NHBF

Supporting safe, legal & profitable businesses since 1942

State of the Industry Survey Summary – April 2024

Key findings

The sector recovery remains slow and steady with businesses putting up prices to respond to minimum wage rises and recruitment intentions remaining low:

- Making a profit/loss: There has been a slight rise in businesses making a profit (45% up from 40% in January), and 43% are breaking even.
- Prices: There was a clear rise in businesses putting up prices over the previous three months (66% up from 39%); a further 46% (down from 64% in January) will do so over the next three months.
- Reliance on external support: over half of businesses (56% similar to January) are either partially or completely reliant on Government support.

Business costs

- Businesses are most concerned about increases to the National Minimum Wage/National Living Wage at 75% (up from 67% in January) which is the highest recorded. Energy costs come in second at 61%.
- In response to these costs, businesses are putting up prices (57%), holding off taking on new staff/apprentices (41%), putting off investment plans (23%) and reducing staff hours (22%).

Staffing, recruitment and apprentices

- The workforce has stayed the same for similar numbers of businesses, 63% over the last three months, similar to in January.
- Three-quarters of businesses (73%) said that it is harder to find staff compared with 12 months ago.
- However, recruitment intentions remain low. In the next three months, only 16% (similar to 17% in January) were definitely or likely to take on new staff with only 14% (improved slightly from 9% in January) were definitely or likely to take on apprentices.

Looking to the future

- Turnover: turnover expectations are only marginally more positive than in January (34%, up from 30%) expect it to increase slightly or significantly.
- Business survival expectations remain more positive with 74% of businesses confident of their survival over the next six months but with a quarter not sure.
- Growth intentions are holding steady with 41% (same as in January) saying that they intend to grow the business either rapidly or moderately. A consistent 14% are planning to downsize or hand over the business.

Key insights

1. The quarterly survey results show that the sector recovery has been slow and steady through 2023 and into April 2024. Sector businesses are still battling through the recession with rising wage costs in April 2024 and ongoing concerns around high energy prices.

2. There has been a clear shift over the last three months to businesses putting up prices to respond to rising wages in April. Recruitment intentions for both staff and apprentices remain low which is a concern for the future of the sector. Three-quarters of businesses are finding it more difficult to recruit compared with a year ago. 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. Due to the sector shift to self-employment, many businesses find it challenging to run a profitable and successful salon that employs staff. We need to find further ways to work with the government and provide further targeted support to employers, in particular, ensuring, for example, that the £60m additional apprenticeship funding as announced after the Spring Budget and further flexibility in the apprenticeship levy can directly benefit the sector.

4. A number of the other indicators remain stable or marginally more positive, for example, the slight rise in businesses making a profit and marginally more positive turnover expectations. Reliance on external support, survival prospects and growth intentions remain stable.

Background

Local Data Company for 2023 shows a continuing rise in the number of barbers, beauty salons and nail bars yet a decline in the number of hairdressers and hair and beauty salons on the high street[2]. Data from the Office of National Statistics (ONS) in 2023[3] show that the sector continues to change, with a rise in the number of smaller businesses and larger businesses decreasing. The overall contribution of the salon and personal care services sector to the economy has declined slightly from the previous year to £4.56 billion in 2022-23 with a significant drop in the workforce by 7% and a reduction in the number of younger people aged 16-24 in the sector.

The sector continues to show its resilience in the face of a recession. Further targeted support will be needed to help unlock the sector's full potential. Many businesses have benefited from support on energy costs, and business rates discounts but further targeted support to small and micro employers will be needed 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 rise in the VAT threshold announced in the Spring Budget will benefit many sector businesses but further reform is needed to support the sector into the future. The NHBF has provided a series of options through the *Avoiding the cliff edge report*[4], for a smoothing mechanism or tiered rates around the threshold, to support business at a crucial time.

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 493 responses between 11 and 24 April 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.

[1] Skills report 2022 summary - National Hair & Beauty Federation (nhbf.co.uk)
[2] Local Data Company, full year results 2023 (March 2024)
[3] NHBF Industry Statistics 2023
[4] VAT Reform - National Hair & Beauty Federation (nhbf.co.uk)

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 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 results show some positivity into the spring after a quieter January and are similar to spring/autumn last year but the recovery is still steady without any significant change.

Slightly more businesses (45% up from 40% in January and similar to September) are making a small or good profit and 43% of businesses are breaking even (similar to in January). Fewer businesses (12% down from 20% in January) are either making a small or substantial loss (Q7).

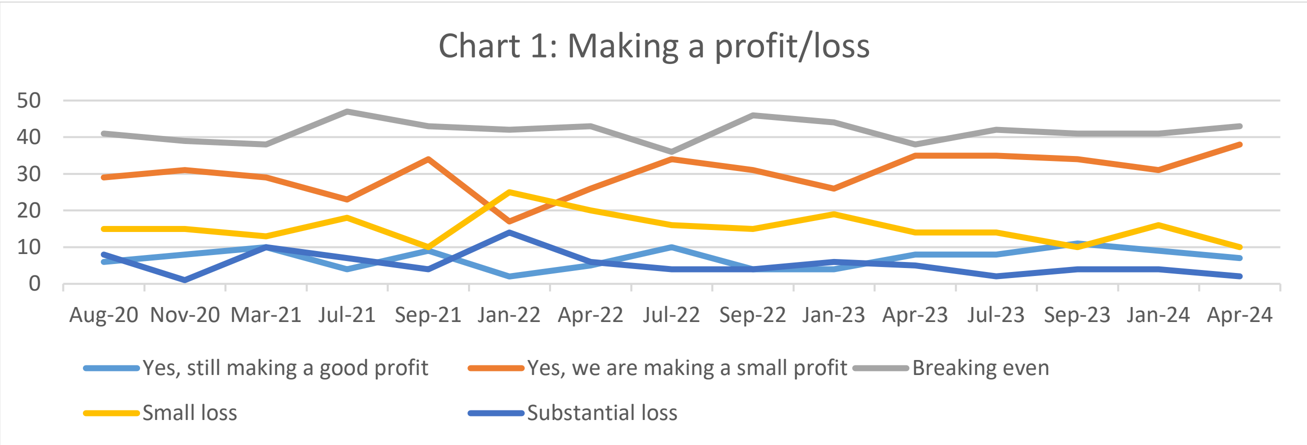


Chart 1a shows the profit or loss trend, illustrating previous recoveries to September 2021 and July 2022, with a dip again to January 2023[6] and slight dip from September with recovery into April 2024.

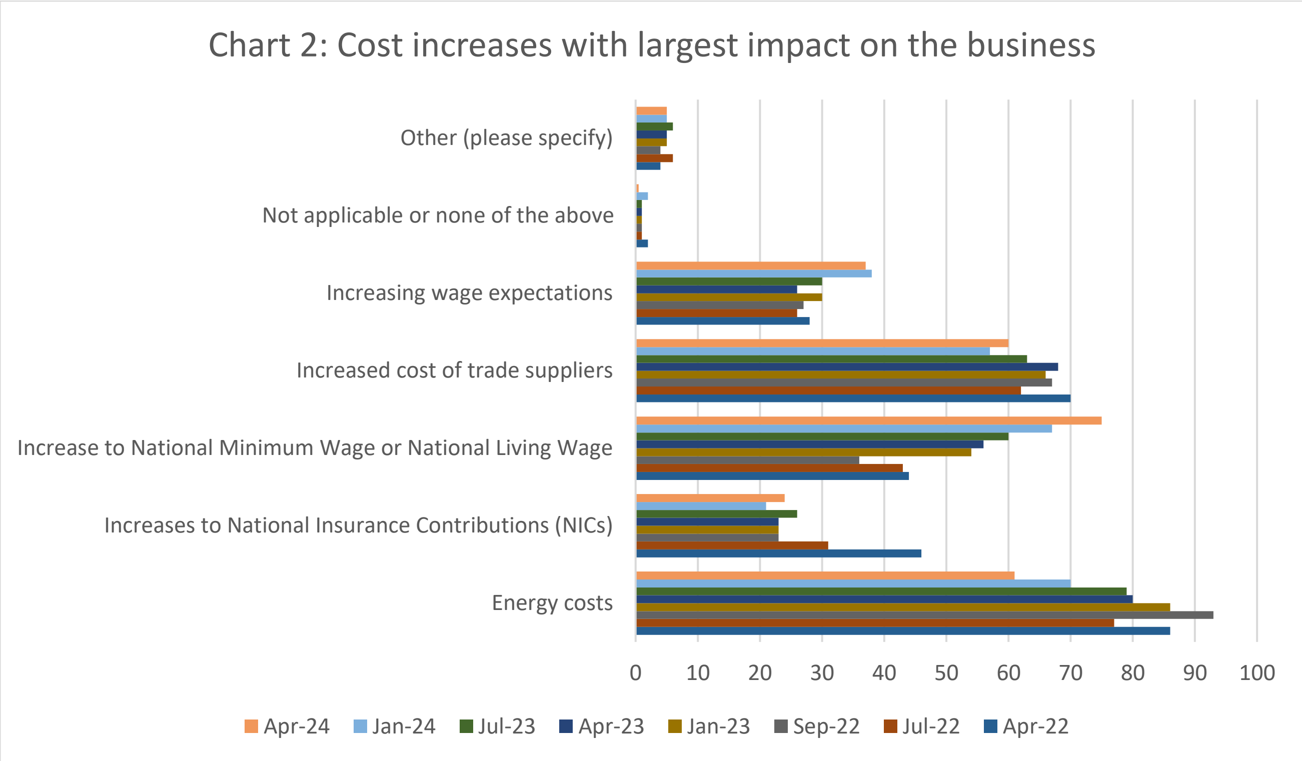
Business costs

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

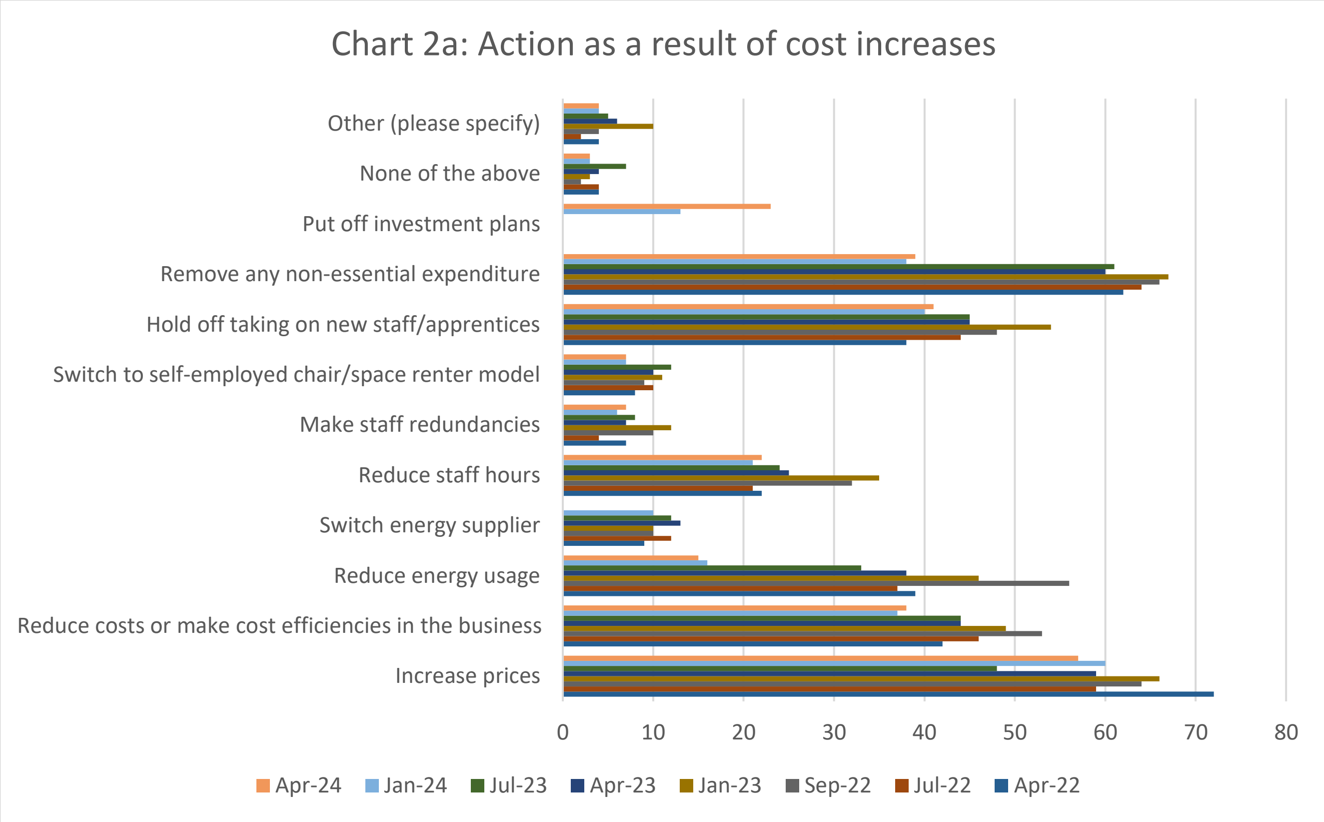
[6] Note: The net trend is obtained by deducting the negative answers from the positive, while discounting the neutral answers. For example, the profitability net trend is found by deducting those reporting they are making a loss from those who say they are making a profit, and not including those who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

In the context of a recession, falling inflation, rising wage costs and high energy prices, businesses put rises to the National Minimum Wage/National Living Wage at the top of their business concerns.

In terms of direct impact on the business, businesses are most concerned about increases to the National Minimum Wage/National Living Wage at 75% (up from 67% in January) which is the highest recorded. Concern around energy costs comes in second at 61%, (down from 70%) and still dominates. The cost of trade supplies is next and still a concern for 60% (up slightly from 57% in January). Increasing wage expectations is still high at 37% (similar to 38% in January). Increases to National Insurance Contributions (NICs) also feature at 24% (up from 20%) 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 (57%, similar to 60% in January) which is in the number one spot again in line with businesses putting up prices to respond to rising wage costs in April. Concerningly, holding off taking on new staff/apprentices features strongly at 41% (similar to 40% in January) along with removing any non-essential expenditure (39%), reducing costs/making cost efficiencies in the business (38%), putting off investment plans (23%) and reducing staff hours (22%) (Q11).



Current situation

The results are looking slightly more positive into the spring, similar to July/September last year and even slightly better than this time last year in terms of business activity. 22% of businesses reported being busy (up from 9% in January and similar to September 2023) and 53% steady (up from 42%). Around a quarter (26%) (down from 49% in January) of businesses reported that they were quieter or really quiet (Q6).

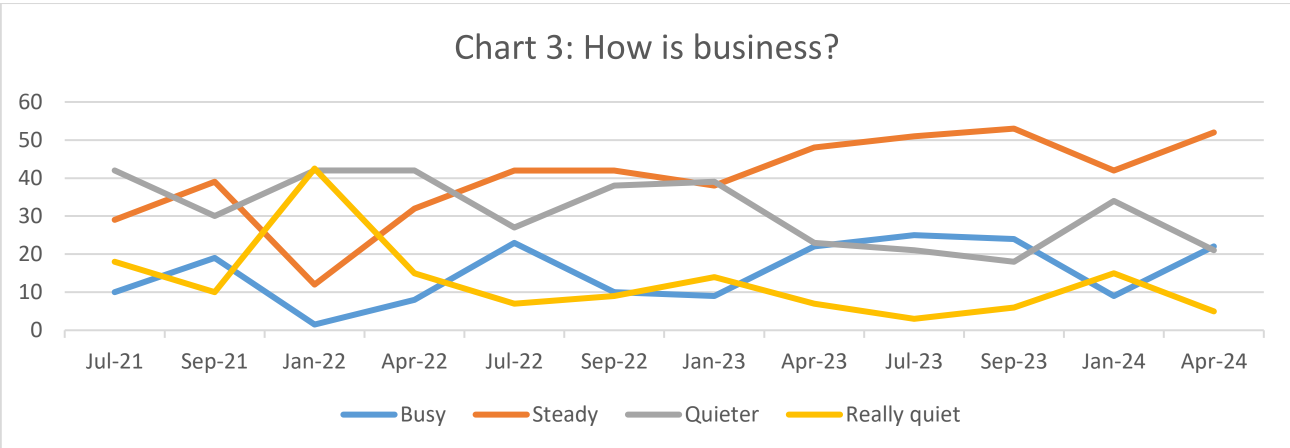
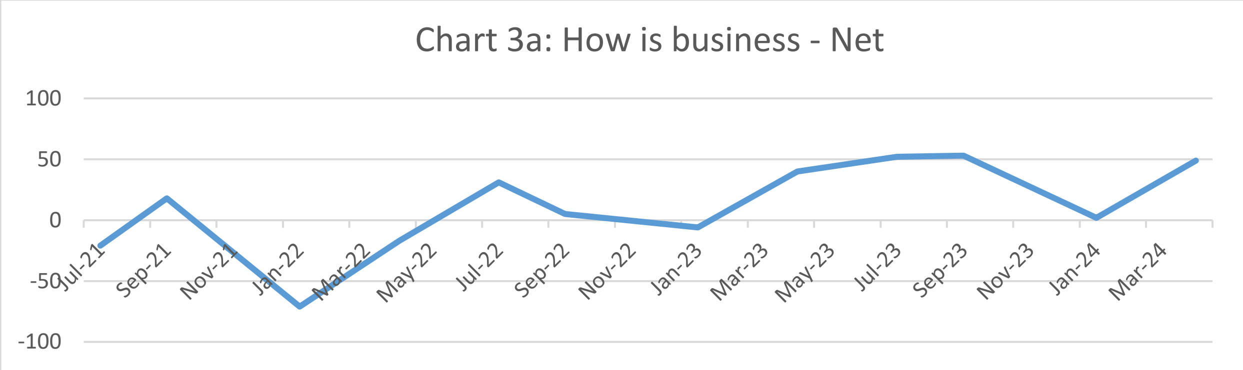


Chart 3a shows the business activity trend since July 2021. After lows in January, at the start of each year, the chart shows a recovery into the autumn 2023 and again into the spring 2024.



Prices

There has been a clear move by businesses to put up prices in April, in response to rises in the National Minimum Wage/National Living Wage (NMW/NLW). Over the previous three months, 66% (up from 39%) raised their prices and a further 46% (down from 64% in January) will do so over the next three months (Q8, Q9).

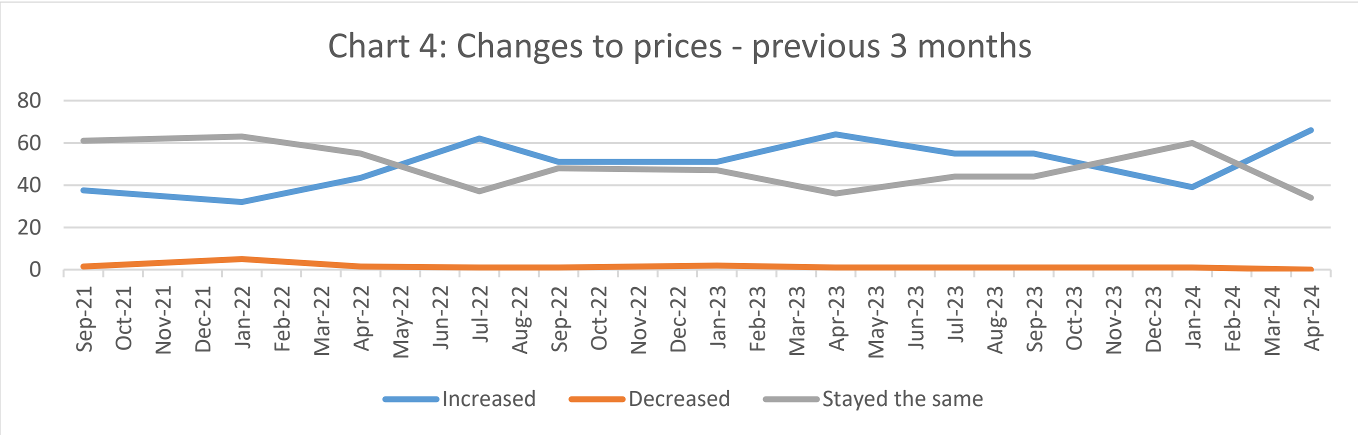


Chart 4a shows the tendency for businesses to raise prices every year including the clear uplift in April 2024.

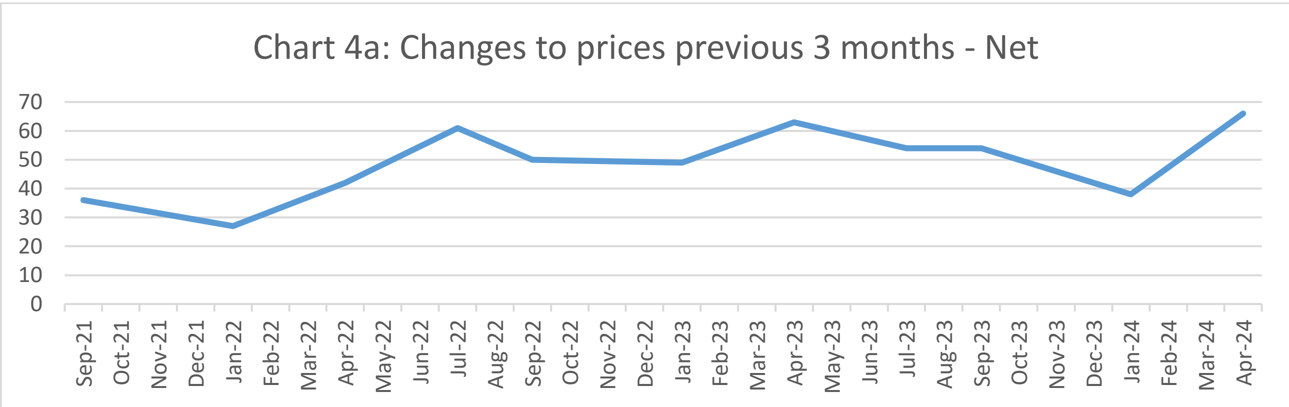
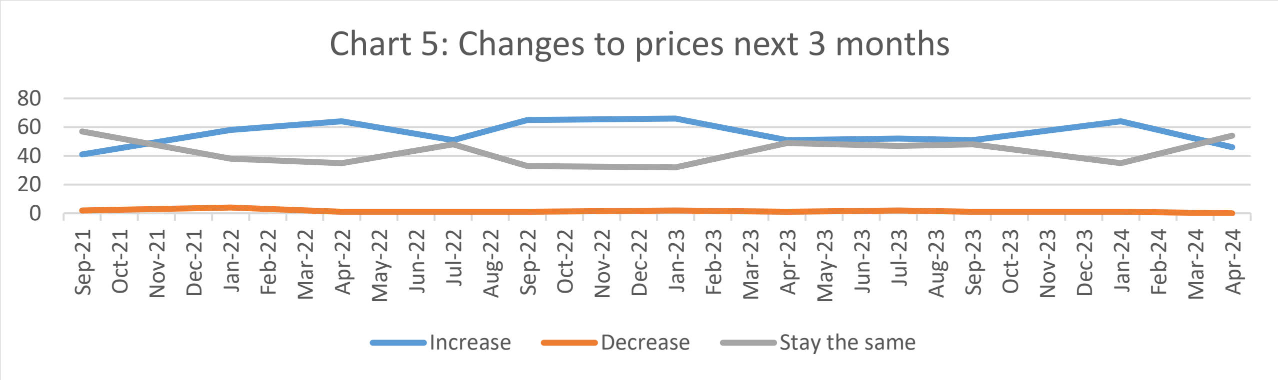
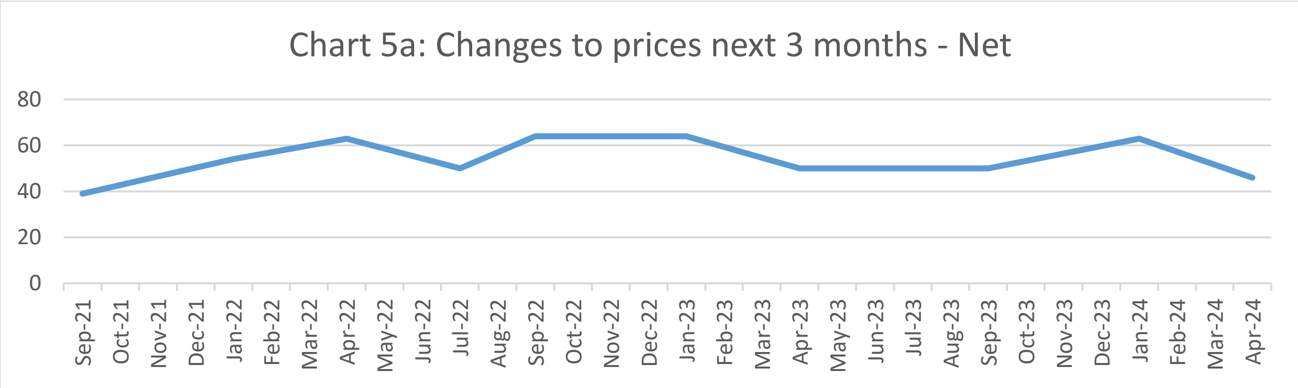


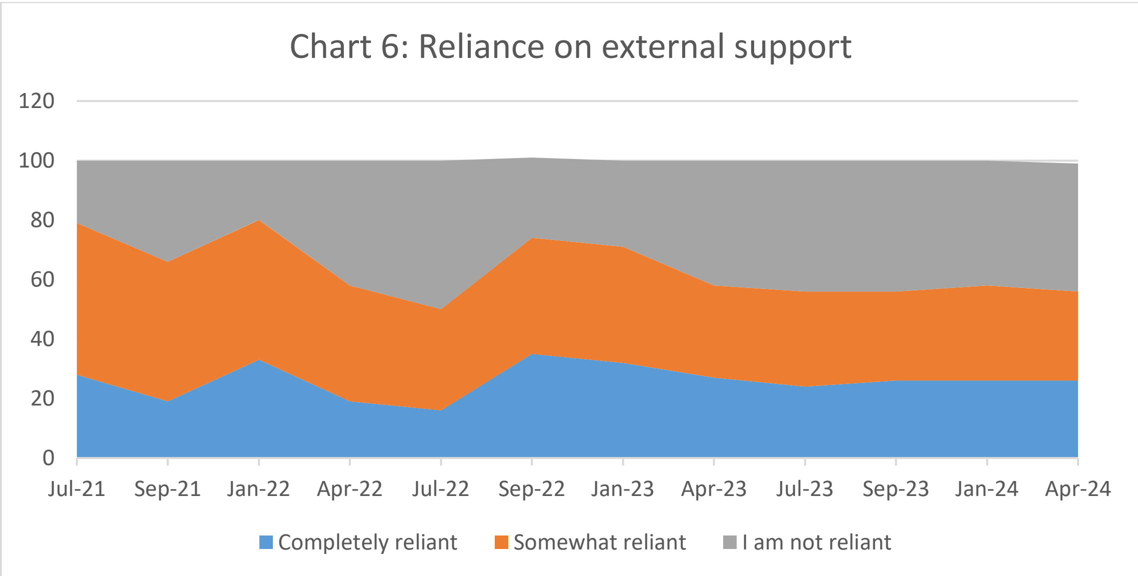
Chart 5a shows the slight drop off in plans to put up prices over the next 3 months after businesses have already done so in April to response to rising wage costs from April 2024.





<u>Reliance on external support</u>

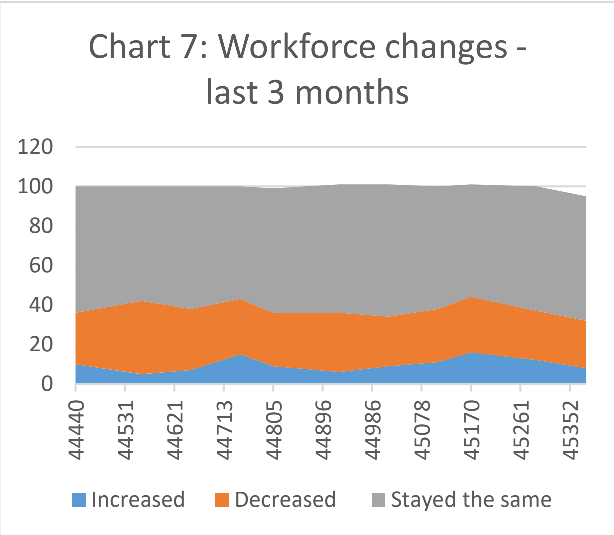
Reliance on external support remains high but has been stable for the past year. Over half of businesses (56% similar to 58% in January) are either partially or completely reliant on Government support. 43% say that they are not reliant on continued support (Q12).



Staffing, recruitment and apprentices

In terms of the number of people employed in the business, 46% of respondents employed 1-4 people, 23% 5-9 and 18% 10 or more, with 13% saying that they did not have any employees (Q16).

The workforce has stayed the same for similar numbers of businesses, 63% over the last three months, similar to in January. The workforce has stayed the same over the last three months for nearly two-thirds (63%, the same as in January), 24% reported a decrease and 8% (down from 11%) had increased staff (Q17).



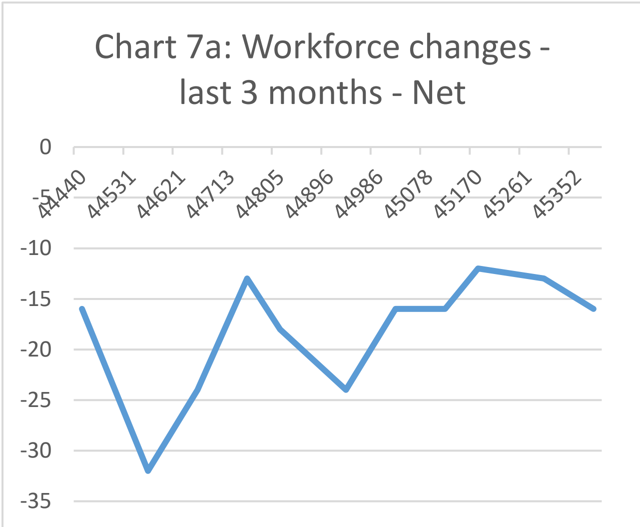
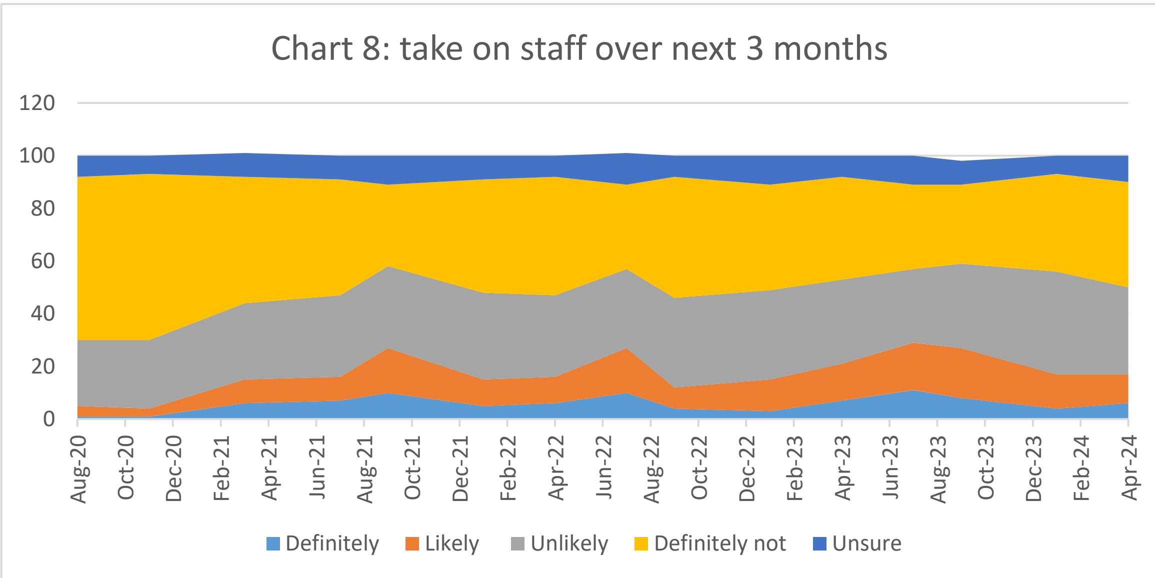


Chart 7a shows workforce changes for the previous three months in negative territory, with lows in January 2022 and January 2023, improving through 2023 and dipping to April 2024.

When asked about recruiting over the past 12 months, three-quarters of businesses (73%) said that it is harder to find staff. 26% said that it is about the same.



In the next three months, only 16% (similar to 17% in January) were definitely or likely to take on new staff, with a significant three-quarters (73 down from 76% in January) saying that it was unlikely or that they definitely would not (Q19).

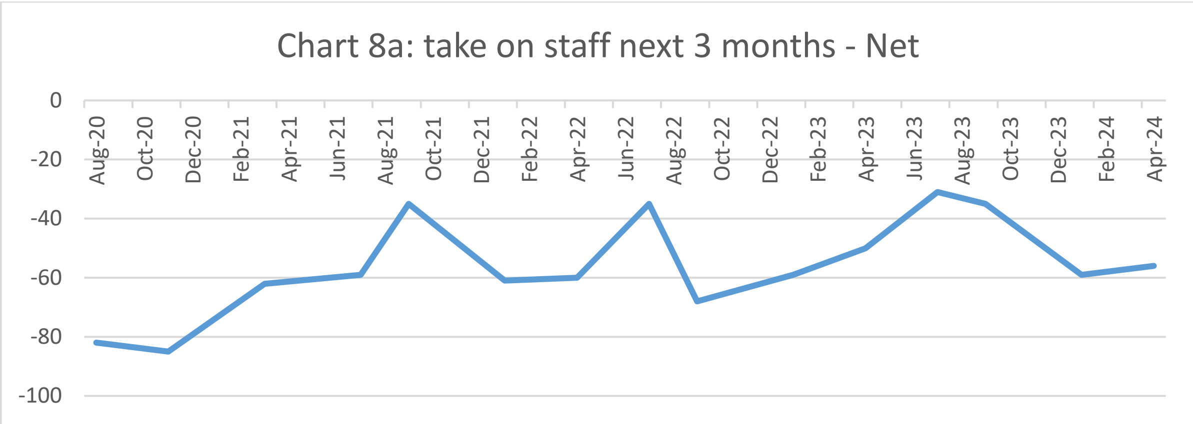
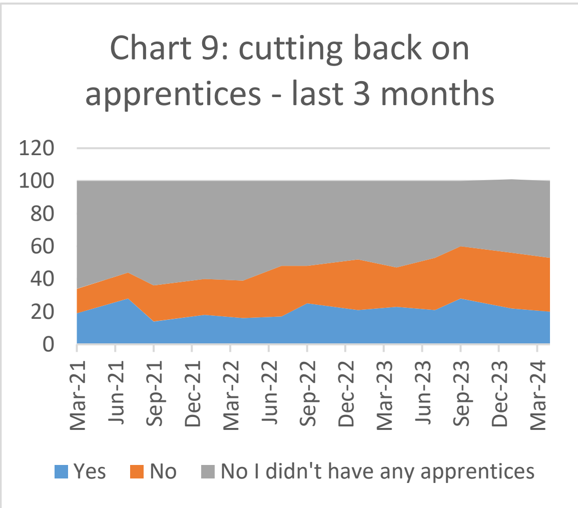
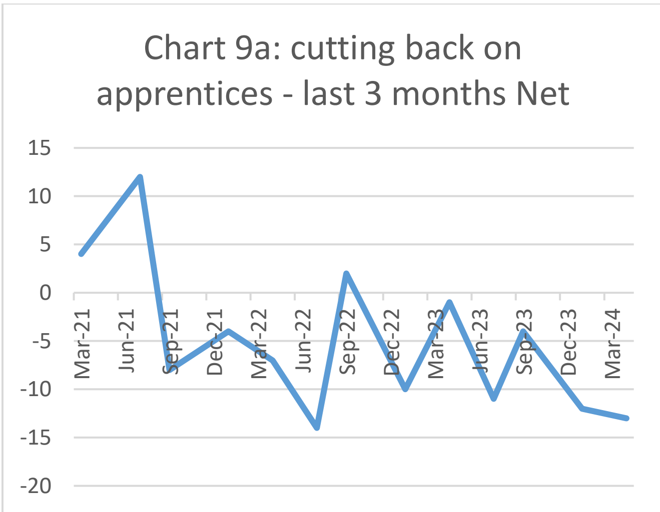


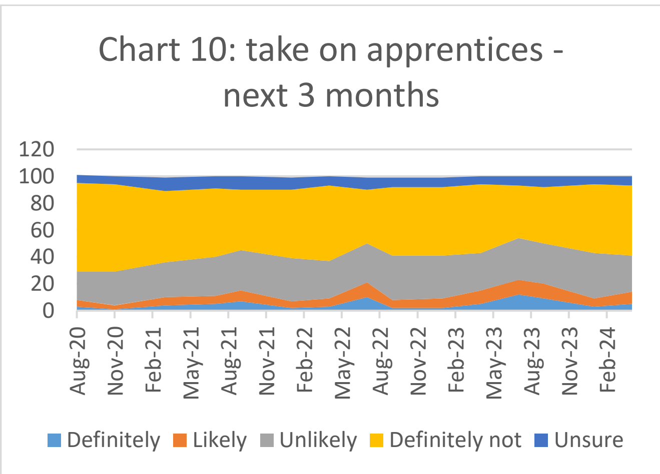
Chart 8a shows improvements in July each year but employment intentions remain firmly in negative territory. When asked how many apprentices they had in the business 39% said, 1-4 apprentices 3% said 5-9 and 2% more than 10+. 57% said that they didn't have any apprentices.

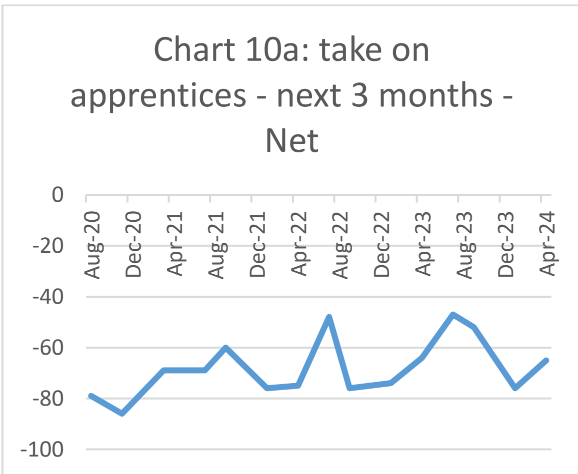
The NHBF *Careers at the Cutting Edge* report outlined the continued decline in apprenticeship starts in the UK. In line with this, over the last three months, 20% (reduced slightly from 22% in January) have cut back on apprentices. 33% have not. Chart 9a illustrates the negative trend in taking on apprentices since March 2021 (Q21).





Still low numbers of businesses, 14% (improved slightly from 9% in January) were definitely or likely to take on apprentices in the next three months, with 30% saying it was unlikely and half (52%) that they definitely would not (Q22). 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 and growth intentions

Turnover

Turnover expectations show marginally more positivity and are slightly more positive than in September. 34% of businesses (up slightly from 30% in January but not as high as 37% in September) expect it to increase slightly or significantly. There has been a slight reduction in businesses expecting turnover to decrease 17% (down from 25% in January) either significantly or slightly. 49% (up slightly from 46% in January) expect it to stay the same over the next three months.

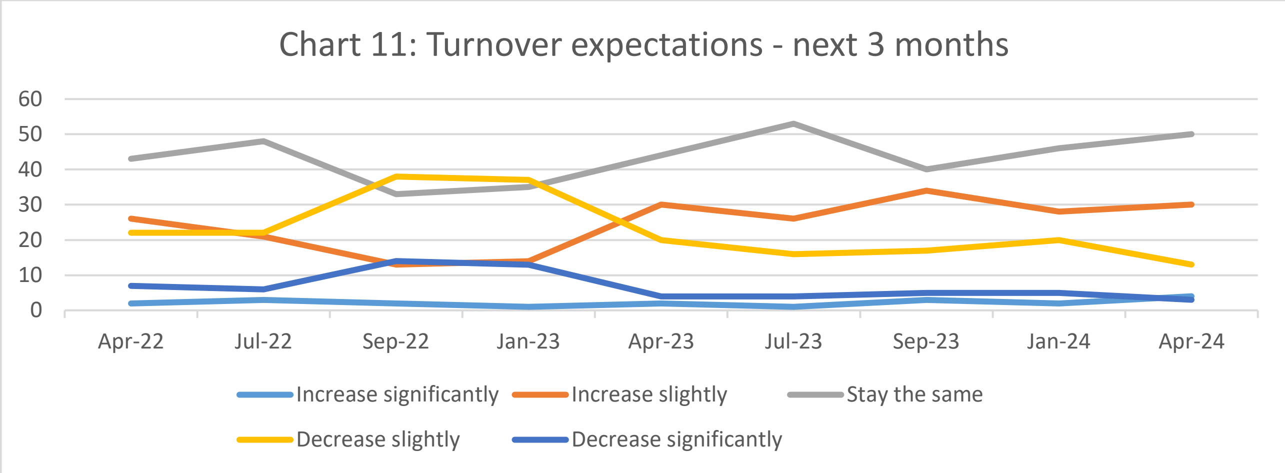
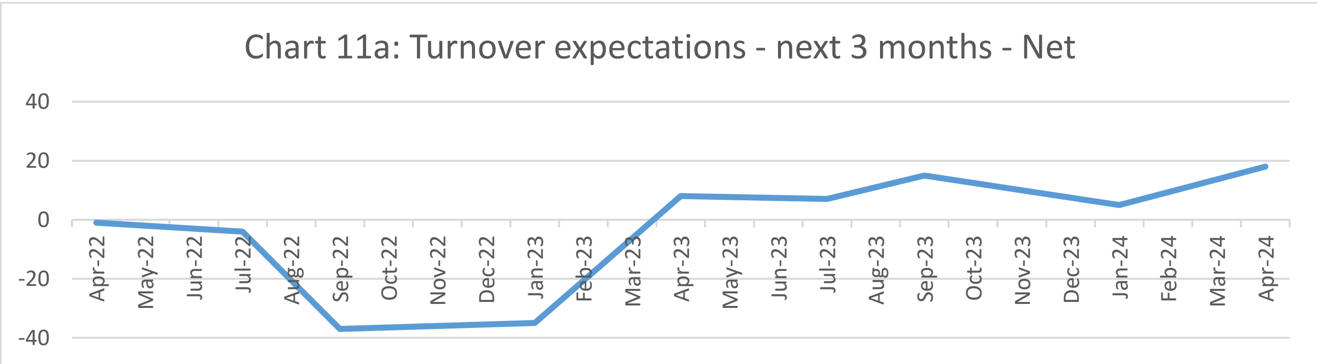


Chart 11a shows the trend since April 2022, after a low in the winter 2002, now further in positive territory (Q13).



Business Survival

Business survival expectations remain more positive but a significant minority are not sure about the future. 74% of businesses (similar to 72% in January) 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 24% (Q14).

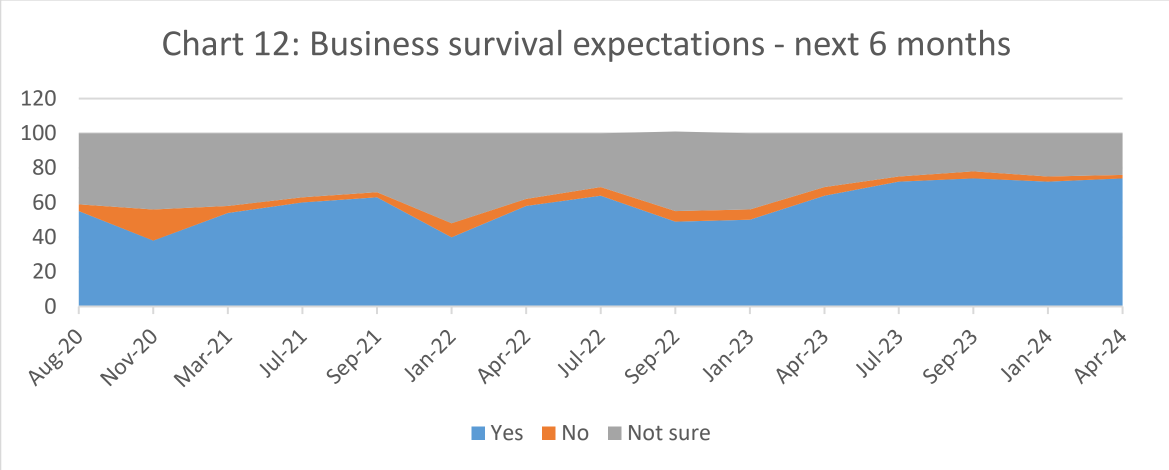
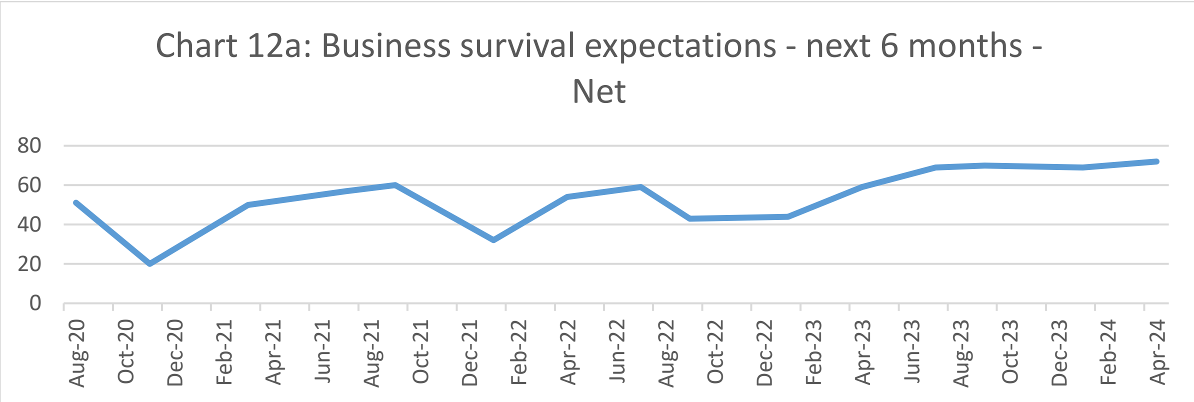
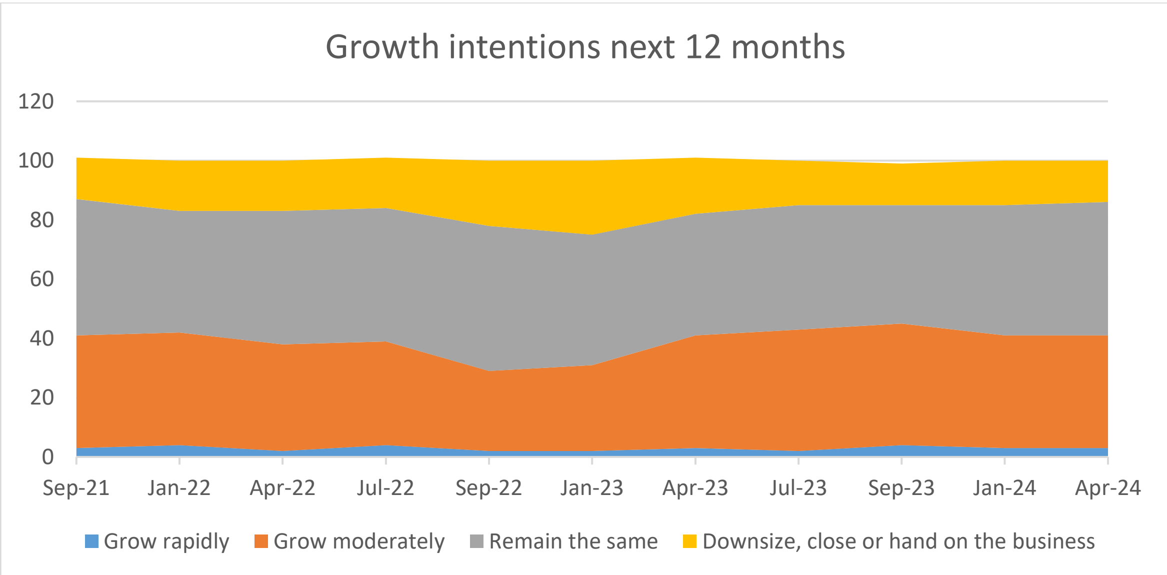


Chart 12a shows the rollercoaster trend for whether businesses expect to survive over the next six months. After dips in November 2020, January 2022 and January 2023 expectations hold up through to April 2024.



Growth intentions

Growth intentions are holding steady with 41% (same as in January) saying that they intend to grow the business either rapidly or moderately and 45% staying the same size (44% in January). A consistent 14% are planning to downsize or hand over the business, similar to January (Q15).



Low Pay Commission content

Businesses were also asked a group of questions to feed into the NHBF's submission to the Low Pay Commission.

Wages and wage-related costs (eg. pension contributions, bonuses, commissions) make up more than half (ie. 50%+) for 49% of businesses; it is between 25-50% for 28% of businesses (Q23).

Businesses were asked about which increase in ONE band has the biggest impact on their business wage costs. 17% of businesses said the apprenticeship rate, 1% said the under-18 rate and 9% the 18-20 year-old rate. Nearly three-quarters of businesses (73%) are impacted by the National Living Wage for those aged 21 and over (Q24).

Businesses were asked how they have responded to April 2024 wage increases, 60% said that they had increased prices, 50% have taken lower profits or absorbed the cost, 34% have reduced investment in the business and 22% have reduced staff hours, 20% have reduced staff employment benefits eg. overtime/discounts/training, 19% have also reduced the number of staff they employ. (Q25)

In terms of views about future rises, 40% of businesses are very clear that further rises are unaffordable for their business, 30% say that rates should be increased more gradually, 13% that rates should be frozen and only 9% that rates should be increased in line with current projections (Q26).

In terms of the direct impact of a rise in the National Living Wage, 32% increased their prices and 25% took lower profits and absorbed the cost (Q27).

Business views on minimum wage rises

'As owners, we have not increased our own salary for more than 5 years. We cannot afford to pay ourselves the Minimum wage and we are now the lowest paid in the business'.

'Hairdressing prices need to increase to pay minimum wage, Bills have gone up significantly and expecting our industry to work for a pittance is not luring the next generation in. Prices have been too cheap for too long no wonder people are leaving the industry in droves to go self-employed'.

'We want to pay good and fair wages, however the gap between training and skilled is getting too close and I'm concerned that there is no incentive to grow'.

'How much longer can I keep my salon open - keeping staff in jobs paying a salary whilst not taking a salary myself!'

'I have no problem paying my staff more, senior staff have far more than the projected minimum rate plus commission wage rises will have to be passed on to clients and we also absorb part of the rise, but it is painful to pass costs on to our valued clients'.

Conclusion and recommendations

The sector is on a slow and steady road to recovery. However, businesses are experiencing continual challenges in finding the staff they need to sustain and grow the business and there is no change in the continuing low intentions to take on both staff and apprentices.

Continuing support on business rates and previous support for energy costs have been important interventions for many sector businesses. However, further targeted support is needed to help hard-working businesses grow and take on more staff:

- **Further VAT reform***:* Raising the VAT threshold to £90,000 in the Spring Budget was a welcome interim measure. Our modelling says that 5000 businesses in the hair and beauty sector will benefit considering existing bunching behind the threshold. The sector urgently needs 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 further review of how VAT is applied, including reducing the rate of VAT 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.

- **Securing future sector talent:** The sector is keen to employ 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 the £60m additional apprenticeship funding and further flexibility in the apprenticeship levy to be used to directly support sector apprenticeship training. We call on the government to offer apprenticeship incentives of 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.

- **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:** Energy costs are the first or second largest outgoing for two-thirds of sector businesses. Despite reducing retail prices, businesses are feeling the pressure of continuing high prices. We welcome recent Ofgem action through the non-domestic market review to improve customer service of energy suppliers and increase redress options for more businesses. We would welcome further flexibility in repayment plans and incentives to encourage renewable energy and reduce bills in the medium to longer term.

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.