLW introduced in April 2022.



<u>Prices – over next three months</u>

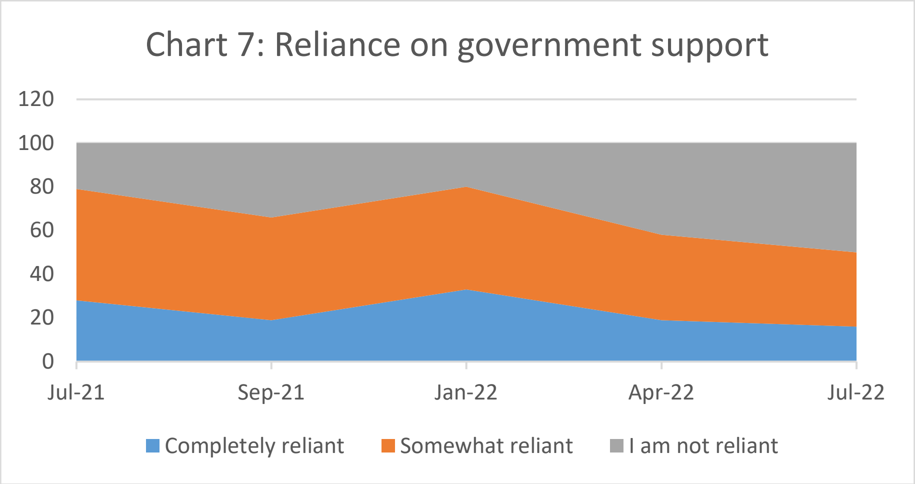
Businesses moved to increase prices in the first quarter of the year, most likely at least in part due to rises in staff costs, NMW/NLW and NICs. The rise has slowed slightly in the second quarter from April to July 2022 (chart 6a).





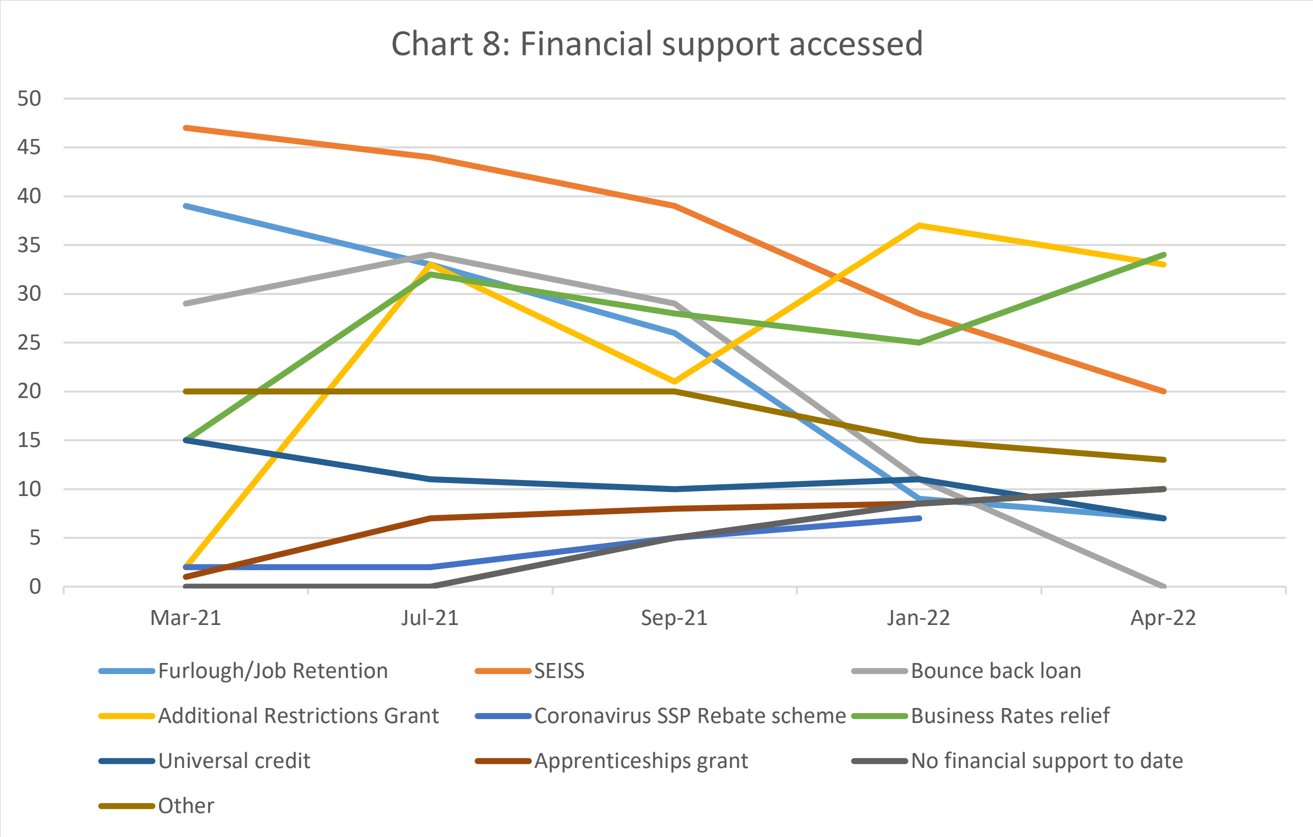
<u>Reliance on external support</u>

Since July 2021, we have asked businesses about levels of reliance on external support. Reliance on government support is now at its lowest point over the last two years, but still high with 50% of businesses (down from 58% in April) either partially or completely reliant on Government support. This has reduced from a high of 81% in January 2022, and is an improvement on the figure of 66% from September 2021. A solid 50% say that they are not reliant on continued support (up from 43% in April).



<u>Type of external support</u>

We have asked businesses since March 2021 about the type of support they were relying on. Sector businesses have relied on Furlough and SEISS (Self-Employment Income Support Scheme) during 2021 in particular (chart 8). Business rates relief has been used by businesses throughout the period. Bounce back loans were also useful as was the Additional Restrictions Grant (ARG), where businesses were able access these. A consistent 10-15% also accessed Universal Credit. Sector businesses did not make particular use of the SSP (Statutory Sick Pay) rebate initiative. Less than 10% of businesses made use of the apprenticeships grant.



<u>Business concerns about long term recovery</u>

Since March 2021 we have asked businesses about the main concerns for their long-term recovery. Chart 9 shows that businesses have most been worried about:

- Whether they will get clients back; this has reduced slightly over the period.
- Paying bills each month, which peaked in January 2022.
- Keeping staff/apprentices, which has been a consistent worry, peaking in July 2021.
- Having no savings for another lockdown.
- Concerns over the mental health of the business owner and staff was particularly high during 2021 and has now reduced slightly.

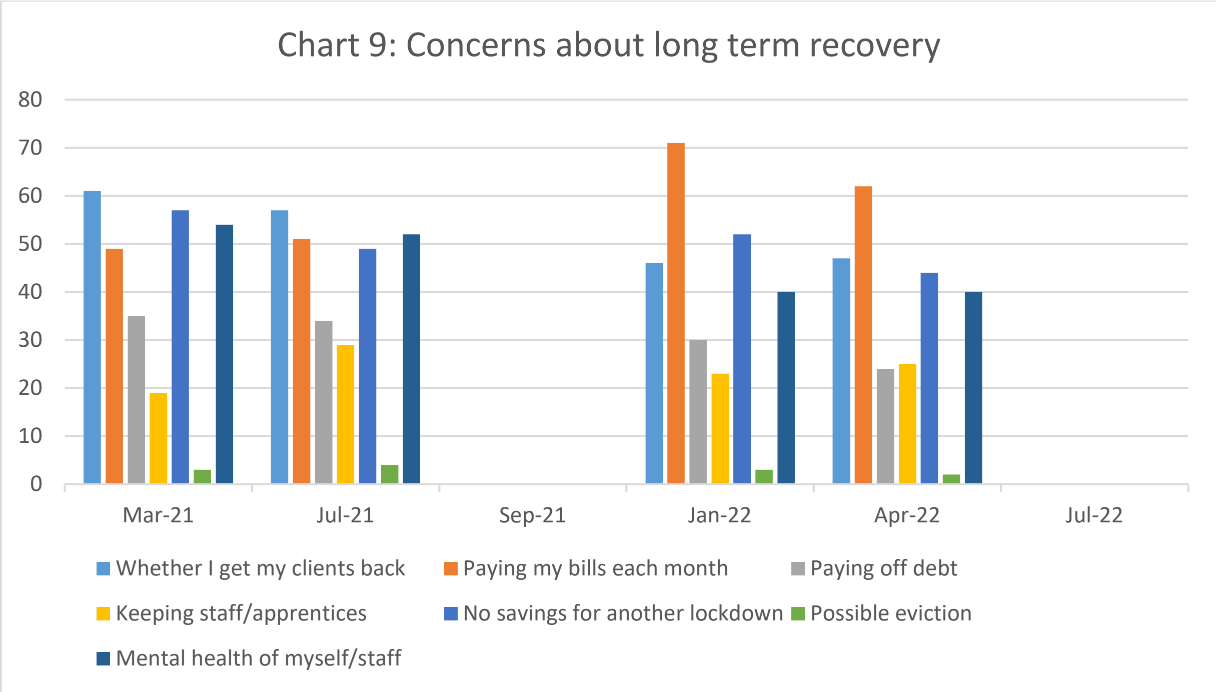
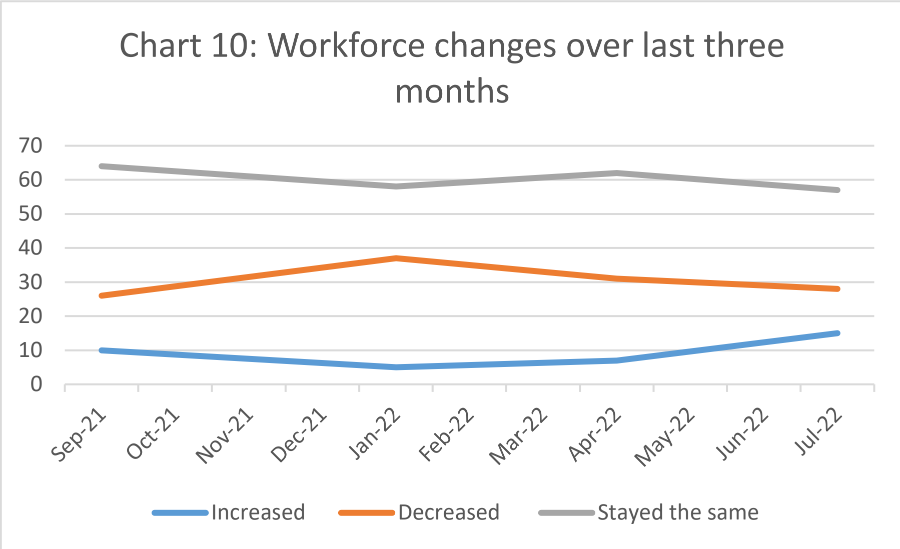
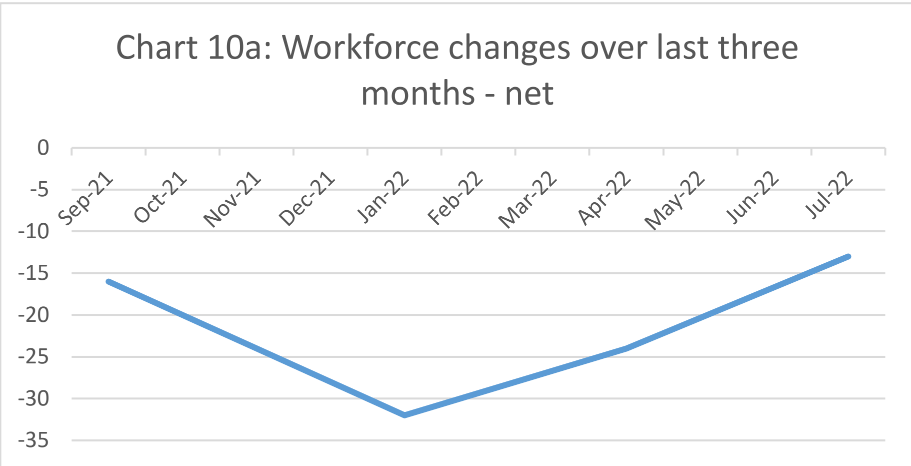


Chart 9: Concerns about long term recovery
80
70
60
50
40
30
20
10
0
Mar-21
Jul-21
Sep-21
Jan-22
Apr-22
Jul-22
Whether I get my clients back
Paying my bills each month
Paying off debt
Keeping staff/apprentices
No savings for another lockdown
Possible eviction
Mental health of myself/staff

Section 2: Staffing, recruitment and apprentices

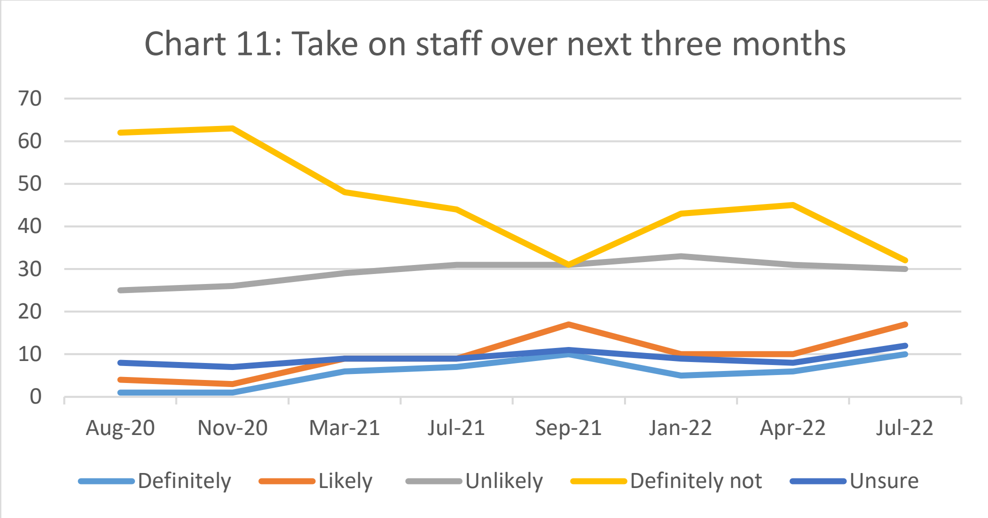
Since September 2021 we have asked about workforce changes over the previous three months (chart 10). Workforce trends have been relatively static with a decreasing trend to January 2022, then increasing to July 2022 (chart 10a).

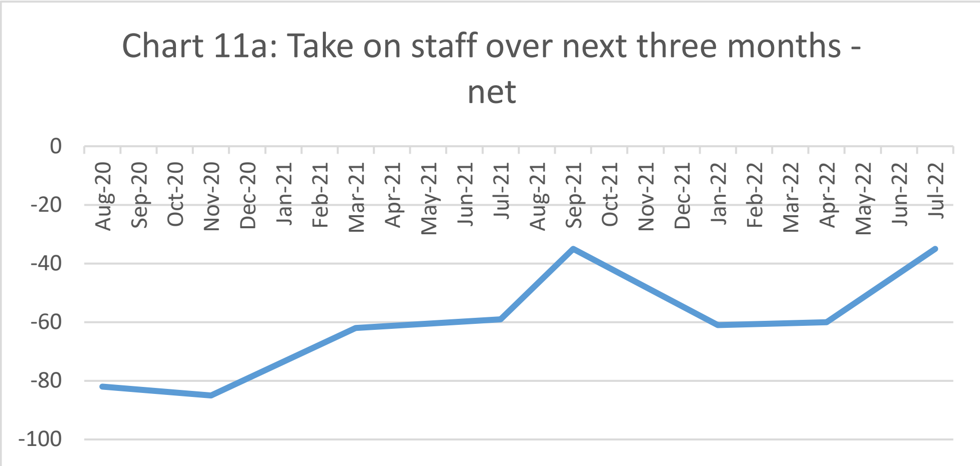




Since August 2020 we have asked about recruitment intentions over the next three months (chart 11). Staffing and recruitment intentions have remained relatively static over the period with businesses unlikely to take on new staff. However, the future is looking slightly more optimistic from July 2022, with plans to take on staff over the next three months improving, similar to in September 2021 (chart 11a).

In July 2022, 57% of respondents reported their workforce was unchanged over the previous three months (slightly down from 62% in April, but similar to 58% in January). 28% reported a decrease (previously 31%) and 15% had increased staff (doubled from 7% in April).



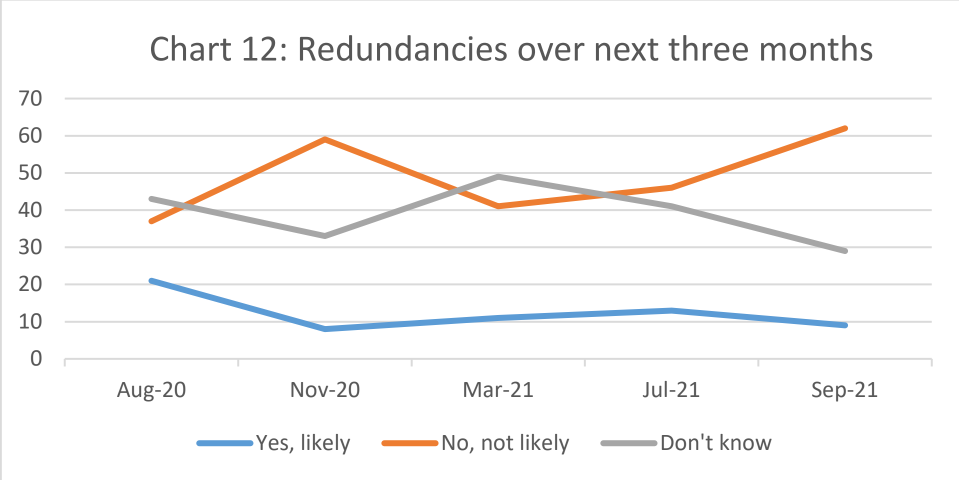


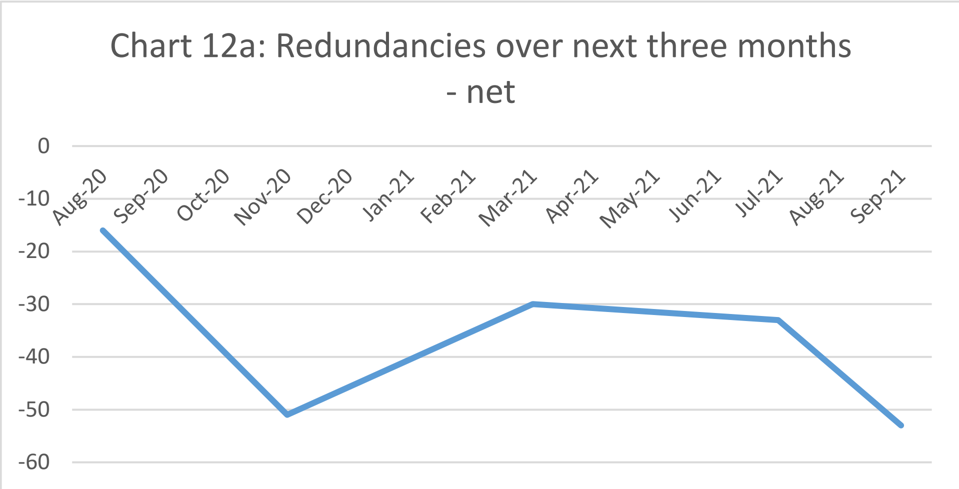
Recruitment intentions have been muted over the last two years with businesses understandably reluctant to take on staff between August 2020 and July 2021. Chart 9a shows an improvement in intentions to September 2021 and then again to July 2022.

In July 2022, 27% were definitely or likely to take on new staff over the next three months, (up from 17% in April and matching 27% seen in September 2021), with two thirds (62%) saying that it was unlikely or that they definitely would not (down from 75% in April).

Redundancies

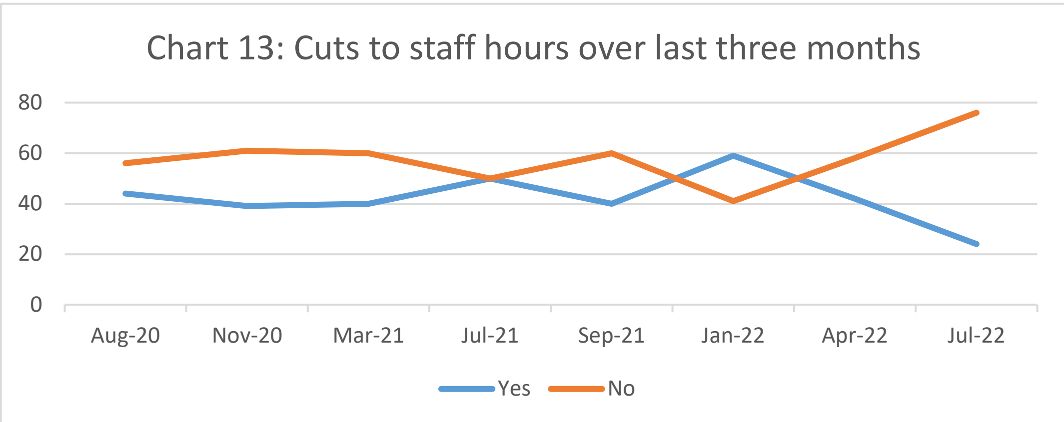
Between August 2020 and September 2021, we asked whether businesses would make redundancies over the next three months (chart 12), tracking intentions in line with the offering of Furlough support, which was extended and continued until September 2021. The majority of businesses have intended to make redundancies throughout the period. In August 2020 marked the highest point of those considering doing so, at around 20%. This has fallen to around 10% since. Businesses were least likely to make redundancies in November 2020 and September 2021 (chart 12a).

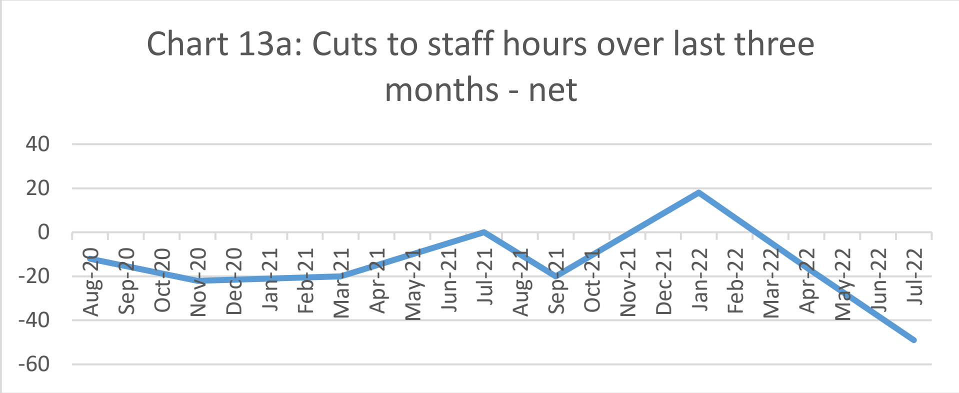




Staff hours

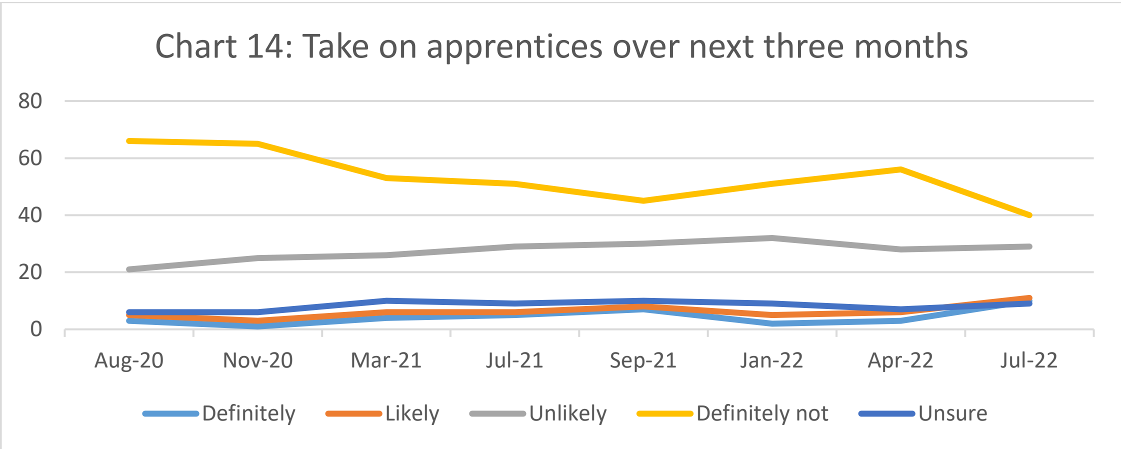
The picture with regard to staff hours has grown more positive. After an improvement in July 2021 and peak in January 2022, in July 2022 only 24% of businesses were forced to cut staff hours in the previous three months (down from 43% in April and 58% in January); three quarters (76%) did not need to cut staff hours.

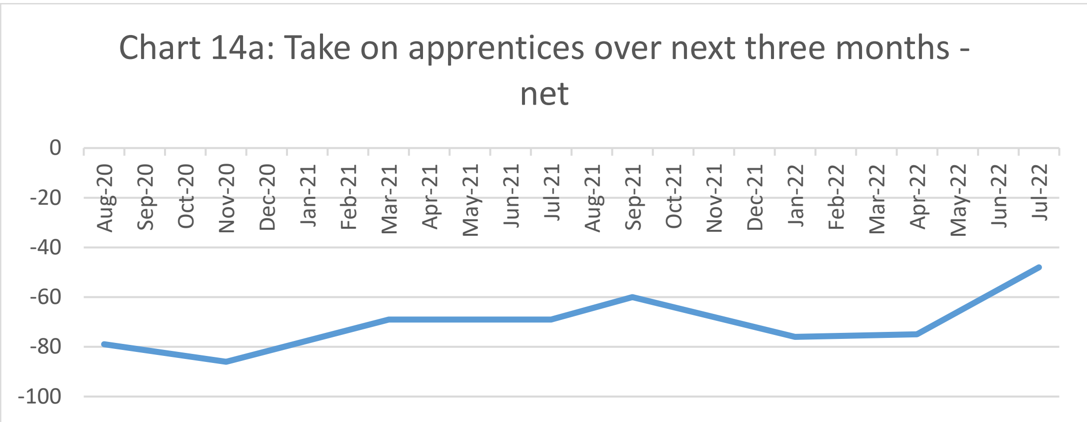




<u>Apprentices</u>

Recruitment intentions with regard to apprentices has been relatively static throughout the period from August 2020 (chart 14 and 14a). However, the future with regard to businesses taking on apprentices is looking slightly more positive.





The NHBF *Careers at the Cutting-Edge* report[3] outlined the continued decline in apprenticeship starts in the UK due to young people staying on in education, financial pressures and lack of government support. In line with this trend, in July 2022 over the previous three months, 17% have cut back on apprentices (16% in April). However, more positively, one fifth (21%) (doubled from 9% in April) were definitely or likely to take on apprentices in the next three months.

[3] [NHBF report confirms skills crisis in hair & beauty - National Hair & Beauty Federation]

Section 3: Looking ahead - barriers to growth and aspirations

Business confidence and survival expectations

Business confidence in the sector has strengthened further and is back in line with the positivity we saw in September 2021. In July 2022, two thirds (64%) of businesses were confident of their survival (up from 57% in April 2022). However, it is still significant that a third (31%, reduced from 52% in April) were not sure whether they would survive over the next six months until the end of the year.

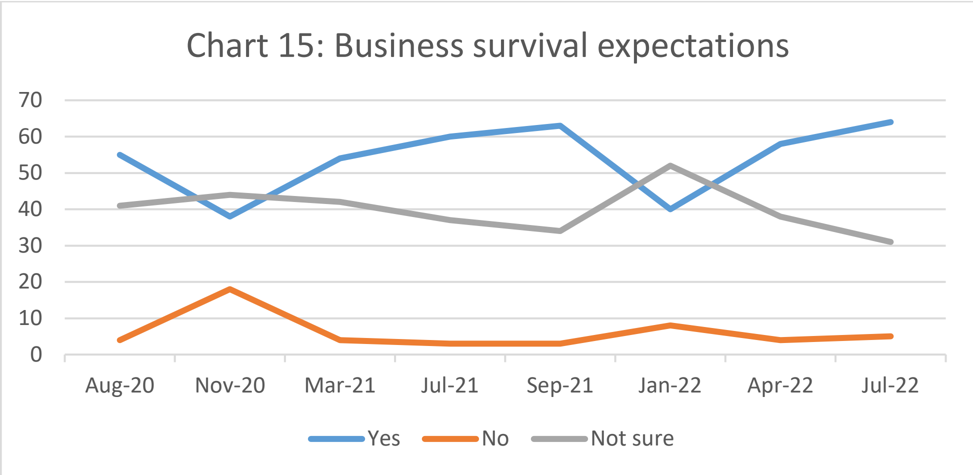
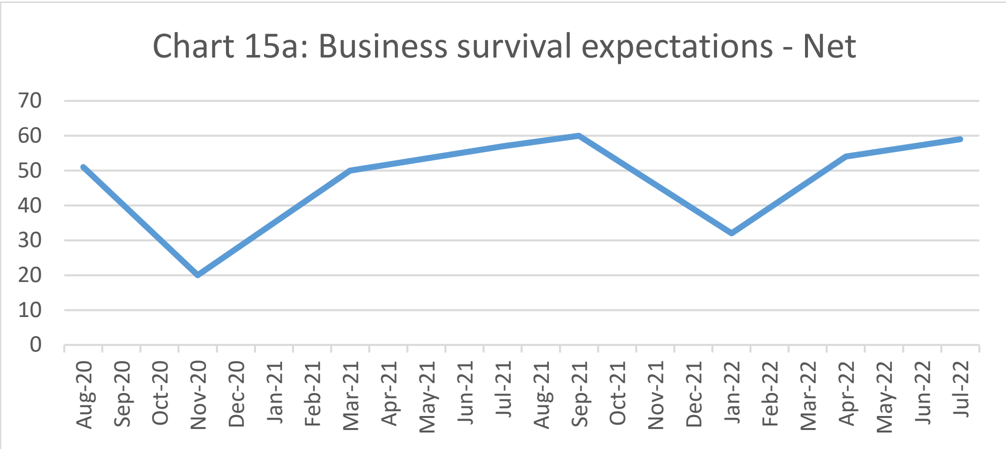
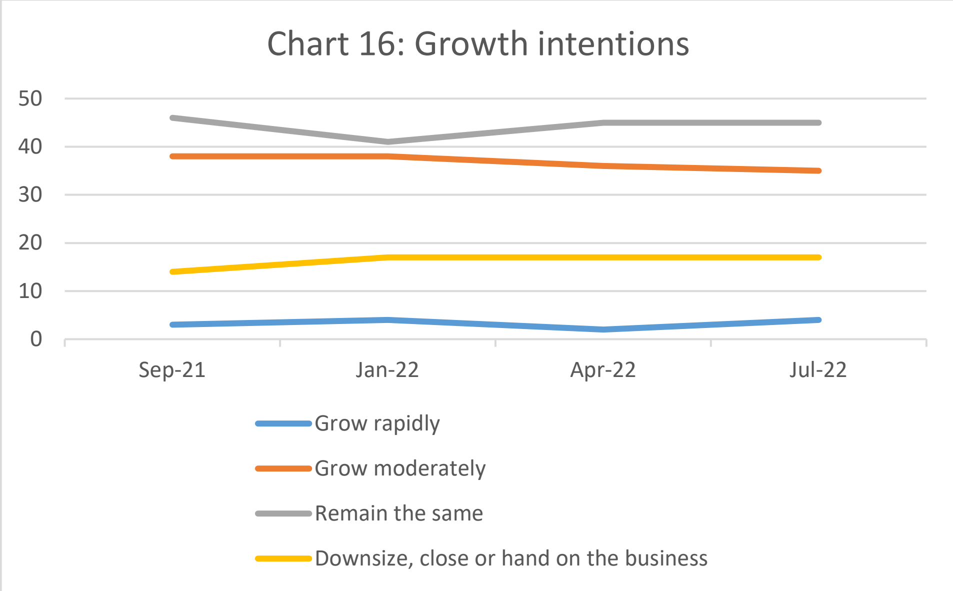


Chart 15a shows the trend for whether businesses expect to survive over the next six months. After a low point in November 2020, confidence increased to September 2021, fell in January 2022 after a difficult winter and rose again to July 2022.



Growth intentions

Growth intentions remain balanced (chart 16), with 39% in July 2022 saying that they intended to grow their business either rapidly or moderately (similar to 38% in April). A consistent 45% intended to remain the same size (similar level to 44% in April). A consistent 17% were planning to downsize or handover the business similar to April and January.



Looking ahead to the autumn, the NHBF predicts that there will be further signs of recovery. Despite COVID, barbers and beauty salons were both in the top ten retail categories showing the most growth in numbers in the first half of 2021, and the sector has continued to show remarkably high rates of business survival[4].

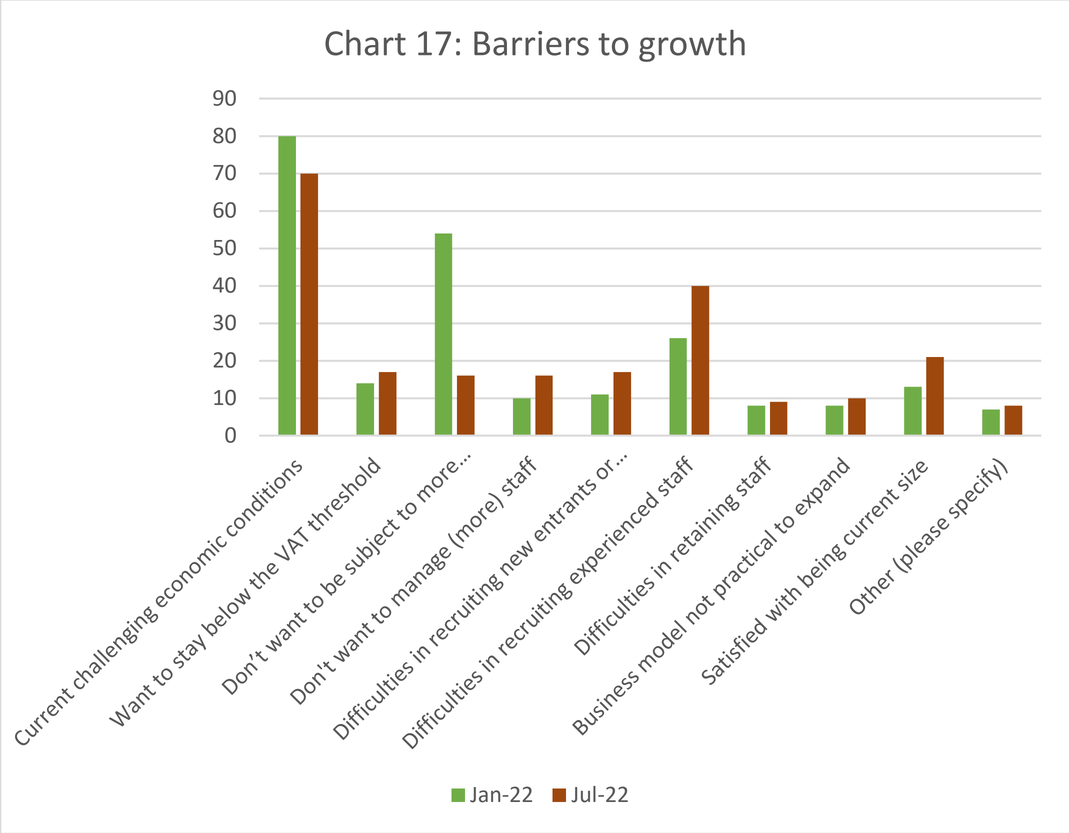
Further insights - Turnover

The recent trend for turnover expectations over the next three months appears relatively static in 2022. In July 2022, most businesses (48%) expect their turnover level to remain the same over the next three months (slightly higher than the 43% expressing this in April). 26% expect it to increase slightly or significantly (similar to 28% in April), with 28% saying they expected a decrease slightly or significantly (in line with 30% in April).

Barriers to growth

In terms of barriers to growth, in July 2022, 70% of businesses cite the current economic conditions (down from 80% in January), difficulties in recruiting more experienced staff (40%) (up from 26% in January), being satisfied with current size (20%), difficulties in recruiting new entrants or apprentices (17%), wanting to stay below the VAT threshold (17%) and the risk of being subject to more regulations (16%).

[4] NHBF Industry Statistics (2021) Industry research - National Hair & Beauty Federation (nhbf.co.uk)



Business support most beneficial to business

When asked about the support that would be most beneficial to their business, they have seen most value in easier access to support grants, further extension of SEISS and removing the minimum threshold for VAT/reduction to 5% (chart 16).

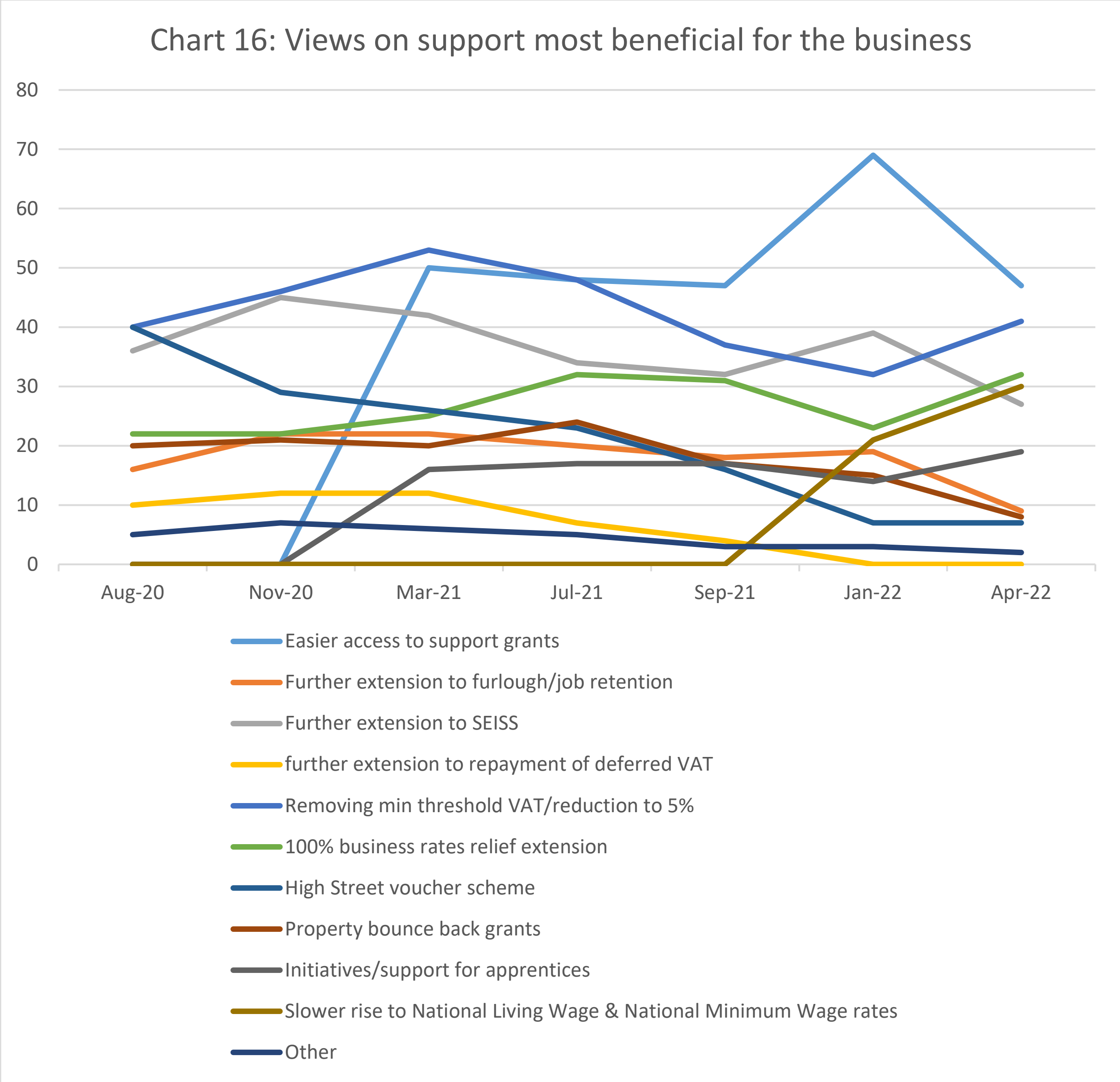


Chart 16: Views on support most beneficial for the business
80
70
60
50
40
30
20
10
0
Aug-20
Nov-20
Mar-21
Jul-21
Sep-21
Jan-22
Apr-22
Easier access to support grants
Further extension to furlough/job retention
Further extension to SEISS
further extension to repayment of deferred VAT
Removing min threshold VAT/reduction to 5%
100% business rates relief extension
High Street voucher scheme
Property bounce back grants
Initiatives/support for apprentices
Slower rise to National Living Wage & National Minimum Wage rates
Other

Conclusion and Recommendations

The summary of two years of quarterly survey findings show that, after a long, hard two years, the sector is finally recovering, as we see the return to the confidence levels first seen in September 2021.

The sector has demonstrated its resilience as one of the parts of the economy hit hardest by the pandemic, lockdown and subsequent restrictions. Government support across the nations of the UK has been invaluable in keeping businesses afloat and staff in jobs.

However, with the sector still in a difficult place within a 'perfect storm' of rising staff costs, energy prices and supply price inflation, governments across the UK should continue to monitor and support the sector's recovery over the course of the next year. Businesses can only raise prices so far before clients return less frequently in response.

With the two main barriers for business being the current economic conditions and shortage of experienced staff, the longer-term health of the sector depends on ensuring a pipeline of new talent and business owners being able to afford to keep staff.

We call on the Government to:

- **Introduce a small business energy price cap**, accompanied by emergency grant support for a six-month period, to shield businesses from crippling energy bills. Energy companies should also be encouraged to offer a range of flexible payment plans so that businesses are supported to pay off bills over a longer period of time.

- **Reintroduce 100% business rates relief:** Businesses need crucial help with fixed overheads, to maintain cashflow and keep them in business as energy and business costs rise. Building on the 50% discount, we would like to see 100% relief re-introduced as soon as possible and for the remainder of the financial year 2022-23.

- **Offer targeted apprenticeship incentives small and micro employers:** The sector is desperate to provide meaningful jobs to more young people, but in a sector made up predominantly of small and micro businesses, affordability is challenging in the current climate. The £2.7 billion made available in the Autumn Budget 2021 and £2 billion Apprenticeship Levy underspend offers opportunities to channel funding to small and micro businesses through offering apprenticeship incentives between £1,000-3,000 per employee. This would particularly to help fund the gap between the apprentice wage and the national minimum wage for older apprentices aged 19+.

- **Restraint on increases to the National Minimum Wage and National Living Wage:** We have called on the Low Pay Commission for restraint in their recommendations to the Government on further increases to the National Minimum Wage (NMW) and National Living Wage (NLW), given the current challenging economic environment.

- **A fairer tax system and a crack down on tax evading businesses:** The NHBF is calling for a fairer approach to the tax system which creates more of a level playing field between businesses with employees and businesses using self-employed individuals, a growing trend within the sector. We also call on the Government to lead a crackdown on informal businesses 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.

With continued support from the UK Government, we are confident that the personal care sector will continue to play a crucial role in the UK's economic recovery, thriving high streets and community wellbeing.