NHBF

Supporting the hair, beauty and barbering industries

State of the Industry Survey Summary – September 2023

Key findings

The signs of positivity that we saw in April and July have slowed across some indicators and the sector recovery holds steady:

- Only a slight rise in businesses making a small or good profit (45%) and a similar number of businesses breaking even (42%). Slightly fewer businesses are making a loss but it is largely similar to July.
- The general trend towards increasing prices continues to even off. Over the previous three months, 55% of businesses raised their prices and a further 51% will do so over the next three months.
- Reliance on external support continues to stabilise; over half of businesses (56%) are still either partially or completely reliant on Government support. 44% say that they are not reliant on continued support.

Staffing, recruitment and apprentices

- Staffing and recruitment intentions are steady but still in negative territory.
- In the next three months, 27% were definitely or likely to take on new staff (similar to 28% in July), with 63% saying that it was unlikely or that they definitely would not.
- Fewer businesses, 20% (down from 23% in July) were definitely or likely to take on apprentices in the next three months, with 30% saying it was unlikely and 42% that they definitely would not.

Looking to the future

- Turnover expectations have improved slightly from the positivity shown in April 2023. 37% (up from 27% in July) expect it to increase slightly or significantly and 40% (down from 53% in July) expect it to stay the same over the next three months. 22% (20% in July) expect it to decrease, either significantly or slightly.
- Business survival expectations are similar to the positivity we saw in July. Three quarters (74%) (up slightly from 72%) 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 22%.
- Growth intentions are similar to July with 45% (up slightly from 43%) saying that they intend to grow their business either rapidly or moderately. Similar numbers of businesses intend to remain the same size (40%) and 14% are planning to downsize or handover the business, similar to July.

Key insights

1. After the positivity we saw in April and July the results show that the sector is holding steady. Businesses are under pressure from all sides including stubbornly high inflation, energy costs, rising wage costs and the lack of availability of experienced staff to grow their business.

2. Of concern in the results, is the little movement in terms of business plans to grow the business or take on either more staff or apprentices. The sector is poised as the VAT threshold is acting as a disincentive to growth for many businesses, in addition to the sector being squeezed with high business costs and inflation.

3. Businesses have been putting up prices to cover inflation and rising wage costs particularly around April this year. We know from the July survey that debt lingers and for more than half this will take more than two years to clear. It is positive that reliance on external support has eased slightly but we need to find ways to unlock the sector's full potential.

4. Another major issue is that the skills crisis, as outlined by the NHBF *Careers at the Cutting-Edge* report[1] in May 2022, is still evident. Many businesses claim that the employer model is in fact now broken and due to rising costs and the sector shift to self-employment, it is no longer possible to run a profitable and successful salon that employs staff.

5. The business comments around the survey largely focus on the burden of the VAT threshold, the challenge of being an employer salon and affording premises and staff overheads with concerns around businesses choosing to take on self-employed staff to avoid staff costs.

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[2].

This mirrors data from the Office of National Statistics (ONS) in 2022[3] 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 easing slightly and marginally more certainty around business survival prospects.

Further targeted support will be needed to help unlock the sector's potential which is still in the early stages of its recovery. Support on business rates and for energy bills has been very welcome over the last year and we call on the government to renew the valuable 75% discount for Retail into 2024/25 also. This would give certainty to sector businesses and enable them 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 third quarter of the year and is looking ahead to the winter.

Responses

The survey received 530 responses between 11 and 25 September 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 (92%) of respondents were salon or barbershop owners. 8% were self-employed individuals and 6% 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] Skills report 2022 summary - National Hair & Beauty Federation (nhbf.co.uk)

[2] Retail and Leisure Analysis - H1 2023 (localdatacompany.com)

[3] NHBF Industry Statistics 2022 Industry statistics 2022 sheet - National Hair & Beauty Federation (nhbf.co.uk)

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 2020-2022 is also available[4]. We are grateful to the British Beauty Council for its support in promoting this survey.

The financial picture

The results are steady with only a slight change to the signs of positivity we saw in April and July 2023, with 45% of businesses making a small or good profit (previously 43%) and 41% of businesses are breaking even (42% in July). Fewer businesses (14%, slight fall from 16% in July) are either making a small or substantial loss (Q10).

Chart 1a shows the profit or loss trend, illustrating previous recoveries to September 2021 and July 2022, with a dip again to January 2023[5] and improvement through 2023.

Current situation

After an improving situation in April and further positivity in July, the results appear to be holding up with 24% of businesses reporting being busy (25% in July) and 53% steady (up from 51%). Around 24% (same as in July) of businesses reported that they were quiet or really quiet (Q9).

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

[5] 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.

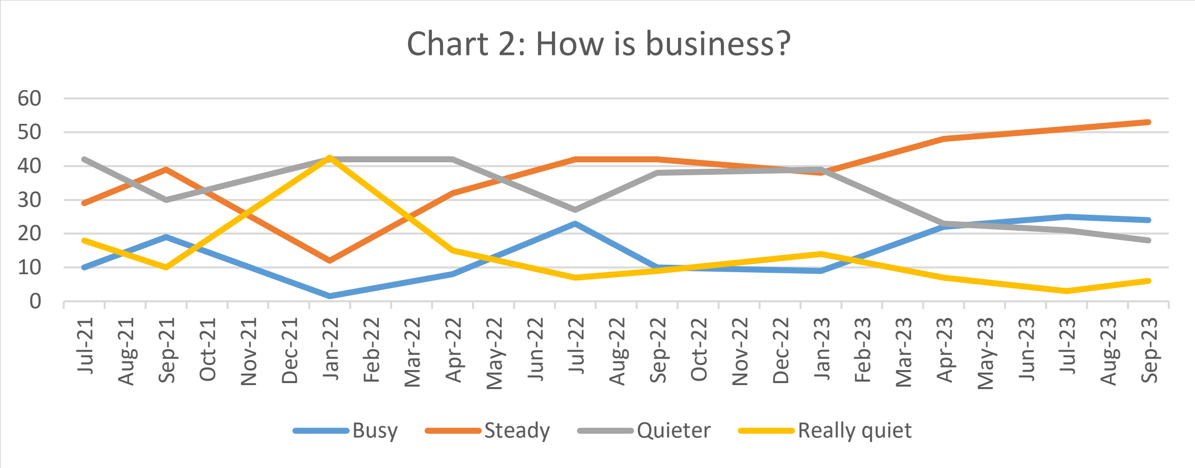
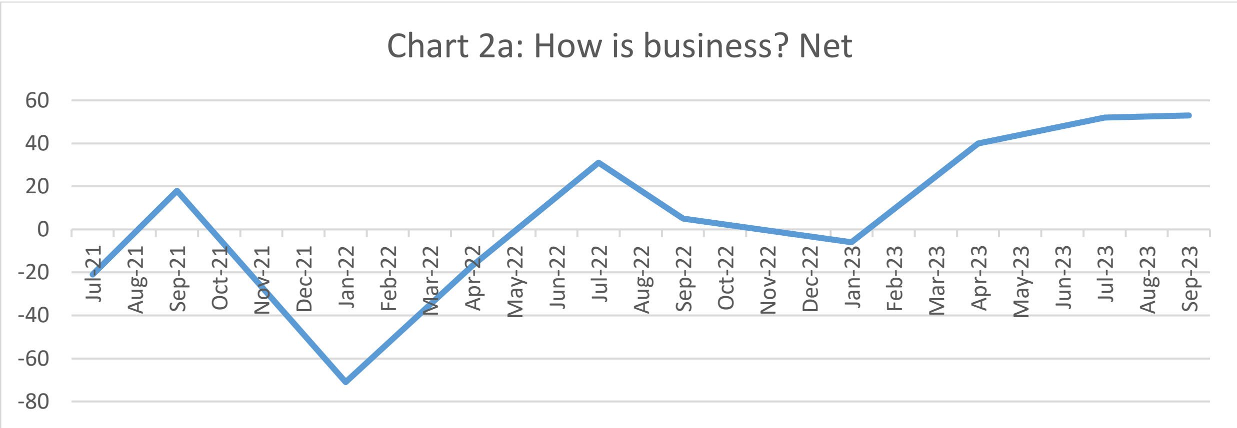


Chart 2a shows the business activity trend since July 2021. The chart shows a continuation of the positive activity from April 2023 to the highest level since 2021, after lows in January 2022 and January 2023 and recovery into the autumn 2023.



<u>Prices</u>

The general trend towards increasing prices continues to even off. Over the previous three months, 55% of businesses raised their prices (same as in July 2023) and a further 51% will do so over the next three months (similar to in July) (Q11, Q12).

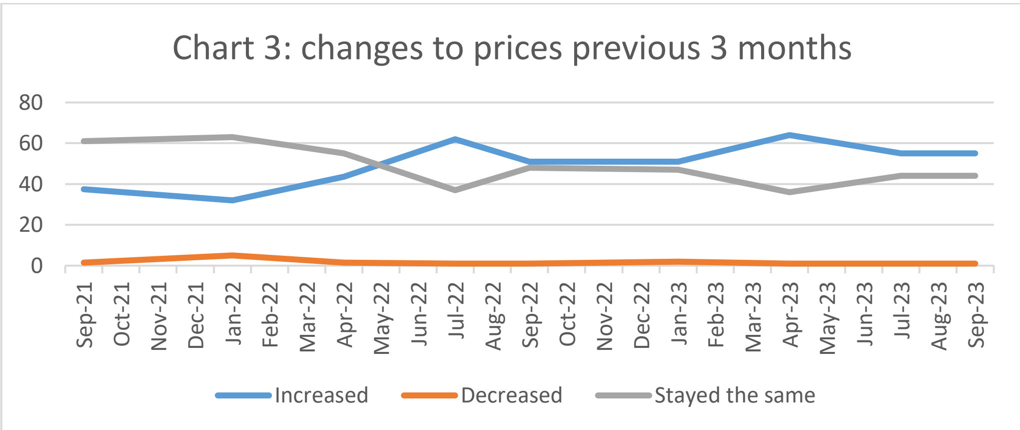


Chart 3a confirms the slight dip in the rate of rising prices from Q1 2023, mostly likely to cover inflation, high energy prices in the colder months and rising NMW/NLW in April 2023.

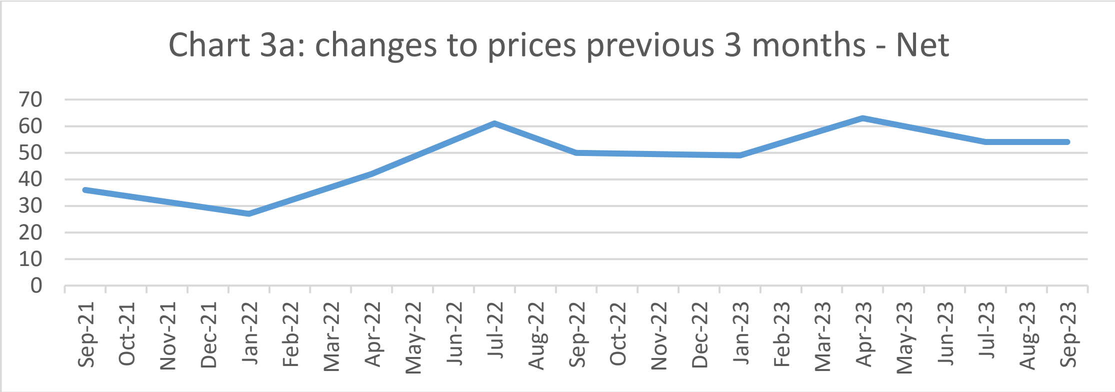
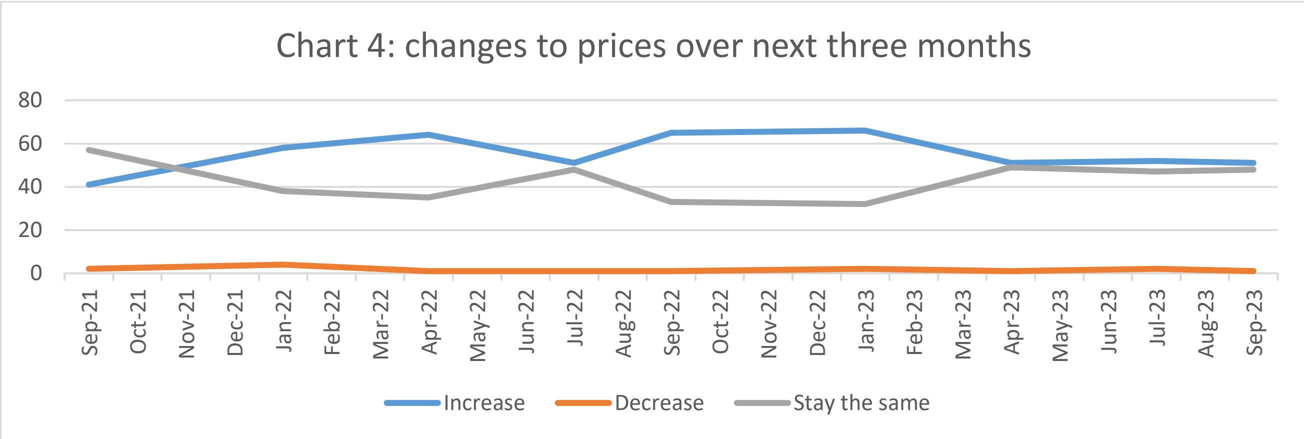
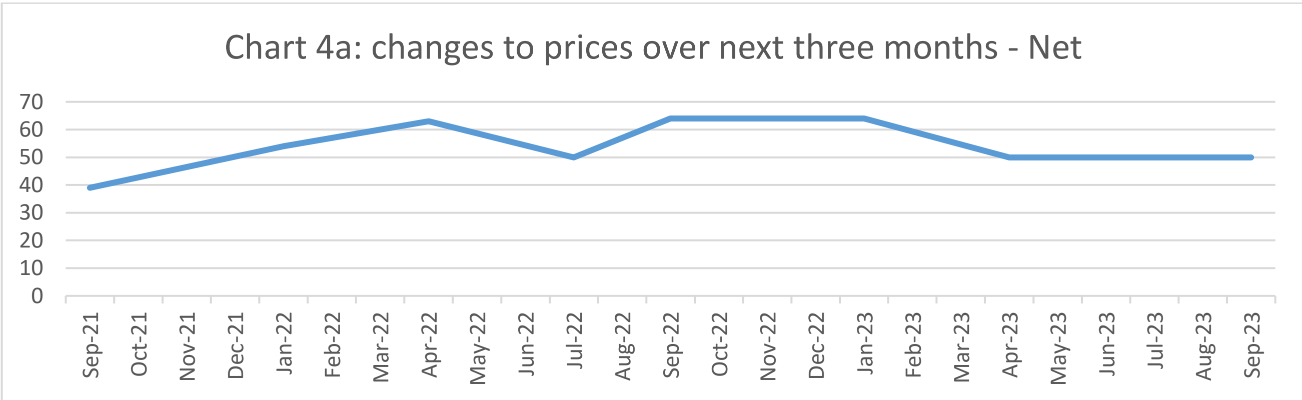


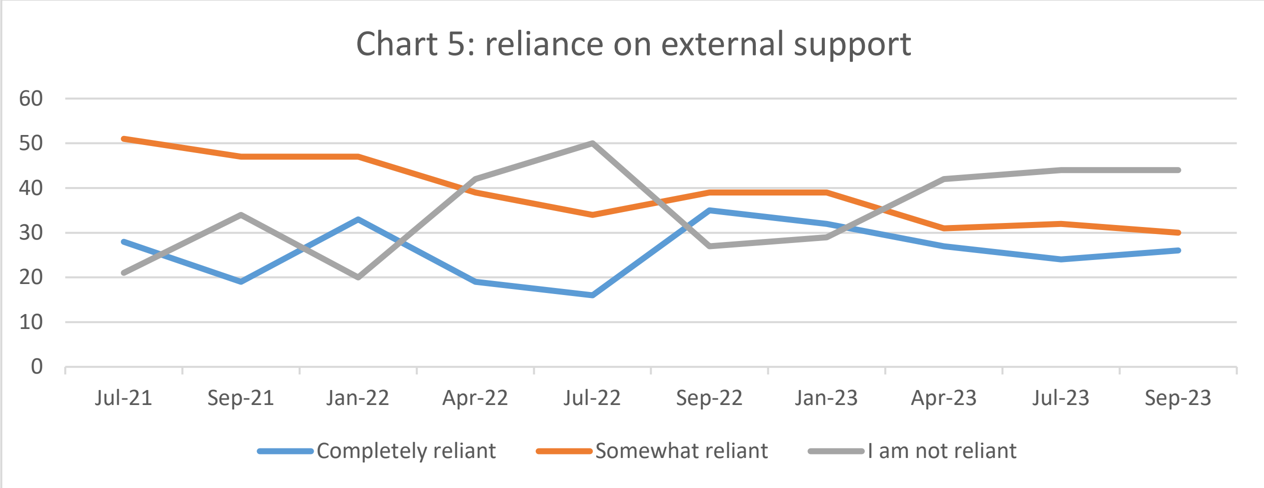
Chart 4a shows the trend in businesses putting up prices over next three months, peaking in April 2022 falling to July and rising again to September 2022 and dipping to the autumn.





Reliance on external support

Reliance on external support continues to stabilise; over half of businesses (56%, the same as in July) are either partially or completely reliant on Government support. 44% say that they are not reliant on continued support (Q13).



VAT registration

Two thirds of businesses (67%) say that they are VAT registered, with 33% not. This compares with previous estimates that unregistered businesses make up 40% of the sector[6]. The vast majority of businesses (87%) are PAYE registered (ie. They deduct their employees' income tax and National Insurance from their wages and pay the taxes on their behalf directly to HMRC) with only 13% that are not.

Only a small proportion of businesses (17%) are signed up to the VAT Flat Rate Scheme (where businesses with a turnover below £150,000 are entitled to join the HMRC's scheme and the amount they pay is a fixed percentage of their turnover, calculated to reflect the average net VAT position for businesses in their sector), with 83% not.

Business comments
'The VAT threshold cliff-edge is a business killer. Expenses have risen when the threshold has not. It has reached the point where a salon with 4 employees cannot grow (expense = VAT threshold), profit is impossible to make and business becomes likely to fail….'

VAT threshold acting as a disincentive to growth

Three quarters (73%) of sector businesses either strongly agree or agree that small businesses in the hair and beauty sector actively keep their turnover below the VAT threshold to avoid having to register for and pay VAT. A majority (61%) also believe from their experience that small businesses in the sector with turnover just below the VAT threshold, either very frequently or frequently do cash-in hand work to avoid having to register and pay VAT.

Feedback from businesses also shows that just over half (51%) say that in their experience, businesses in the sector very frequently or frequently split their work into two separate businesses to avoid the VAT threshold. The vast majority (86%) of sector businesses either strongly agree or agree that small businesses in the sector could grow faster if there was a graduated approach to the VAT threshold (ie. Tiered VAT rates which slowly introduce the tax and ensure there is no large jump in taxes needed to be paid). 78% of sector businesses strongly agree that sector businesses find it difficult to achieve the same profit once the VAT threshold has been passed with 15% agreeing (Q18 - Q22).

'I can only do one haircut with my hands at a time, yet I'm VAT'd at the same rate as a business that can sell 20 pieces of clothing in one sale… why are my hands and Labour VAT'd at the same rate? my body hurts too much to maintain the amount of Labour needed to make a decent profit after VAT'.

[6] *Hair, beauty and the pandemic: An industry at the sharp end* (February 2021) Pragmatix Advisory for NHBF

Licensing

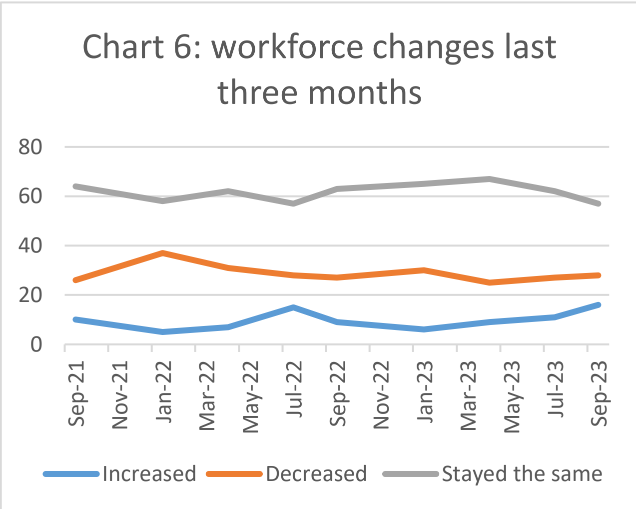
In the context of the government aesthetics licensing regulation consultation, we also asked businesses whether they have to apply for any licences from their local authority. The vast majority of businesses (80%) said that their local authority does not require a licence, with 13% saying a salon/barbershop premises licence, 4% hairdressing individual, 3% beauty individual and 3% a London Special Treatment Licence (Q23).

Staffing, recruitment and apprentices

'Our business is hardly viable now, due to rising costs and wage increases'.

In terms of the number of people employed in the business, 40% of respondents employed 1-4 people, 29% 5-9 and 17% 10 or more, with 14% saying that they did not have any employees (Q24).

Looking forward, staffing and recruitment intentions are steady but still in negative territory. The workforce has stayed the same over the last three months for 57% of respondents (down slightly from 62% in July), 28% reported a decrease and 16% (up from 11% in July) had increased staff (Q25).



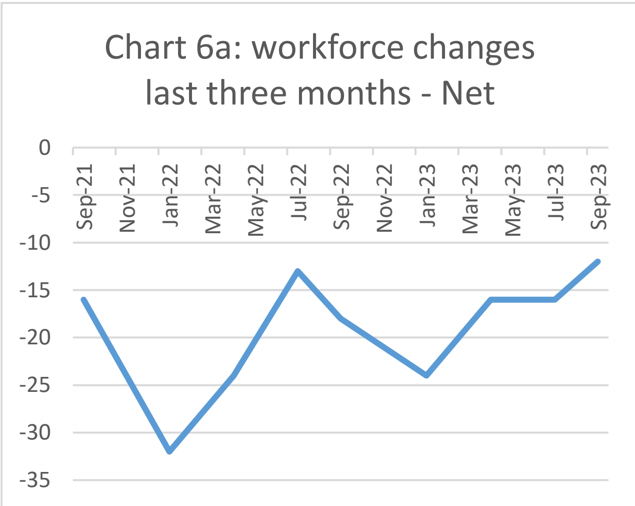
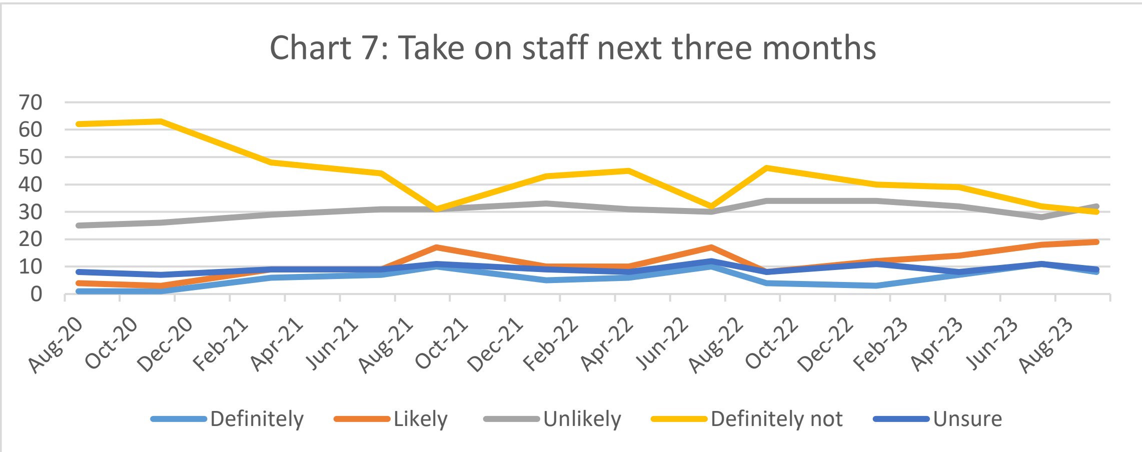
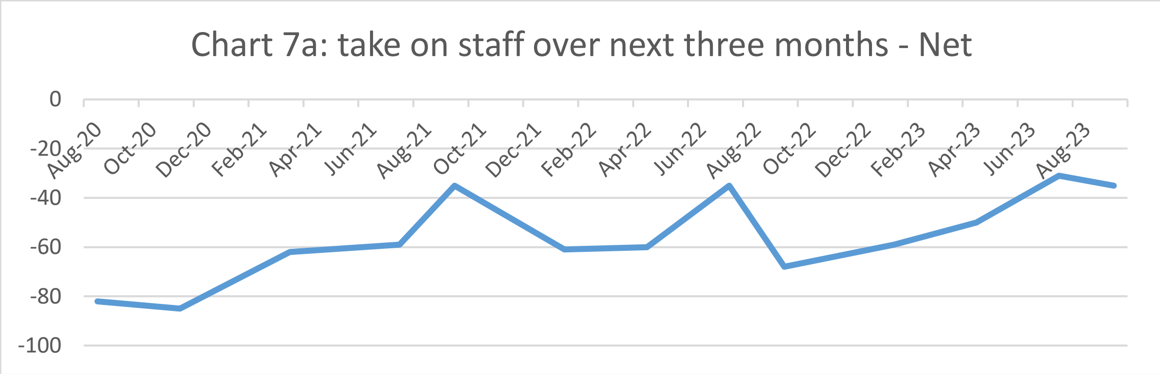


Chart 6a shows workforce intentions for the previous three months still in negative territory, with lows in January 2022 and January 2023 and improving through 2023.

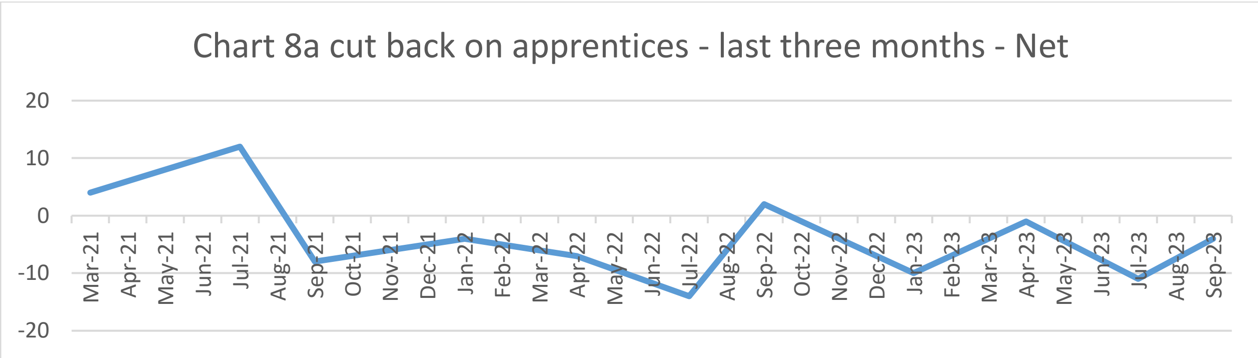


In the next three months, 27% were definitely or likely to take on new staff (similar to 28% in July), with 63% (similar to 60% in July) saying that it was unlikely or that they definitely would not.

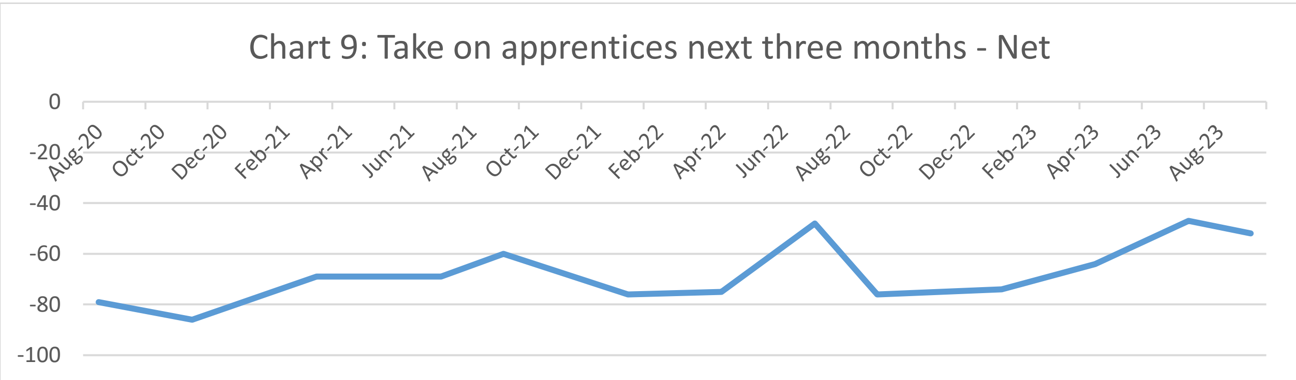
Chart 7a shows a slight drop from July and that employment intentions remain negative. Of those intending to take on staff, 24% would add one person and 13% 2-4 people (Q27).



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, 28% (compared with 21% in July) have cut back on apprentices. Chart 8a illustrates the downward trend in taking on apprentices since March 2021 (Q28).



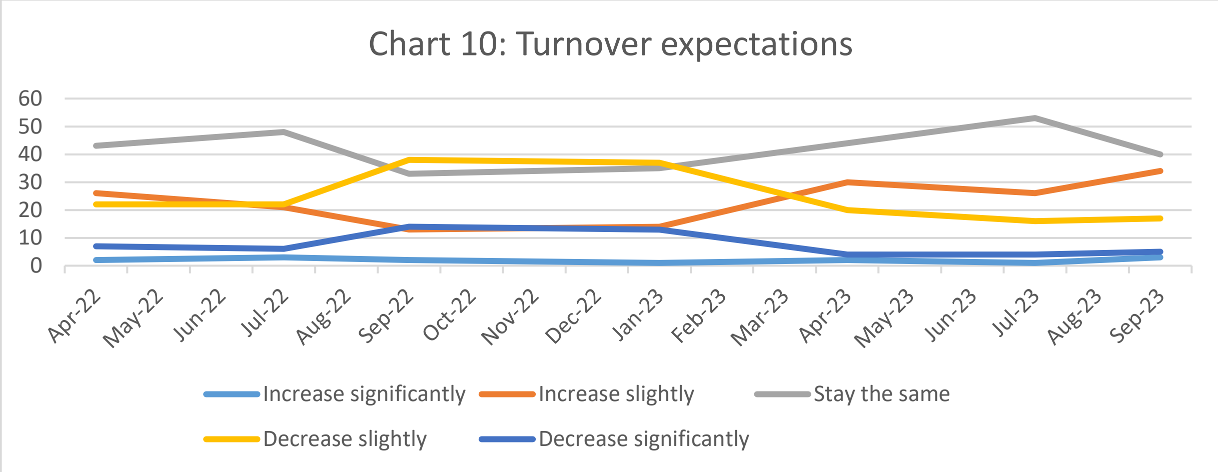
Fewer businesses (20%, down from 23% in July) were definitely or likely to take on apprentices in the next three months, with 30% saying it was unlikely and 42% that they definitely would not (Q29). Apprentice recruitment intentions are still in negative territory.

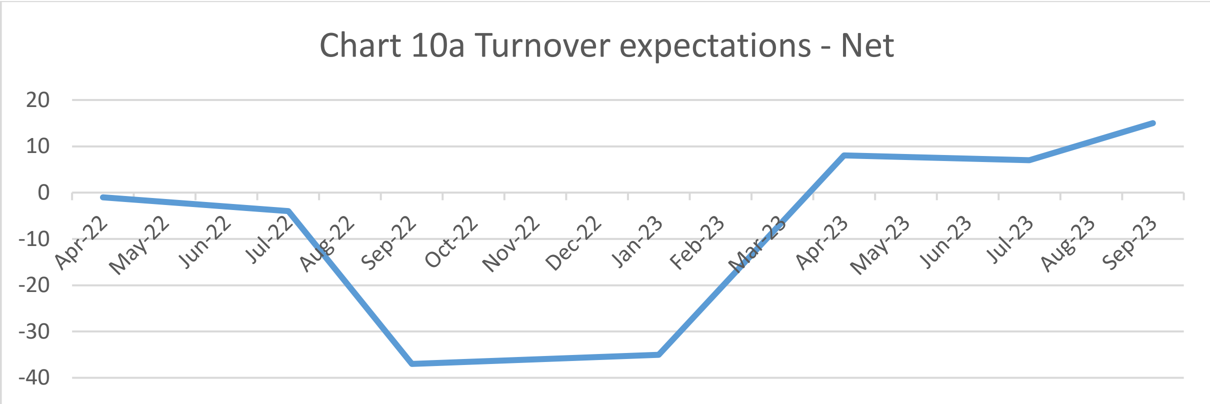


Looking ahead - turnover, survival and growth aspirations

Turnover

The average turnover of those businesses responding to the question was £198,129 (Q14). Turnover expectations have improved slightly from the positivity shown in April 2023. 37% (up from 27% in July) expect it to increase slightly or significantly and 40% (down from 53% in July) expect it to stay the same over the next three months. 22% (20% in July) expect it to decrease, either significantly or slightly. Chart 10a shows the trend since April 2022, now in positive territory (Q15).





Business survival

Business survival expectations are similar to the positivity we saw in July. Three quarters (74%) (up slightly from 72%) 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 22% (Q16).

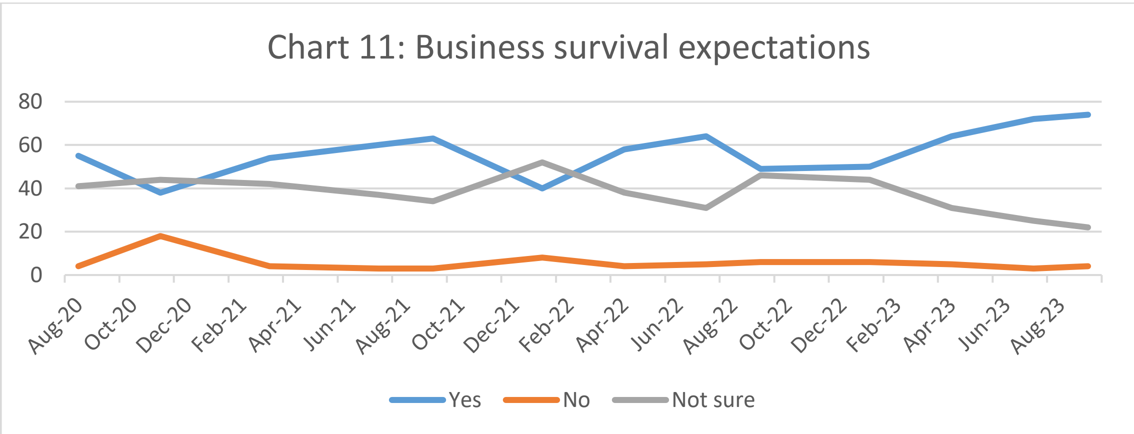
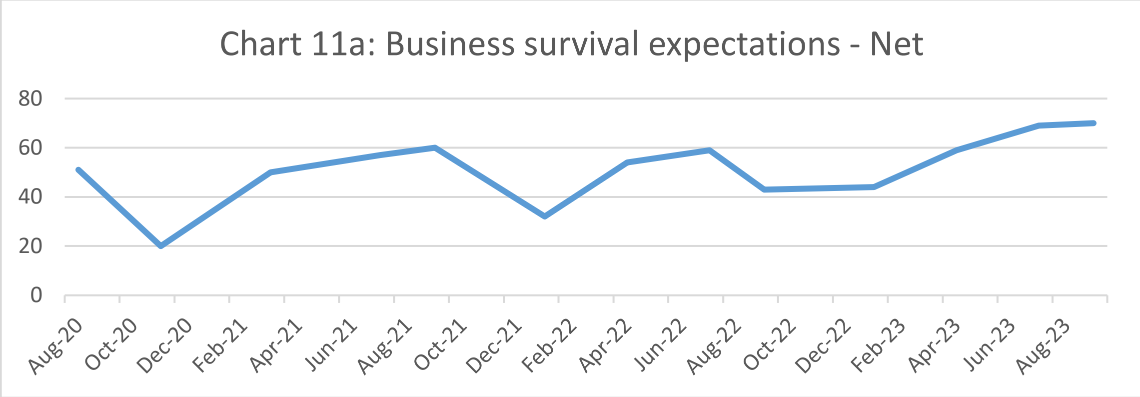
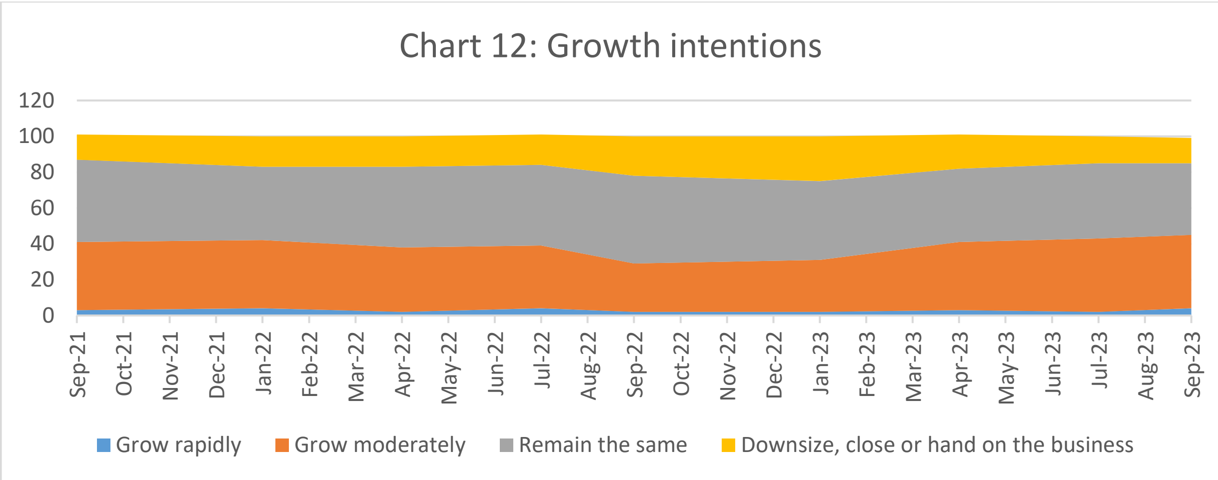


Chart 11a shows the rollercoaster trend for whether businesses expect to survive over the next six months. After dips in November 2020, January 2022 and January 2023 expectations rise through 2023.



<u>Growth intentions</u>

Growth intentions are similar to July with 45% (slightly up from 43%) saying that they intend to grow their business either rapidly or moderately. Similar numbers of businesses intend to remain the same size (40%) and 14% are planning to downsize or handover the business, similar to July (Q17).



Looking ahead to the winter and Q1 2024, a continuing period of low growth, high inflation and a potential recession still looming, in addition to likely higher energy costs, will continue to challenge the sector.

Conclusion and recommendations

The sector has shown its resilience in recent years and it is clear from this latest set of results that the recovery is holding steady. The more positive outlook seen in the spring and summer has not yet developed into lasting improvement in the form of businesses growing and taking on more staff or apprentices. This is a concern for the future of the sector which needs targeted support to help unlock its potential. As the winter draws in, energy prices are likely to remain high and high inflation lingers, we call for:

- **Business rates discount:** The 75% Retail discount has been a vital help to businesses with fixed overheads and employing staff, helping them to maintain cashflow and keep them in business in the context of continued high energy costs and inflation. We call for a renewal of the 75% discount for 2024-25 given that the climate is equally challenging and energy and business costs are still high. A further freeze to the business rates multiplier would also help sector businesses keep costs under control.

- **Targeted support on energy:** The Energy Bill Discount scheme provides some support to business. Energy costs are the first or second largest outgoing for two thirds of sector businesses. Sector businesses are still grappling with high tariffs, the risk of not securing a contract and inflexible payment plans. We would welcome further urgent action by the Government and Ofgem to deal with energy companies not offering adequate customer service at a difficult time. 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 reducing bills in the medium to longer term would also be welcome.

- **Restraint on wage rises:** As the Government is shortly to consider the advice from the Low Pay Commission, our evidence to the body shows the negative impact of rises to the National Minimum Wage/National Living Wage (NMW/NLW) in dampening down employment opportunities. Caution exercised 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 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, 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**: 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 a 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 avoiding businesses:** We are working with HMRC on a sector communications and education campaign 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.

With continued and 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.