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[Franchise Focus] Health & Beauty

What recession? Hair biz's cutting edge

BY MATT WETZEL

When Mark Mansfield of Plano, Texas, heard about the imminent economic slump, he couldn't help but be a little apprehensive, like any franchisee.

But to his surprise, his SportsClips hair salon franchise in Dallas continues to score.

"It's going well. Our business is not being affected at all by the downturn of the economy," he says. "We're seeing same-store sales growth of 8 percent (from August 2007 to August 2008)," he says. "Everybody's got to get their hair cut. Very few people are willing to take the risk of cutting their own hair."

He attributes his increased client counts to a shift in how people get their hair cut. "We think what's happening is instead of the men going out for a \$40 haircut, they look at SportsClips as the mid-tier," he says.

Across the industry, the revenue of hair care brands that franchise has increased 80 percent, according to Peter Schwarzer, director of research for FRANdata, a franchise information provider, based in Arlington, Virginia. These figures do not cover the past

six months, he cautions, when much of the recent economic instability has occurred. "The real drop in franchise unit numbers will probably only show in 2009-2010," he says.

Nonetheless, people in the industry are not noticing a decline; in fact, they are noticing a slight increase. "Many (people) are making a decision to invest in personal services," says Gordon Miller, executive director of the National Cosmetology Association in Chicago.

That's certainly the case with Great Clips, a franchisor with more than 2,700 stores in the United States and Canada. "It's kind of interesting," says Charlie Simpson, chief operations officer and executive vice president for Great Clips. "People are visiting us for the first time because they don't want to pay \$40 for a haircut. During downturns, our business does quite well."

And this provides an opportunity to take the business to a new level. "We're experiencing some of the best times we've seen in years. We're looking at this as a real opportunity. If we can offer a great haircut at a great value, we have an

opportunity to connect with a lot more customers - people dropping down in categories and saying, 'You know, this works very well,'" he says.

Great Clips targets families, though 60-70 percent of its market is men.

"We're set for 'Joe Six-pack' to the executive business guy," Simpson says.

Many of the same things are happening with Regis Corporation, says Mark Kartarik, president of the franchise division, which has more than 2,200 franchises in North America. Franchise brands include Supercuts, Cost Cutters, Sassoon Salon, Regis Salons, MasterCuts, Trade Secret, PureBeauty, Beauty First and Hair Club for Men and Women.

"People might decide to get their hair cut at Cost Cutters, saying, 'You know what, I've got to try a value-priced shop.' We're maintaining a good piece of our base, whether it's color or whatever," he says. He added that some of their higher-end franchisees might experience some pressure.

"We used to say we were recession-proof. Now we say it's recession-resistant. You've got to look good for

(continued...)

job and work. I'm glad I'm in the hair business," Kartarik says.

Scott Colabuono, CEO/president of Fantastic Sams, a franchisor of full-service hair-care shops that target primarily women (55 to 60 percent) is hearing the same thing. "Anybody who's in the public eye and has hair has to get it done," he says. "Our owners are saying they're holding their own, and in many cases, sales are up." Fantastic Sams, with more than 1,300 shops across the United States and Canada, is privately held and doesn't release sales figures.

Colabuono recently returned from a franchisee meeting where the emotions were overwhelmingly jubilant. "Everybody was really upbeat about the opportunity," he says.

Kartarik says times like these can demonstrate to the consumer the importance of a good hair stylist. "The thing we can create for the consumer is a non-replaceable value," he says.

The good franchises will prosper, but the mediocre ones will not, he says. "The people who survive and thrive will know how to execute. The mediocre restaurant will go out of business. The poor hair salon will go out of business. Take the situation and make the best of it. We're all in this difficult world and we'll have to survive in it," Kartarik says.

To ensure the clients keep coming in, Miller says, franchisees are fairly sophisticated when it comes to incentives, whether it's lower prices during certain seasons, or free services after the client has reached a certain number of haircuts, or free travel-sized products.

There's also a social aspect, although it's not like it used to be. "Your hair stylist is in personal contact with you - and it doesn't hurt (as it sometimes does



Things are going well at Kennedy's All-American Barber Club, a men's barber shop franchisor, as they are at many hair salon franchises. People won't scrimp on personal care.

with a doctor)," he says.

Miller believes one other possible change in behavior could be a longer wait between haircuts. People will tell themselves they'll spend the same amount of money, just less often.

The kindest cut

Finding employees isn't an issue, either. Simpson says it's easier to staff franchises during economic downturns. An employee might have had an independent shop that failed, or worked at an independent shop. They still have a marketable skill, so they apply at Great Clips, he says.

Colabuono agreed. Many of the independent shops don't have formal business plans, like that required for a franchise, so some employees leave.

And as far as the granting of franchises, that process is a little more deliberate, they agree. Simpson says franchises were being granted a little slower this year. "People's ability to access home equity and 401(k)s has decreased dramatically. They don't have the funding or the asset level they had

in previous downturns," he says.

That's not an issue with Georgetown, Texas-based SportsClips, which has approximately 600 shops in the United States and targets men and boys. Mansfield, the Dallas franchisee, is also an area developer, and supervises 64 stores in the northern Texas area.

He was concerned franchisees would be harder to find because of the credit situation, but he and other company officials have met with their bankers, who remain committed.

Bankers like the industry, he says, and they like the brand, because new franchisees are "well-qualified." Franchisees are encouraged to maintain their full-time jobs. "So if the store does have problems, at least the person has a second source of income," he says. ■