NHBF

Supporting the hair, beauty and barbering industries

State of the Industry Survey Summary – April 2023

Key findings

Despite the challenging economic climate and double-digit inflation, the sentiment of positivity that we previously saw in spring/summer 2022, has returned:

- The results are improved and similar to July 2022, with more businesses making a small or good profit (43%); 38% of businesses are breaking even, with fewer businesses (19%) making a small or substantial loss.
- The general trend towards increasing prices is slowing. Over the previous three months, 64% of businesses raised their prices. A further 51% will do so over the next three months.
- Energy costs are still at the top of business concerns in terms of impact of the business (80%), then increased cost of trade supplies and increases to National Minimum Wage/National Living Wage (NMW/NLW). In response, they are removing non-essential expenditure, increasing prices and continuing to hold off taking on staff/apprentices.
- Reliance on external support has eased back to levels seen in spring/summer 2022; over half of businesses (58%) are either partially or completely reliant on Government support (down from 71% in January).

Staffing, recruitment and apprentices

- Staffing and recruitment intentions have improved slightly, but remain firmly in negative territory.
- In the next three months, only 21% of respondents were definitely or likely to take on new staff (up from 15% in January).
- Over the last three months, 23% have cut back on apprentices. Similar to the autumn, only 15% (up from 9% in January) were definitely or likely to take on apprentices in the next three months.

Looking to the future

- Business survival expectations have improved and are in line with the more positive outlook seen in July 2022. Two thirds (64%, up from 49% in January) are now confident of their survival. Nevertheless, the number of businesses who are not sure whether they will survive over the next six months until September 2023 is still significant at a third.
- Growth intentions have improved and are back in line with spring/summer 2022, with 41% (up from 30% in January) saying that they intend to grow their business either rapidly or moderately. Similar numbers of businesses intend to remain the same size (41%) and 19% are planning to downsize or handover the business (down from 25% in January).

Key insights

1. The signs of positivity previously seen in spring/summer 2022 have returned, against the odds, in an economic climate of continuing low growth, high energy costs and double-digit inflation.

2. High energy costs remain at the top of concerns in terms of impact on the business. Despite high costs and recent rises to the NMW/NLW, businesses are again showing levels of resilience as they fight for their survival.

3. Reliance on external support to keep their operations going has eased, as business survival expectations and growth intentions improve. However, many businesses are holding themselves below the VAT threshold, denying themselves growth when they most need it, to avoid the extra cost of the tax bill.

4. Many businesses comment that this is still the most challenging time of their 15-20 year career so far. The number of businesses taking the option to downsize or close remains consistent with previous surveys. Despite positivity in some areas, this has not translated to being on a firm enough footing to be able to take on more staff or apprentices.

5. With declining apprenticeship starts, the sector is still suffering a skills crisis as outlined in the NHBF *Careers at the Cutting Edge* report[1]. The future of the sector in terms of future talent remains in the balance unless businesses have access to incentives to fill the funding gap as they simply cannot afford apprentices in the current climate.

Background

Over the last three years, the sector has time and time again, shown its resilience in the face of adversity. Businesses are still grappling with high energy, supplier and staff costs.

Several survey indicators show signs of improvement from January around business activity, with more businesses making a profit, price rises slowing, reliance on government support easing and more certainty around business survival prospects and positivity around growth aspirations.

Office of National Statistics data from 2022 shows us 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.

Business support in the form of the 75% discount on business rates for retail in 2023/24 and the Energy Bill Discount Scheme has been welcome. However, further targeted support will be needed to support this fledgling recovery and ensure that well-established businesses can continue to 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 first quarter of the year and is looking ahead to the summer.

Responses

The survey received 560 responses between 17-28 April 2023. 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 (82%) of respondents were salon or barbershop owners. 13% were self-employed individuals and 15% 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 the two years of quarterly State of the Industry survey data 2020-

[1] Skills report 2022 summary - National Hair & Beauty Federation (nhbf.co.uk)

2022 is also available[2]. We are grateful to the British Beauty Council for its support in promoting this survey.

The financial picture

The results show a clear improvement and are similar to July 2022, with more businesses making a small or good profit (43%, up from 30% in January) with 38% of businesses are breaking even (44% in January). Fewer businesses (19%, improved from 25%) are either making a small or substantial loss (Q7).

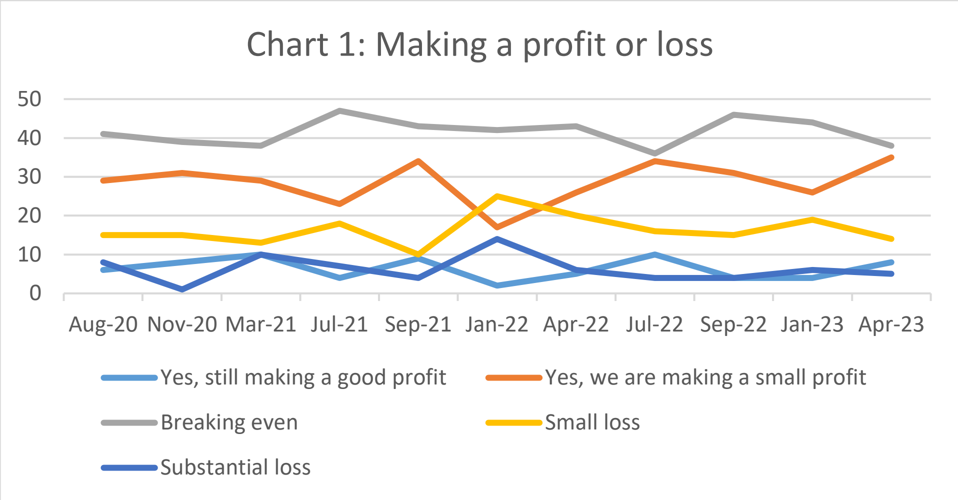
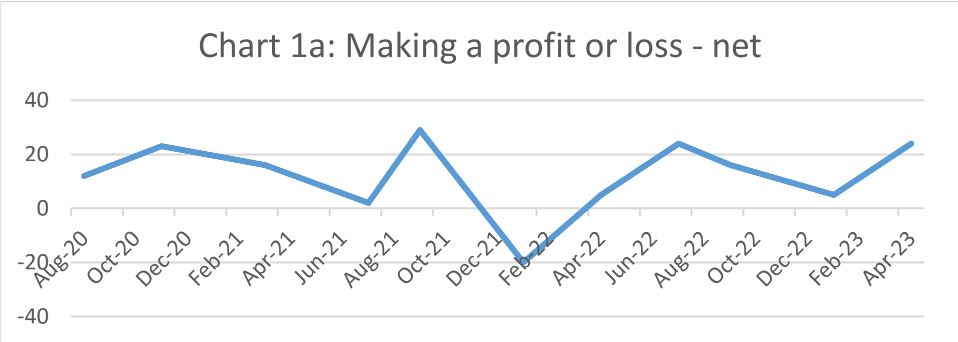


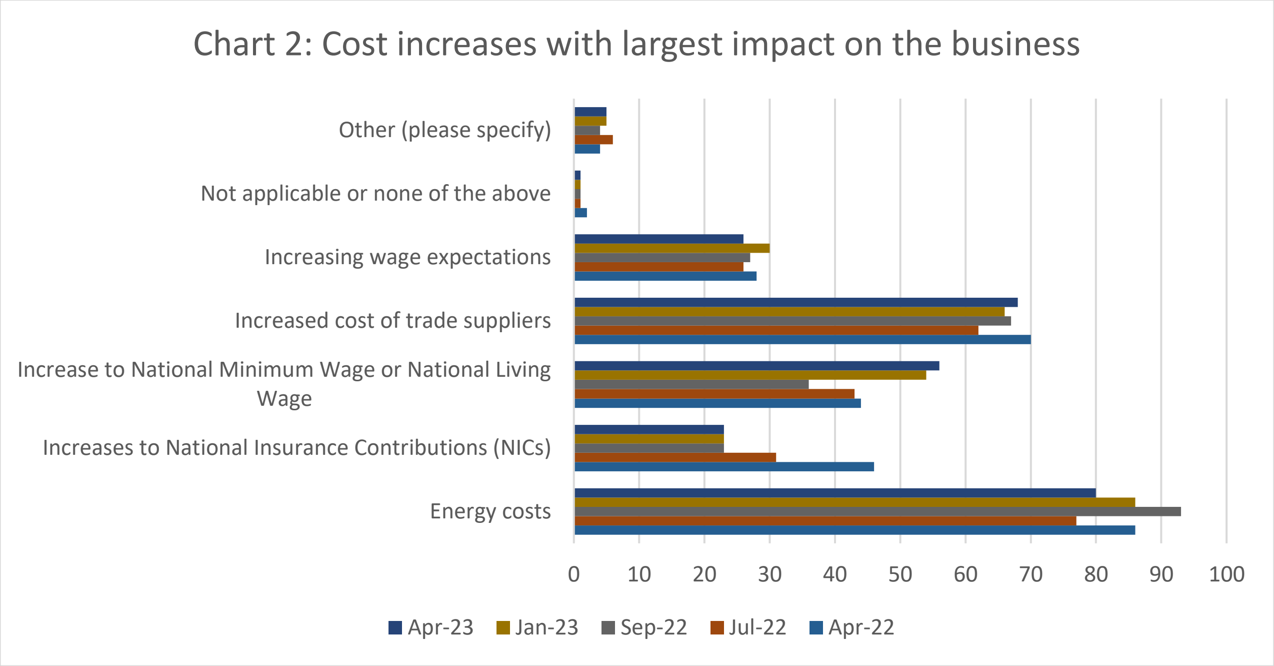
Chart 1a shows the profit or loss trend, illustrating previous recoveries to September 2021 and July 2022, with a dip again to January 2023[3] and rise to April 2023.



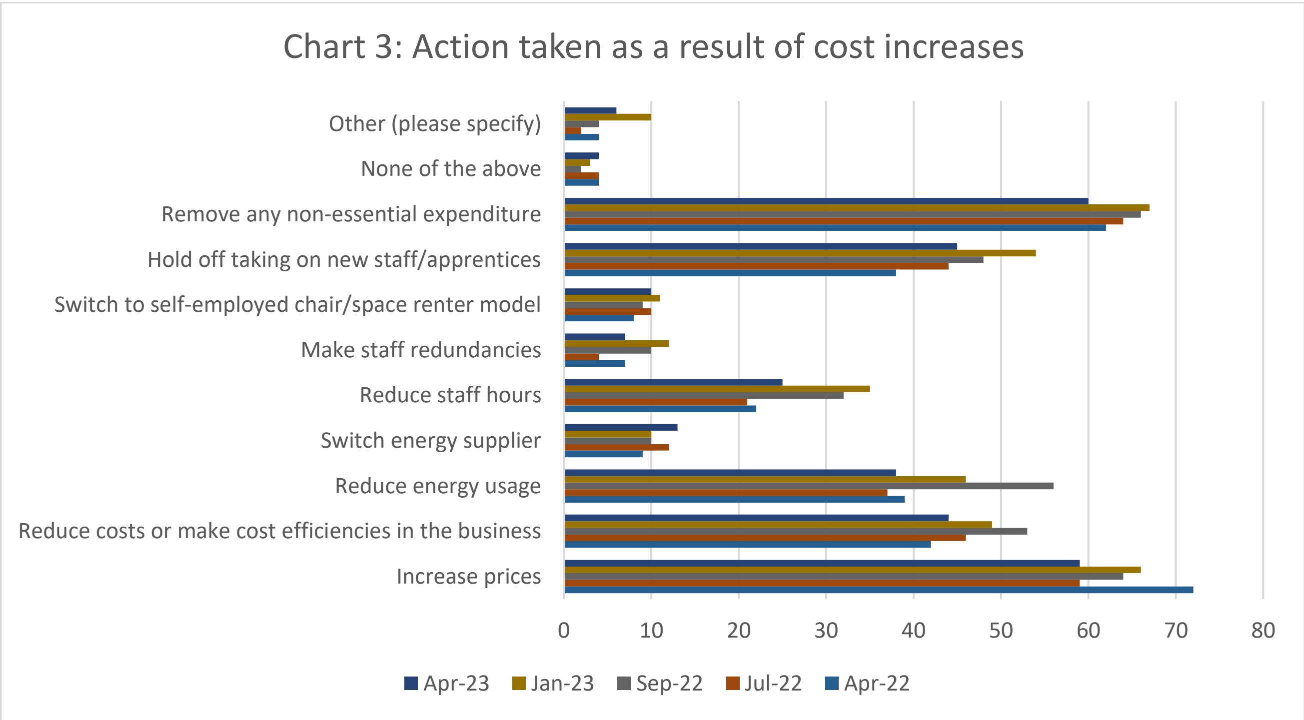
Businesses remain in the midst of a 'cost of doing business crisis' with high energy prices, rising supply prices and staff costs from the latest rise in the NMW/NLW in April 2023. In terms of direct impact on the business, the overwhelming concern is still about energy costs (80%), increased costs from trade suppliers (68%), increases to National Minimum Wage/National Living Wage (NMW/NLW) (56%), increases to National Insurance Contributions (NICs) (23%) and increasing wage expectations (26%) (Q10).

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

[3] 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.



In response to these rising costs of doing business, the most common actions that businesses are taking include removing any non-essential expenditure (60%), putting up prices (59%), holding off taking on new staff/apprentices (45%), reducing costs/making cost efficiencies (44%) and reducing energy usage (38%) (Q11).



Current situation

Sector activity is showing signs of improvement. Results are in line with the recovery we saw in July 2022, with 22% of businesses reporting being busy (up from 9% in January) and 48% steady (up from 38% in January). Around 30% (down from 53% in January) of businesses reported that they were quiet or really quiet (Q6).

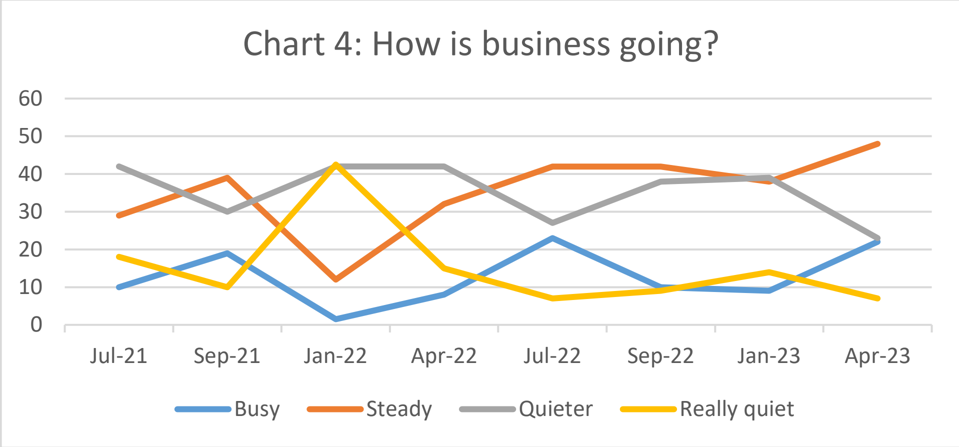
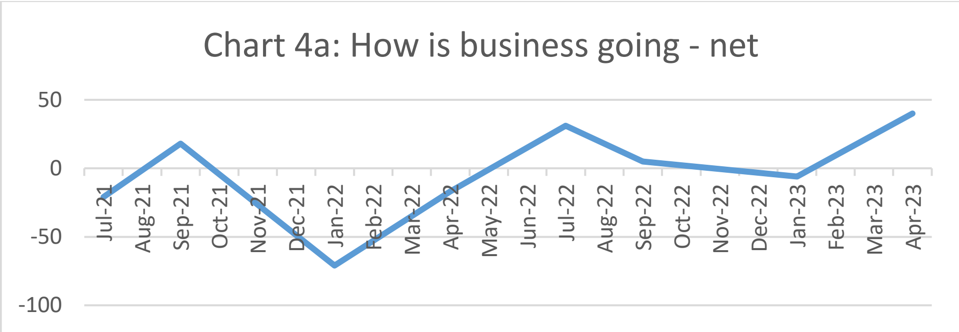


Chart 4a shows the business activity trend. The chart shows the most positive activity so far in April 2023, after a low in January 2022, a recovery to July 2022, a dip to January 2023.



The general trend towards increasing prices is slowing. Over the previous three months, 64% of businesses raised their prices. a further 51% will do so over the next three months (Q8, Q9).

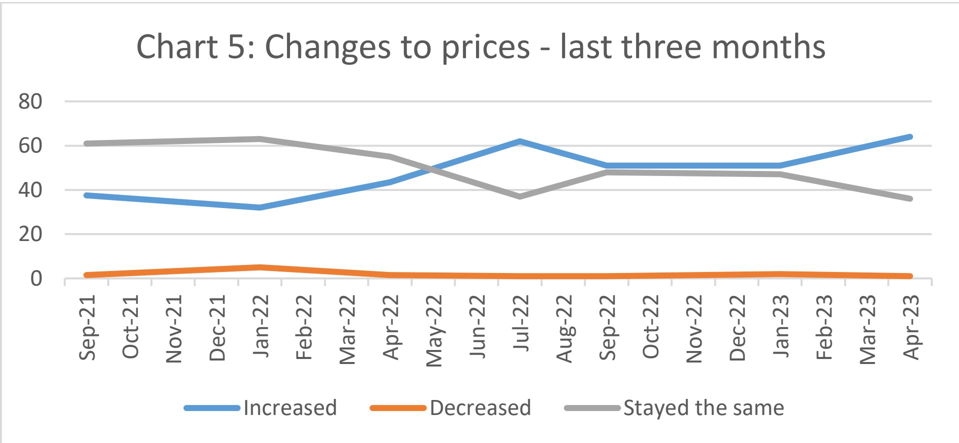


Chart 5a confirms the latest rise in prices in Q1 2023, the highest so far, most likely to cover high energy prices, inflation and rising NMW/NLW.

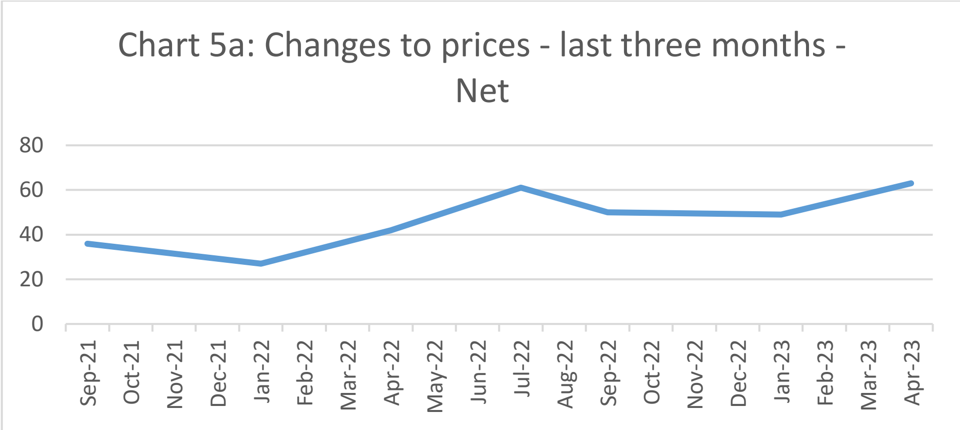
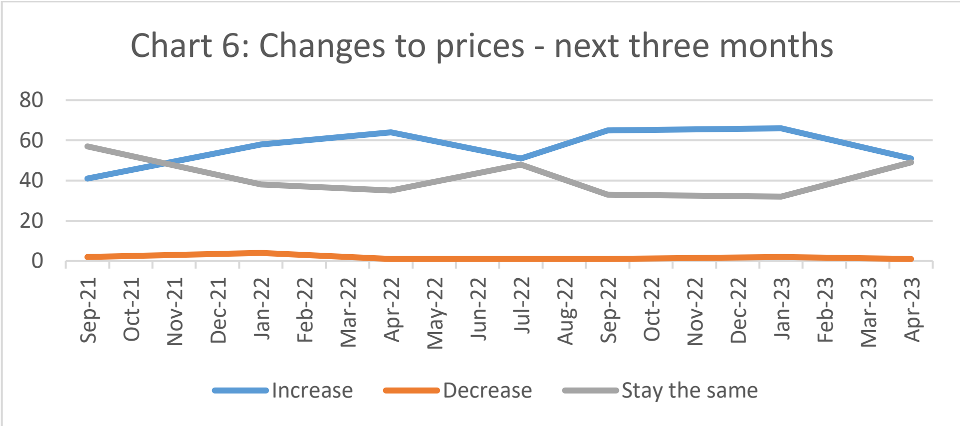
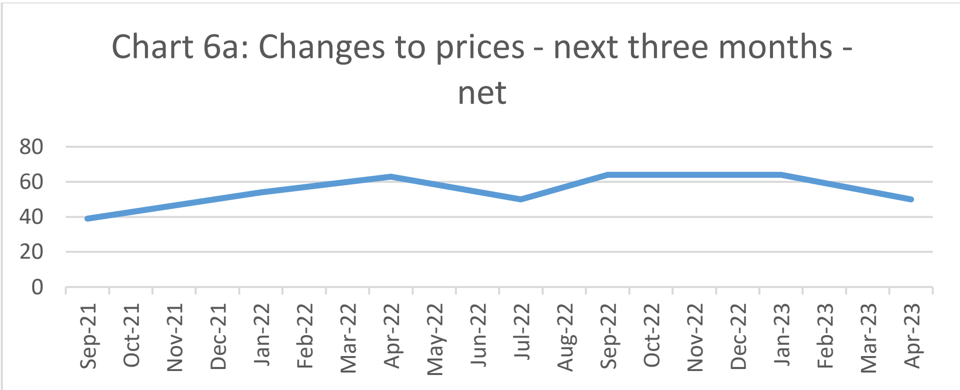
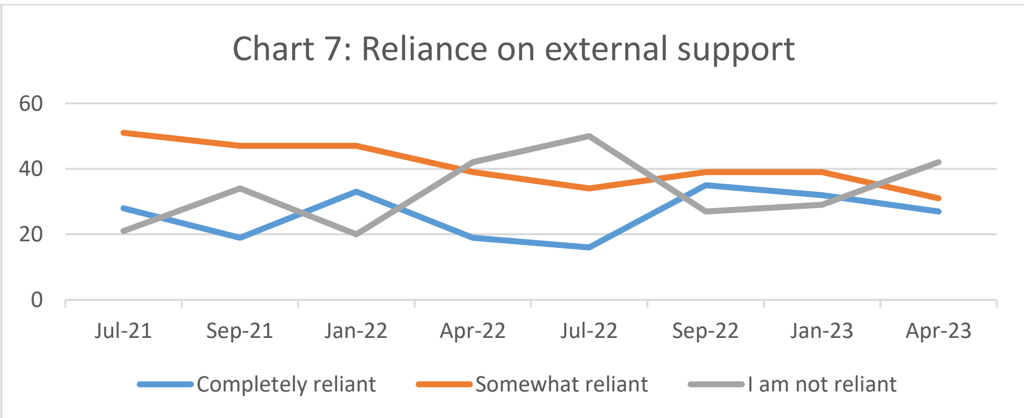


Chart 6a shows the trend in businesses putting up prices over next three months, peaking in April 2022 dipping to July and rising again to September 2022 and dipping to April 2023.





Thankfully, reliance on external support has eased back to levels last seen in spring/summer 2022; over half of businesses (58%) either partially or completely reliant on Government support (75% in January). Around 42% say that they are not reliant on continued support (Q17).



Energy prices

Energy prices remain a key concern for businesses. More than three quarters (78%) of businesses are paying more for their energy than they were six months ago. It has stayed the same for 13% of businesses, that are presumably locked into a contract for the time being (Q12).

Since the Energy Bill Discount Scheme was introduced on 1 April 2023, businesses say that their energy costs have increased; for around a third (35%) of businesses by up to 40%. For another third (32%) prices have increased by more than 40%. 25% were not sure of the impact yet and 8% cited 'other' (Q13), which included examples of prices rising by 100%, 300-400% and in one case more than 600%. One example cited a rise from £1,500 to £3,600.

One quarter (24%) of businesses said that their energy contracts were up for renewal over the next 3-6 months but the majority (63%) said they were not. 15% said that they had been able to renegotiate a current contract, 40% were not able and 17% were not sure. For around 29%, their current contract is not up for renewal (Q14, Q15).

Where businesses had tried unsuccessfully to change contracts, the main reasons given for this were:

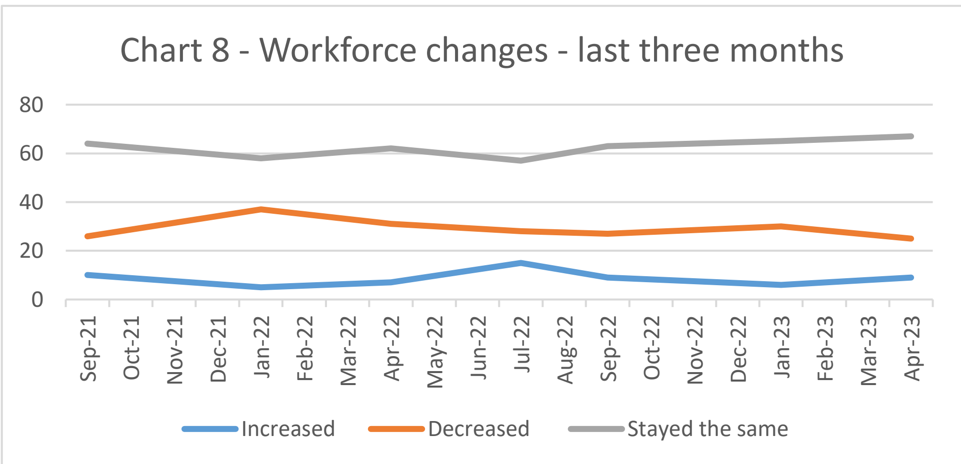
- offered a contract but unable to pay the offered rate (34%)
- unaffordable upfront deposit requested (9%)
- refused on grounds relating to your business eg. credit rating (8%).

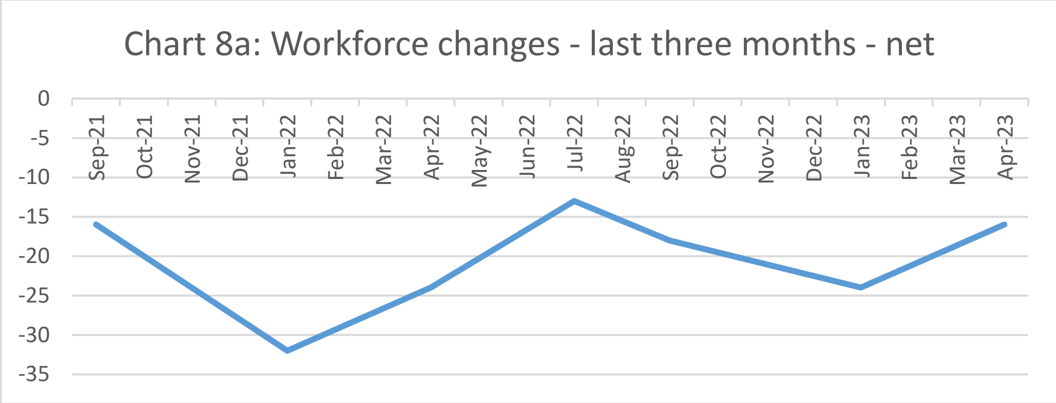
51% responded 'other'. Most of these explained that the question was not applicable to them, for example because they were not the landlord of the premises or that they had recently locked into a deal.

Staffing, recruitment and apprentices

In terms of the number of people employed in the business, 40% of respondents employed 1-4 people, 24% 5-9 and 14% 10 or more, with 22% saying that they did not have any employees (Q21).

Staffing and recruitment intentions have improved slightly, but remain firmly in negative territory. Staffing indicators are at similar levels to those seen in spring/summer 2022. The workforce has stayed the same over the last three months for 67% of respondents, 25% reported a decrease and 9% had increased staff (Q22). Chart 8a shows workforce intentions in negative territory for the previous three months, with a particular low in January 2022, recovery to July 2022 and rise again to April 2023.





In the next three months, 21% were definitely or likely to take on new staff, with 71% saying that it was unlikely or that they definitely would not. Chart 12 in the Annex shows a slight improvement but that employment intentions remain firmly negative. Of those intending to take on staff, 66% would add one person and 32% 2-4 people (Q23, Q24).

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, 23% have cut back on apprentices. Chart 13 in the Annex illustrates the downward trend in taking on apprentices since September 2021.

15% are definitely or likely to take on apprentices in the next three months with 28% saying it was unlikely and 51% that they definitely wouldn't (Q26). However, recruitment intentions are still well in negative territory (chart 14 Annex).

National Minimum Wage/National Living Wage

Businesses were also asked questions to support the NHBF's submission to the Low Pay Commission. Wages and wage related costs (eg. pension contributions, bonuses, commissions) make up more than half or the majority of business costs for 41% of businesses; it is about half for 20% of businesses (Q27).

Sector businesses primarily make use of the National Living Wage rates for those aged 23 and over (69%); businesses use the 21-22 year old rate (16%), 18-20 rate (7%) and Apprenticeship or under 18 rate (8%) to a lesser extent (Q28).

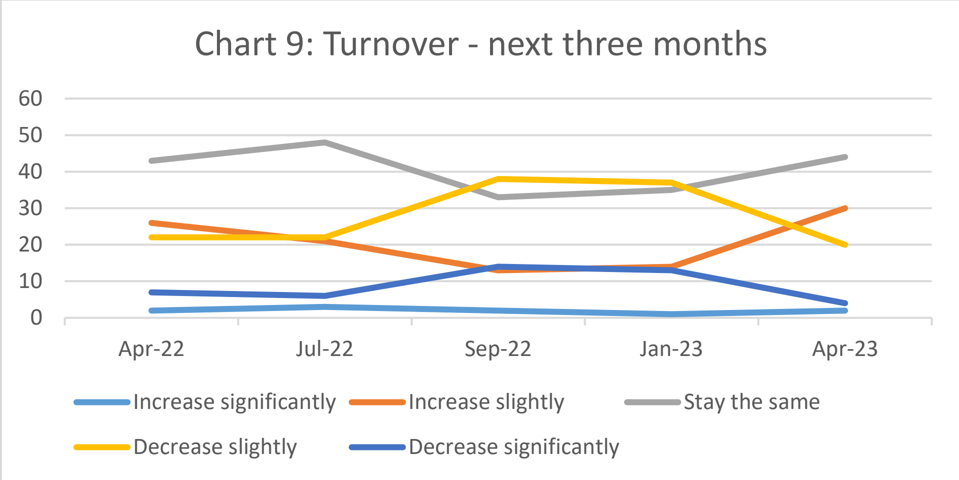
The most common responses to the April 2023 NMW/NLW increases were; increased prices (50%), took lower profits/absorbed the costs (46%), reduced business investment (29%) and increased the hours they work (26%) (Q29).

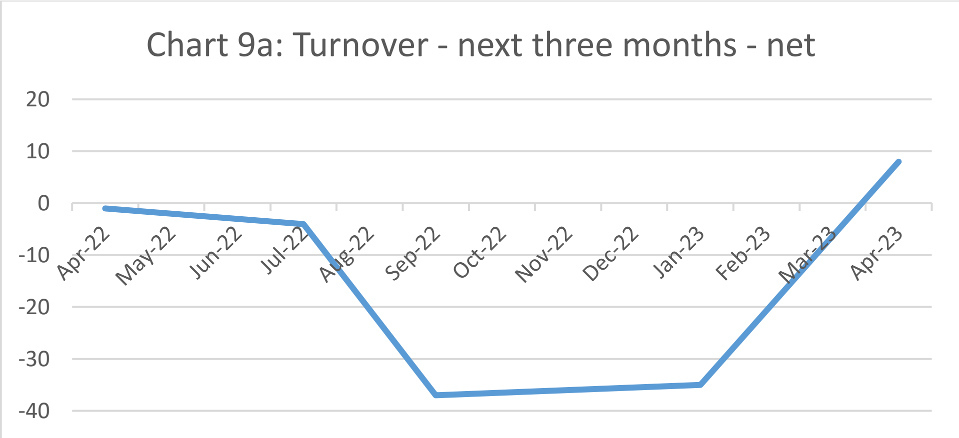
There has been a rise in the proportion of respondents that think that further rises to the NMW/NLW would be unaffordable for their business (34%, up from 29% in 2022). Businesses also thought that wage rates should be frozen to give businesses a chance to recover (25%) and increased at a more gradual rate (16%) (Q30).

In terms of the future impact of rises to the NMW/NLW in 2024, businesses would be most likely to increase prices (27%) or downsize or close the business permanently (19%) (Q31).

Looking ahead – barriers to growth and aspirations

Turnover expectations have improved back in line with aspirations from last spring 2022. 44% expect their turnover to remain the same over the next three months. One third (32%) expect it to increase slightly or significantly, and one quarter (24%) for it to decrease, either significantly or slightly. Chart 9 shows the trend since April 2022 now in positive territory (Q18).





Business survival expectations have improved and are in line with the more positive outlook seen in July 2022. Two thirds (64%, up from a half) are now confident of their survival. The number of businesses who are not sure whether they will survive over the next six months until September 2023 is still significant at a third (31%) (Q19).

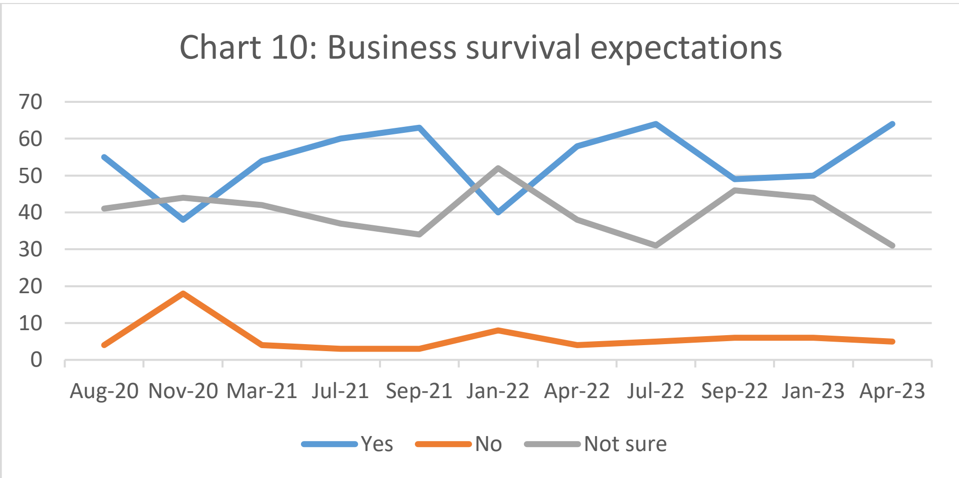
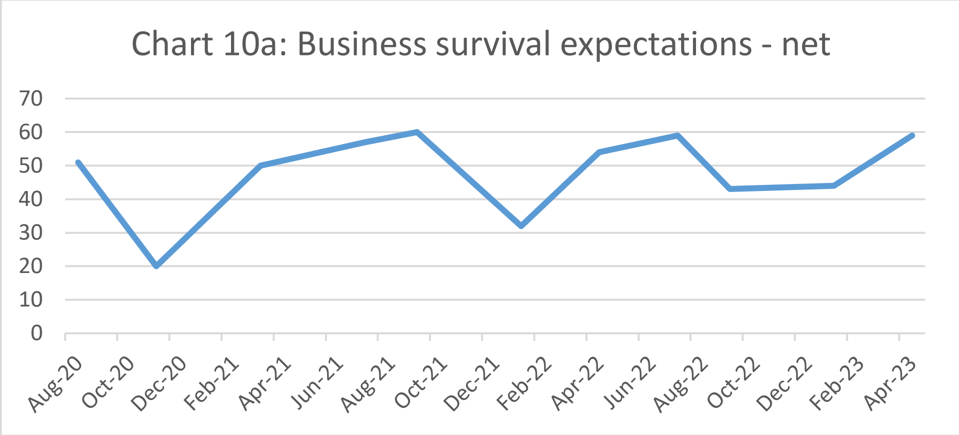
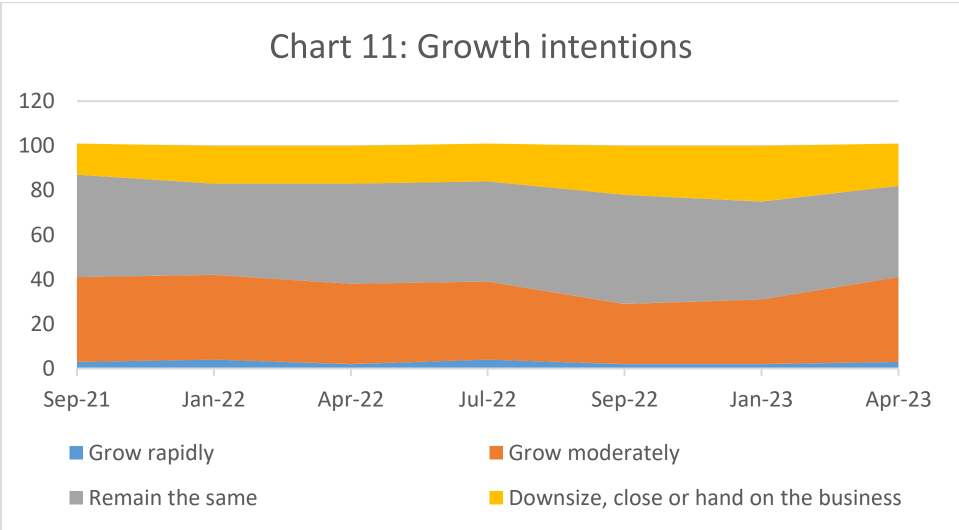


Chart 10a shows the rollercoaster trend for whether businesses expect to survive over the next six months. After a low point in November 2020, confidence increases to September 2021, falls in January 2022 after a difficult winter and rises again to July 2022, dips to January 2023 and rises to April 2023.



Growth intentions have improved and are back in line with spring/summer 2022, with 41% (up from 30%) saying that they intend to grow their business either rapidly or moderately. Similar numbers of businesses intend to remain the same size (41%) and 19% are planning to downsize or handover the business (down from 25% in January September) (Q20).



Looking ahead through the rest of 2023, the period of low growth and potential recession will continue to challenge the sector despite predictions of inflation falling from a record high.

Conclusion and recommendations

Following a challenging winter of high energy prices, the sector is showing the signs of resilience and recovery that we initially saw in September 2021 then July 2022 post pandemic. The 75% discount for Retail on business rates and the Energy Bill Discount Scheme support is welcome, however, further targeted Government support will be needed to get businesses through a likely extended period of low economic growth.

The slightly more positive outlook has not yet translated to businesses growing and taking on more staff or apprentices. Our previous NHBF *Careers at the Cutting Edge* report makes it clear that the longer-term future of the personal care sector depends on multiple interventions, ensuring a pipeline of new talent and business owners being able to afford to keep staff.

We call on the Government for:

- **Further targeted support on energy:** The Energy Bill Discount scheme provides a level of support to business. Energy costs are the first or second largest outgoing for two thirds of sector businesses. We would welcome further targeted support including guidance for dealing with energy suppliers around high security deposits and contract renewal. We would welcome a more active role by the Government and Ofgem to deal with energy companies that are offering significantly higher than wholesale/retail prices, not offering contracts at all or failing to offer flexible payment plans so that businesses are supported to pay off bills over a longer period of time. Further grants and incentives to encourage energy efficiency would be welcome also.

- **Wider business support:** Businesses need help with fixed overheads to maintain cashflow and keep them in business as energy and business costs remain high. In addition to the business rates discount in England and Wales we would like to see the suspension of debt repayments for businesses under pressure and banks encouraged to offer more flexibility around the repayment of loans. Restraint on further rises to the National Minimum Wage (NMW) and National Living Wage (NLW) is important for the sector.

- **Securing future sector talent:** The sector is keen to provide meaningful careers to more young people, but in a sector made up predominantly of small and micro businesses, the current climate makes it severely challenging to afford to employ trainees who do not generate revenue. We call on funding to be made available through redistributing unspent levy funds, 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+.

- **Review taxation which is disincentivising growth**: The NHBF is calling for a fairer approach to the tax system to create more of a level playing field between businesses with employees and businesses using self-employed individuals. HM Treasury should carry out an urgent review of the way in which VAT is applied, including raising the VAT threshold so that more small and micro businesses benefit from relief, reducing the VAT rate to 5% or introducing tiered rates for the smallest businesses 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 evading businesses:** We are working with HM Revenue and Customs (HMRC) on a communications and enforcement campaign to 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 and targeted support from the UK Government, we are confident that the personal care sector will continue to play a central role in the UK's economic growth, thriving high streets, population wellbeing and our sustainable future.

Annex – Staffing and apprentices additional charts

Chart 12 shows that employment intentions, whilst improving, remain firmly negative.

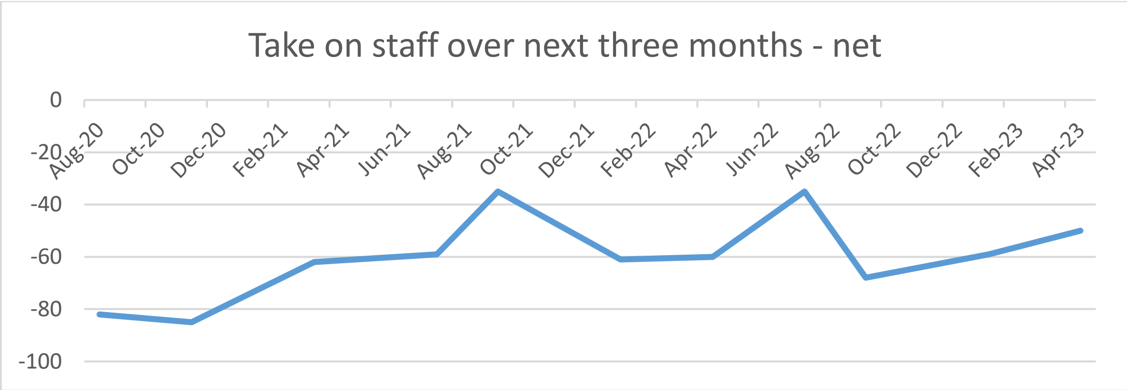


Chart 13 illustrates the general decline in taking on apprentices since September 2021 despite a slight recovery in September 2022 and in April 2023.

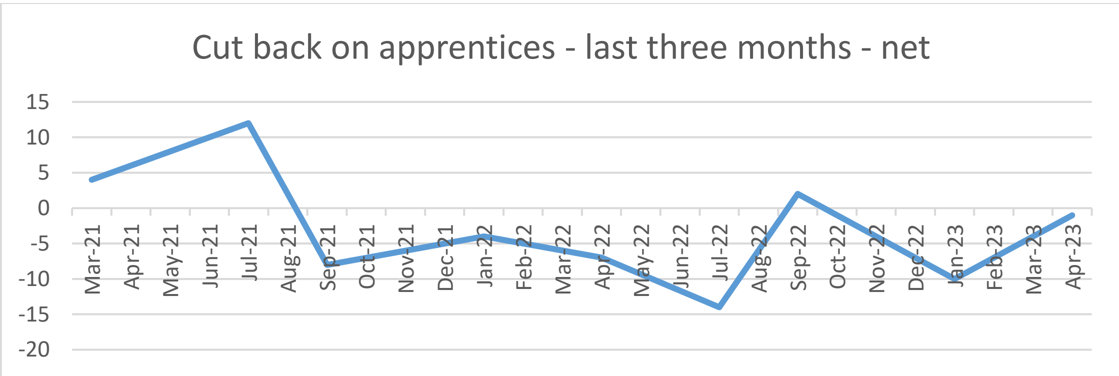


Chart 14 shows that despite more positive indicators in July 2022, recruitment intentions for apprentices are still well in negative territory.