



Hair, beauty and the pandemic: An industry at the sharp end

The impact of coronavirus on business
vulnerability and the potential for mitigating
measures

February 2021





Supporting the hair, beauty
and barbering industries

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A report for National Hair and Beauty Federation

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Disclaimer

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Executive summary

Pragmatix Advisory has been commissioned by the National Hair and Beauty Federation to assess the impact of the coronavirus pandemic on the hair and beauty industry and evaluate the potential net benefits of a reduction in the rate of VAT on its businesses.

The hair and beauty industry is a large employer that covers every corner of the country.

It's entrepreneurial, with a higher proportion of self-employed, micro and small businesses than most other sectors. Many sit near the VAT threshold turnover of £85,000.

It provides jobs and opportunities for all. Twenty per cent of workers are under 25 years of age; 88 per cent are women as are over 80 per cent of business-owners.

And it's at the heart of every community. Barbershops and salons support local suburban, village and rural economies as well as high streets and city centres. A disproportionate share of hair and beauty businesses are found in the country's most deprived communities.

On conservative estimates, the full economic added value of the sector is over £6 billion, when supply chain and employee spending is taken into account.

But, it has been hit hard by the pandemic.

With over 140 days of lockdown closure in 2020, it has been one of the most impacted sectors by coronavirus measures. Hair and beauty businesses saw an average loss in turnover of 45 per cent in 2020, and as much as 57 per cent in some regions. Out of lockdown, social distancing measures mean that, even when open, they are operating at around 70 per cent pre-

pandemic capacity.

Incomes and jobs have been lost. Despite the furlough scheme, full-time equivalent employment numbers were down by 21 per cent on 2019 as staff hours were cut, redundancies made and workers left for roles in other industries with more reliable wages.

Overall, owners of hair and beauty businesses took an average cash hit of £17,000 in 2020, with those over the VAT threshold suffering disproportionately. Across the industry, one in ten businesses will have failed to deliver any income or dividend return to their owners or owner-managers. Many in the industry are now acutely vulnerable to failure, with three-fifths of businesses having no cash reserves entering 2021.

And, 2021 is set to be tougher.

Nobody can predict this year with any confidence, but a reasonable central scenario – of three months of national lockdown followed by six of tiered local social distancing measures, before restrictions are lifted for the last quarter of the year – places further strain on already stretched hair and beauty firms.

Businesses will be out-of-pocket on average to the tune of £41,000 because of covid by the end of 2021. The smallest enterprises will have lost the equivalent of 29 per cent of 2019 turnover, while the cash position of the largest will be down by 42 per cent of pre-pandemic annual revenues.

The biggest businesses will be the most at risk in 2021. We estimate that fourteen per cent of businesses over the VAT threshold will be acutely vulnerable to failure. This rises to a quarter when considering a more pessimistic downside scenario, where various pandemic control measures remain in place for the full year.

VAT parity with the hospitality sector will substantially reduce hair and beauty businesses' vulnerability

Once the industry can reopen, a reduction in the rate of VAT to five per cent, as now applied to the hospitality sector, will make a material difference to hair and beauty businesses struggling under the financial burden of the pandemic.

A reduction in the tax rate will provide on average an additional £16,000 in 2021 for VAT-registered business. It will reduce the share of these businesses that are unable to pay any income or dividend to their owners or owner-managers from fourteen to six per cent.

Although the return to the Exchequer would be lower with the reduced rate of VAT from those businesses that carry on trading, the impact on overall tax receipts and government spending may be positive as fewer businesses fail and fewer workers face unemployment.

It requires only eighteen per cent of businesses to fail at the higher VAT rate that wouldn't have with the five per cent tax for the VAT reduction policy to pay for itself for

the Exchequer.

Of course, a reduction in VAT provides no benefit to businesses that are unable to trade. Other support measures, such as enhanced grants, are needed for periods of lockdown and closure. It is important that a reduction in VAT is seen as part of a package of interventions needed to support this unique and valuable sector.

January 2021

Scale and significance of the hair and beauty industry

The hair and beauty industry is a large employer that covers every corner of the country.

It is not an easy sector to quantify. We estimate around 40 per cent of enterprises are neither registered for VAT nor PAYE, and are absent from many official statistics. This is around 30,000 businesses, predominantly with turnovers of less than £50,000 per annum.

Official statistics show 189,000 workers, but when unregistered businesses are taken into account, the figure is more likely to be around 221,000. The number of people employed in hair and beauty occupations, both in the core industry and in other businesses such as hotels, is even greater at 287,000.

The hair and beauty industry is skewed towards micro businesses more than most other key sectors. A significant proportion of enterprises in the sector have turnover just below the VAT threshold.

The hair and beauty industry has one of the highest proportions of female workers, and over 80 per cent of business owners are female. Twenty per cent of workers are under 25 years of age.

Barbershops and salons support local suburban, village and rural economies as well as town and city centre high streets, and a disproportionate share of businesses are found in the country's most deprived communities.

The full economic added value of the sector is over £6 billion, when supply chain and employee spending is taken into account.

A big sector but difficult to measure

The hair and beauty industry is a large employer that covers every corner of the country.

But it is not easy to quantify its scale definitively. The nature of the sector makes collection and interpretation of statistics more difficult than for many others:

- Many operate in the industry as self-employed, freelance or as micro-businesses, and may not be captured by VAT, PAYE or other registers
- There are substantial levels of part-time working, including with many workers in the industry having other jobs in other sectors at the same time
- Hair and, especially, beauty jobs can be found beyond the salons and barbershops in other types of business, such as hotels
- Some operate 'informally' and may underreport income to the authorities

Depending upon which of their datasets you use, it is possible to get quite different impressions of the size of the industry from Office for National Statistics' sources alone. For example, the total turnover of the sector is estimated to be £5.4 billion in their 'Inter-Departmental Business Register' but £4.5 billion in the 'Annual Business Survey'. Similarly, the 'Annual Population Survey' reports 287,000 people in hair and beauty occupations, while the 'Business Register Employment Survey' finds 178,000 in employment in the sector. (See Appendix for more details.)

A snapshot of the hair and beauty industry

In this report, we primarily use data sourced from the ONS’s Inter-Departmental Business Register (IDBR).

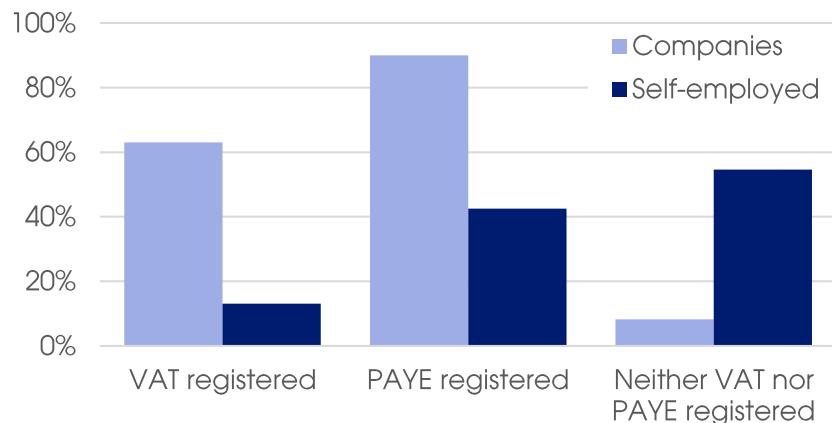
This is the list of businesses used by government for statistical purposes. The IDBR covers around 2.7 million businesses in all sectors of the economy but, due to tax thresholds, the smallest businesses are generally not captured. Using our business survey results, we have made an indicative estimate of the enterprises missing from official statistics because they are registered for neither VAT nor PAYE.

We take this to be a relatively conservative estimate and narrow view of the industry. The number employed is well below the occupation-based estimate of 287,000 from the Office for National Statistics’ Annual Population Survey.

	VAT / PAYE registered enterprises (ONS data)	Unregistered enterprises (Pragmatix Advisory estimate)	Total enterprises
Enterprises	44,880	30,000	74,880
Employment	189,269	31,500	220,669
Employees	165,748	1,500	167,248
Turnover	£5.4 billion	£0.9 billion	£6.3 billion
GVA	£4.1 billion	£0.7 billion	£4.7 billion

The hair and beauty industry
United Kingdom, 2019

Share of hair and beauty enterprises registered for VAT and/or PAYE
United Kingdom, survey data, 2020



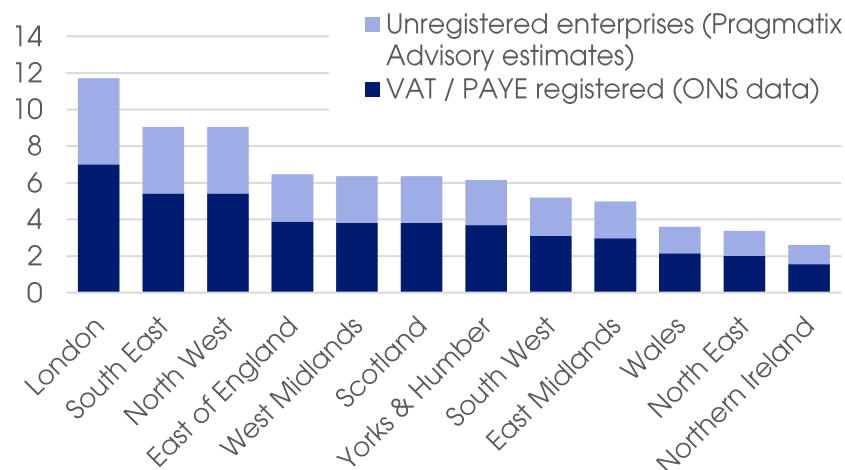
Including unregistered enterprises, we estimate that there are 74,800 hair and beauty businesses in the United Kingdom.

Forty per cent of enterprises may be missing from official statistics.

Our survey of the industry has shed some light on the scale of unregistered businesses.

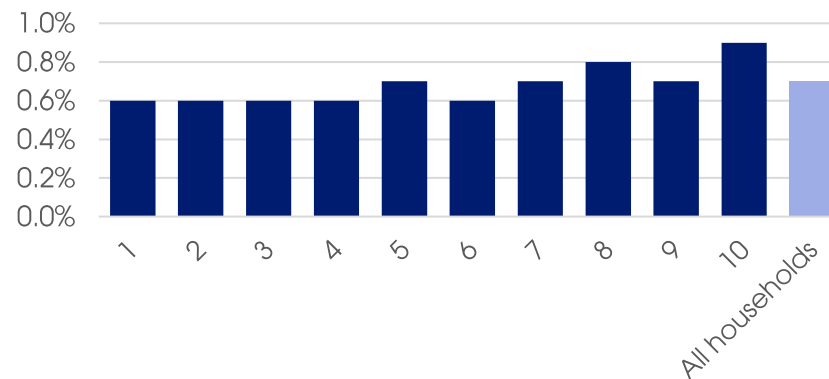
Almost all (93 per cent) of these unregistered enterprises are self-employed individuals or sole-traders.

Number of hair and beauty enterprises
United Kingdom, 2020, thousands

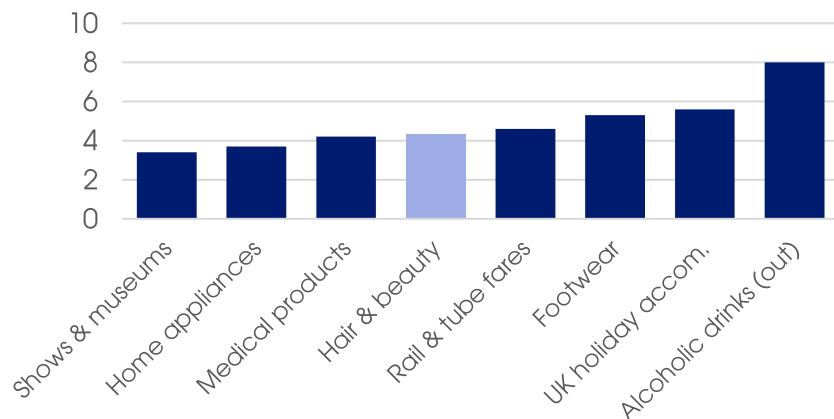


An average of 0.7 per cent of household expenditure goes towards hair and beauty services.

Household expenditure on hair and beauty as a share of total household expenditure by disposable income decile group
United Kingdom, ONS data, 2018-19



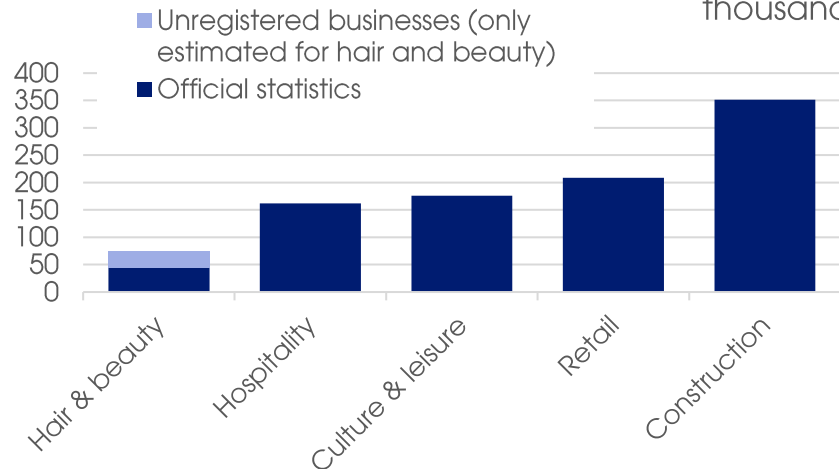
Average weekly household expenditure in select sectors
United Kingdom, ONS data, 2018-19



The average household spends £4.30 per week on hair and beauty.

Number of enterprises in key sectors

United Kingdom, ONS data, 2019, thousands



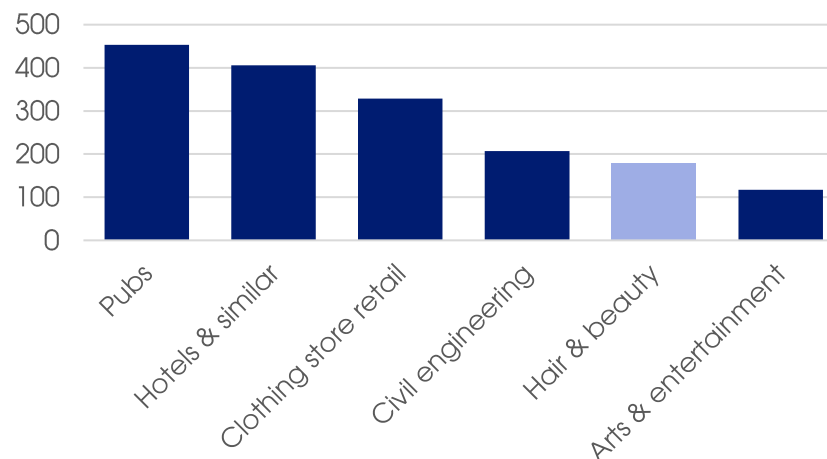
In terms of the number of VAT and/or PAYE registered businesses, the hair and beauty industry is 28 per cent of the size of the hospitality industry.

When unregistered hair and beauty businesses are included, this increases to 46 per cent.

Hair and beauty employment similar to civil engineering sector.

Employment for select sectors

Great Britain, ONS data, 2019, thousands

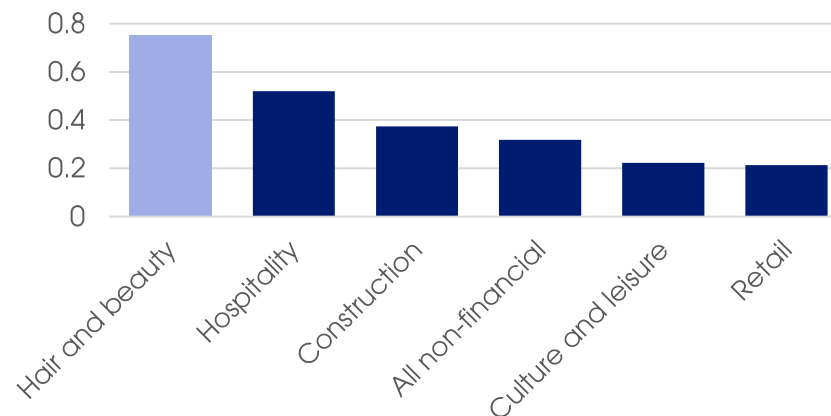


The hair and beauty industry is labour-intensive.

A high proportion of the sector's turnover go directly to staff wages and salaries, self-employed incomes and payments to owners and owner-managers. It has a ratio of gross value added to turnover of 75 pence to £1 compared with 32 pence to £1 for all non-financial sectors.

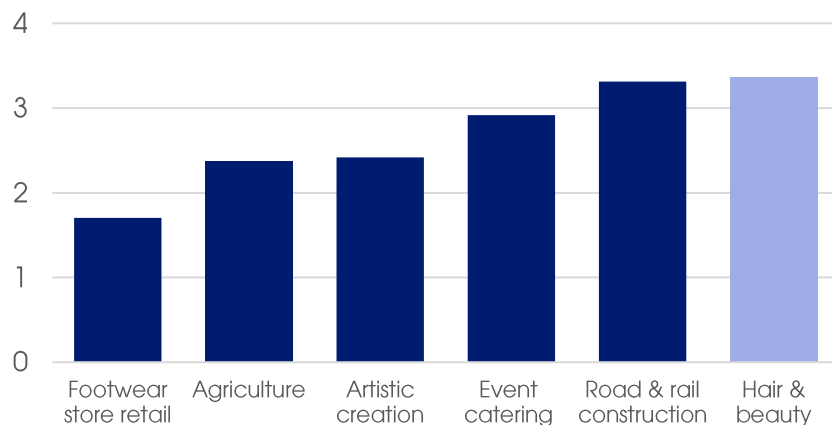
Approximate gross value added to turnover ratio for key sectors

United Kingdom, ONS data, 2018



Approximate gross value added for select sectors

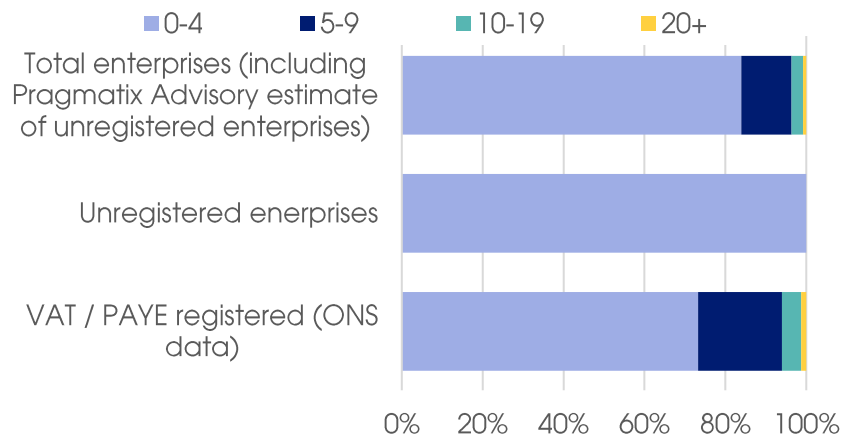
United Kingdom, ONS data, 2018, £ billions



Direct economic contribution greater than the road and railway construction and engineering industry.

This comparison is made on a like-for-like basis using official statistics. We estimate that the gross value added of the hair and beauty sector is 40 per cent greater than these approximate figures when they are scaled for productivity and when unregistered businesses are accounted for.

Hair and beauty enterprise count by employment size band United Kingdom, 2020

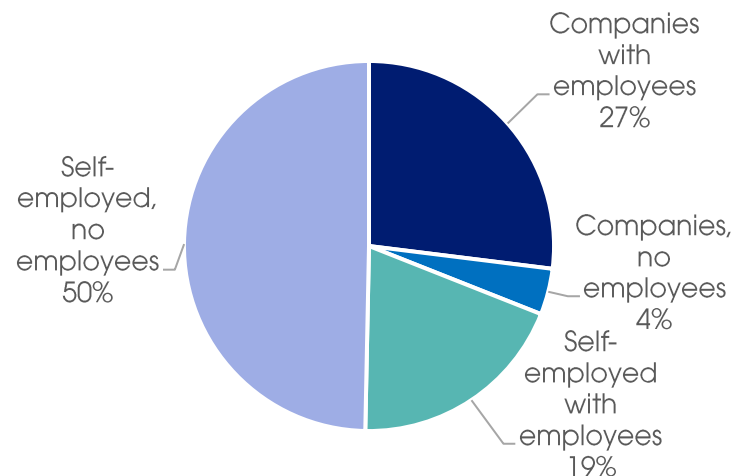


Sixteen per cent of enterprises count more than four workers.

Ninety-six per cent of hair and beauty businesses are microenterprises, and 545 enterprises employ twenty or more workers.

Over two-thirds of all hair and beauty enterprises are self-employed / sole traders, and more than half have no employees.

Hair and beauty enterprises United Kingdom, survey data, 2020

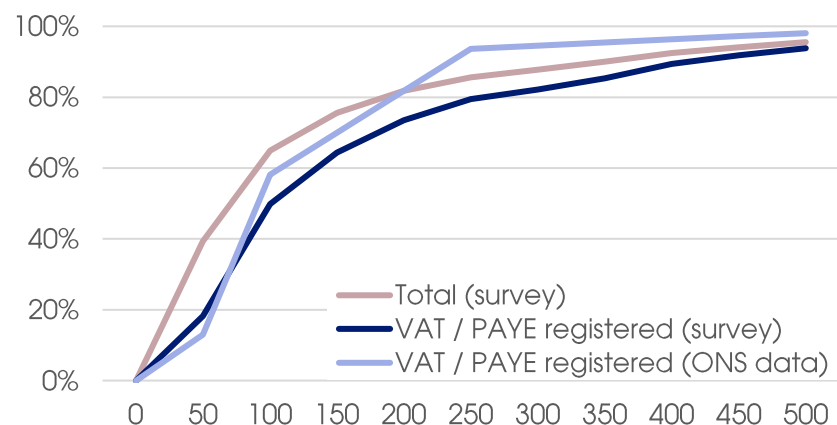


Seventy per cent of enterprises are below the £85,000 VAT turnover threshold.

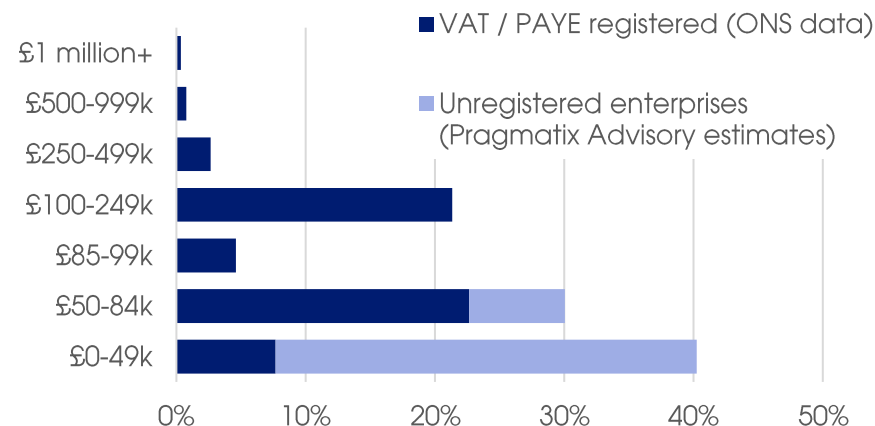
The hair and beauty industry largely comprises micro and small enterprises, with just a quarter of businesses turning over more than £100,000 per year.

Our survey indicates that there may be many more smaller businesses in the sector than official data suggest. But, even using official statistics that do not include unregistered businesses, the skew towards small and micro enterprises is greater than many other sectors.

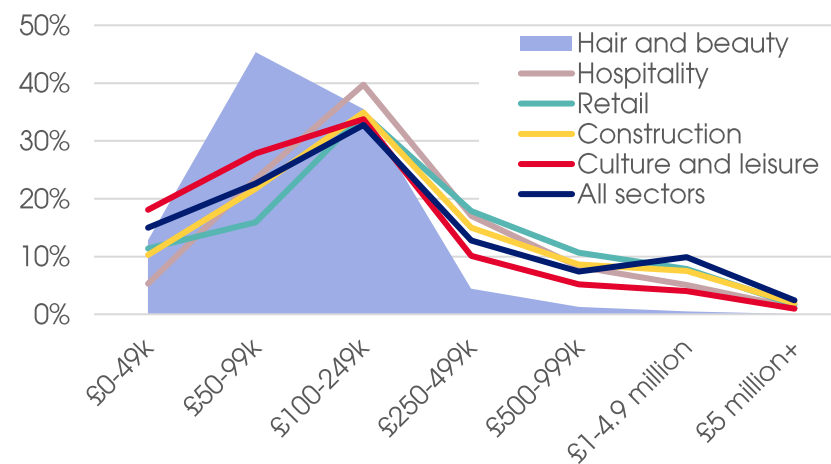
Cumulative distribution of enterprises by turnover
United Kingdom, 2018, £ thousands



Share of hair and beauty enterprises by turnover size band
United Kingdom, 2018, per cent



Share of enterprises* by turnover band
United Kingdom, ONS data, 2018-19



VAT threshold weighs heavily on the sector

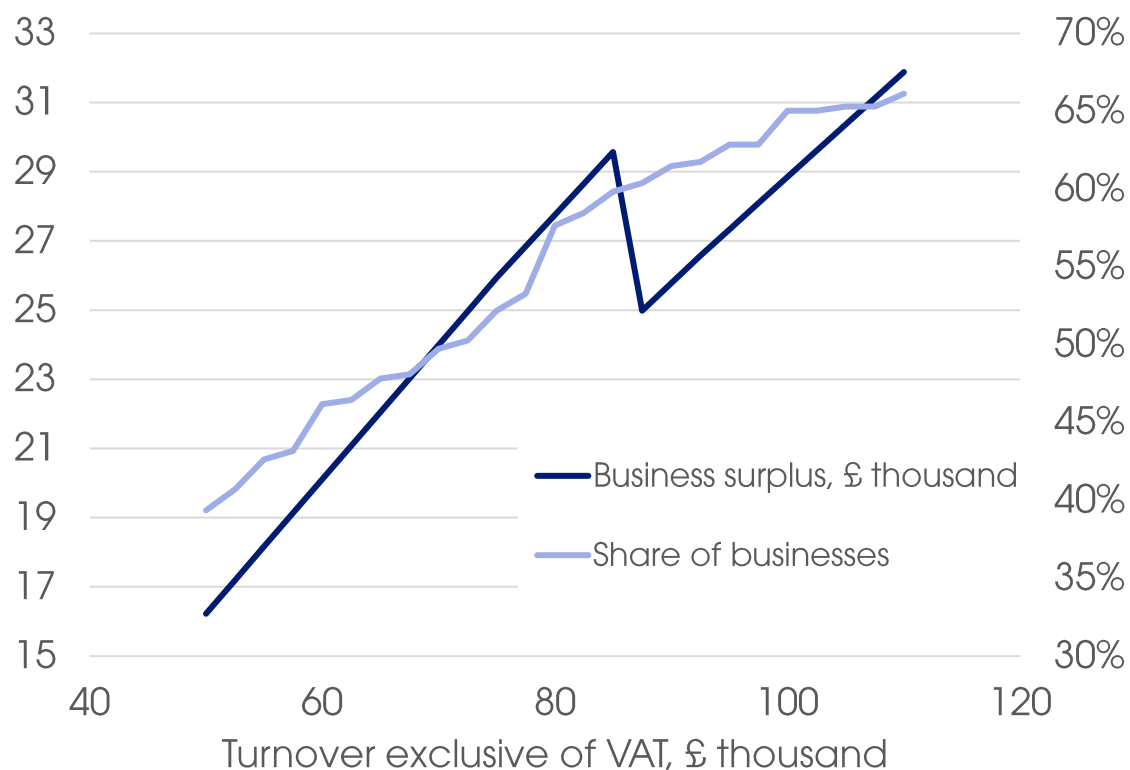
The current twenty per cent VAT rate creates a cliff edge for businesses, discouraging them from turning over more than £85,000 a year.

In 2019, a hair and beauty business with turnover just under the VAT threshold could expect a cash surplus on average of £29,500. A business with turnover of £85,001 would see that cash surplus drop to £25,000.

In order to achieve the same cash surplus as a business earning £84,999, it is necessary for a VAT registered business to turn over £102,500.

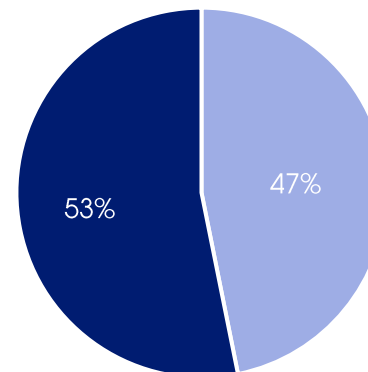
Given the bias towards smaller businesses, there is a large proportion of the industry below and close to the VAT threshold. There is an incentive for them to underreport growing turnover and avoid the VAT burden.

Cash surplus of hair and beauty enterprises
United Kingdom, 2019



Full-time and part-time workers
United Kingdom, ONS data, 2019

- Full-time
- Part-time

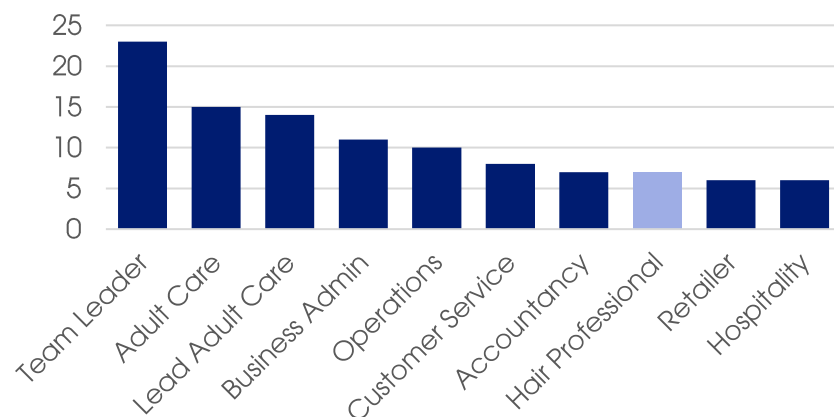


An industry with a high proportion of part-time working.

Over half of workers in the sector are part-time.

Apprenticeship starts by ten most popular standards

England, 2018/19, thousands



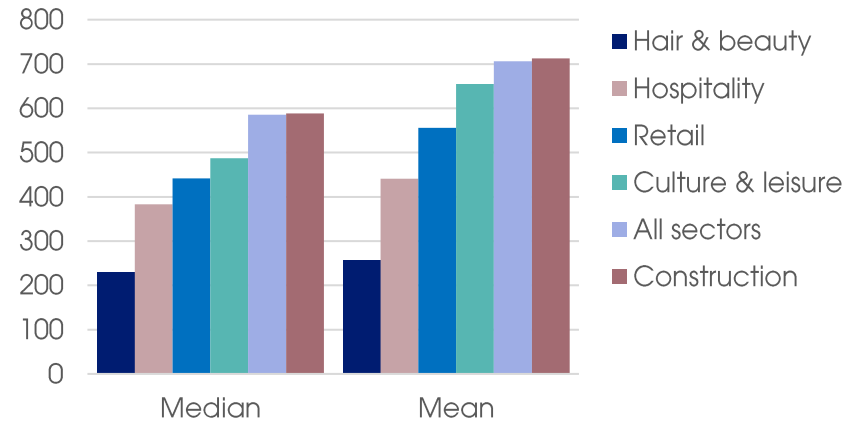
Big provider of apprenticeships and training.

Low average salaries and high levels of self-employment.

Partly reflecting the high proportions of young workers and apprentices, average salaries in the sector are low relative to many other industries. There is also a high propensity for self-employment, which reflects the nature of the work, low capital entry costs and the development of business models based around flexibility and independence.

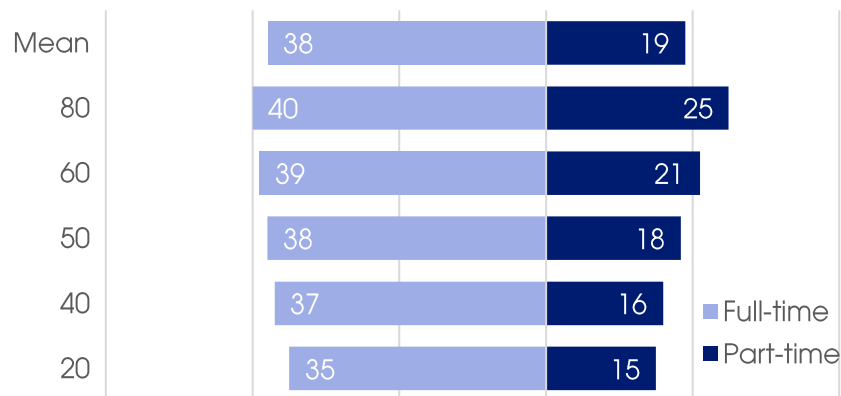
Gross weekly pay for full-time workers in key sectors

United Kingdom, ONS data, 2019, £



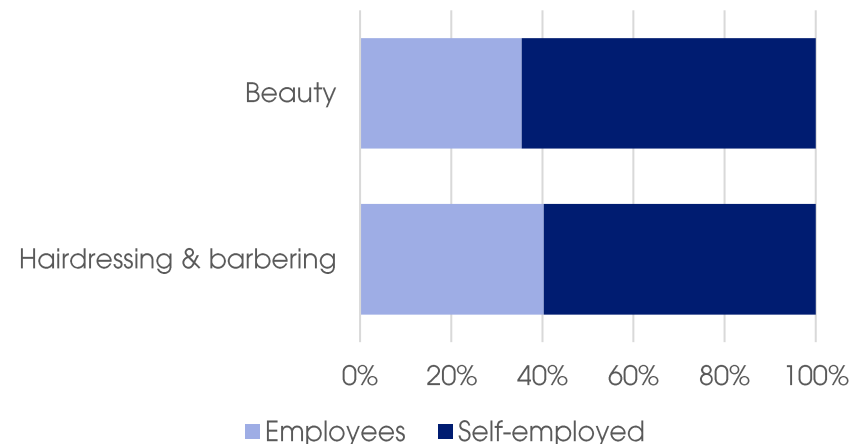
Hours worked by full-time and part-time employees by percentile

United Kingdom, ONS data, 2019



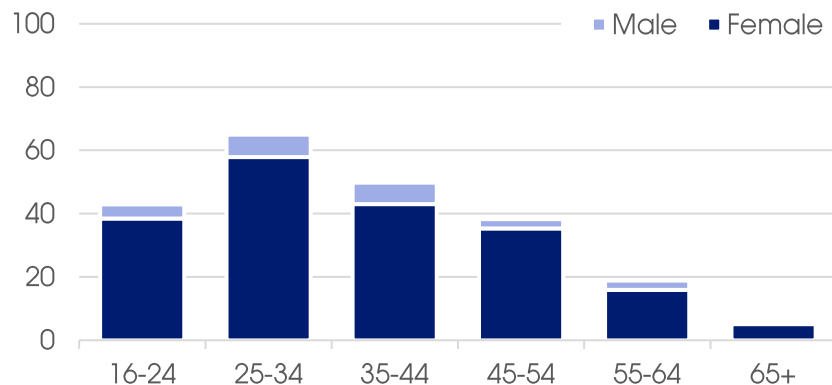
Employment status of workers

United Kingdom, ONS data, 2019



Hair and beauty industry workers by age and gender

United Kingdom, ONS data with Pragmatix Advisory estimates, 2019, thousands

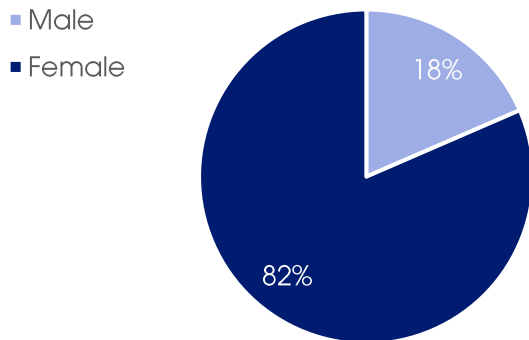


More female workers across all levels and age groups than other key sectors.

Eighty-eight per cent of all workers are female compared to only 47 per cent across all sectors, and eighty-two per cent of hair and beauty enterprises are female owned or managed.

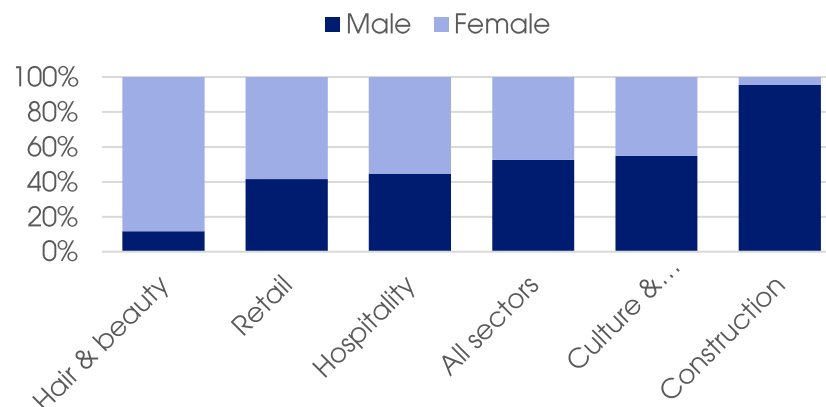
Owners / managers of hair and beauty businesses by gender

United Kingdom, ONS data, 2020



Ratio of male to female hair and beauty industry workers

United Kingdom, ONS data, 2019

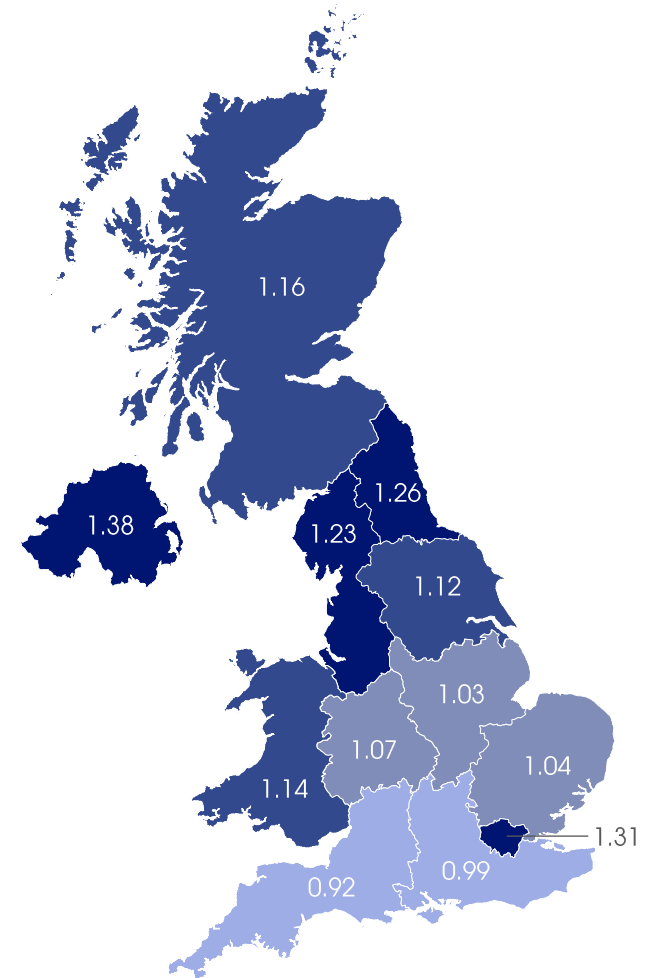
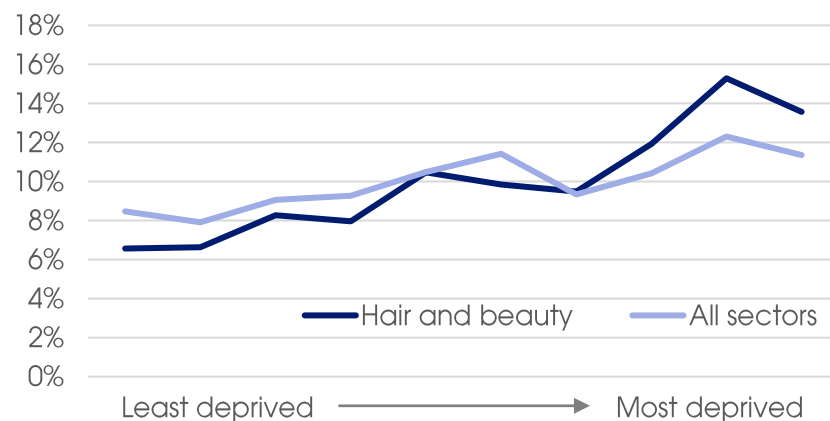


Number of hair and beauty enterprises per thousand population
United Kingdom, ONS data with Pragmatix Advisory estimates, 2020

Large share of hair and beauty enterprises in the most deprived communities.

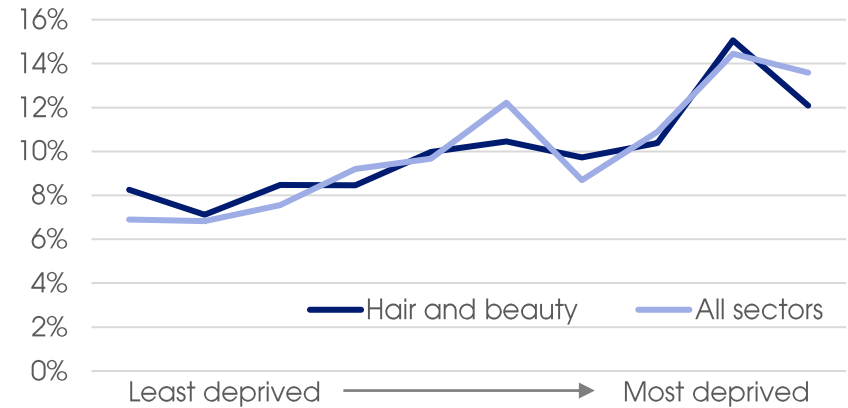
Nearly 30 per cent of hair and beauty enterprises are based in local authorities that fall into the ninth and tenth deciles on the index of multiple deprivation.

Share of hair and beauty industry enterprises by IMD decile
England, ONS data, 2019

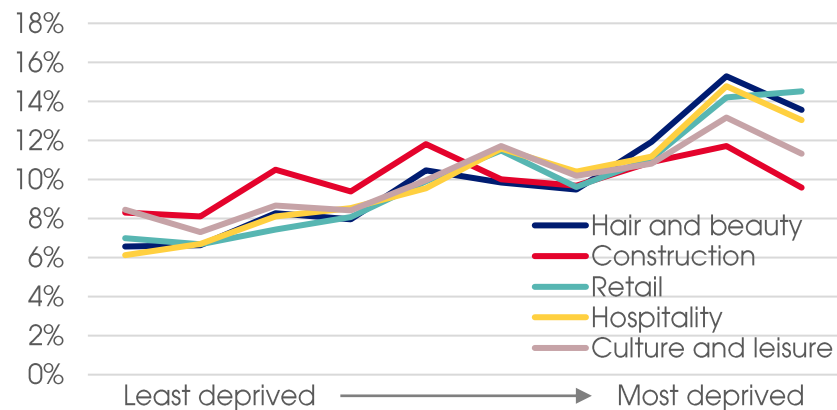


More deprived areas also account for a greater share of hair and beauty jobs.

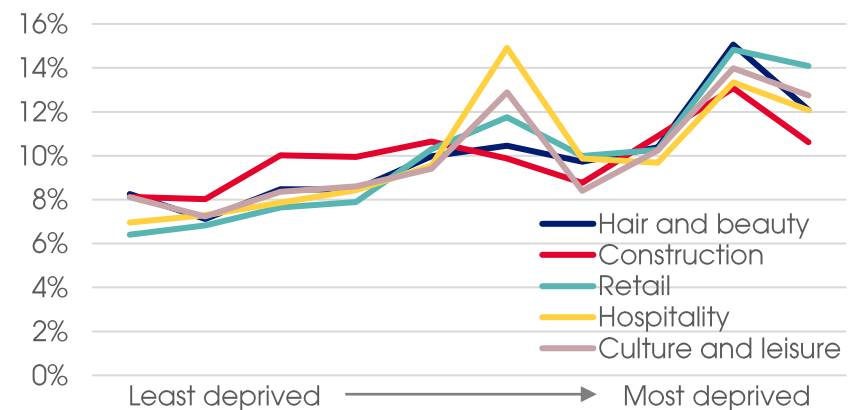
Share of hair and beauty industry employment by IMD decile
England, ONS data, 2019



Share of hair and beauty industry enterprises by IMD decile
England, ONS data, 2019



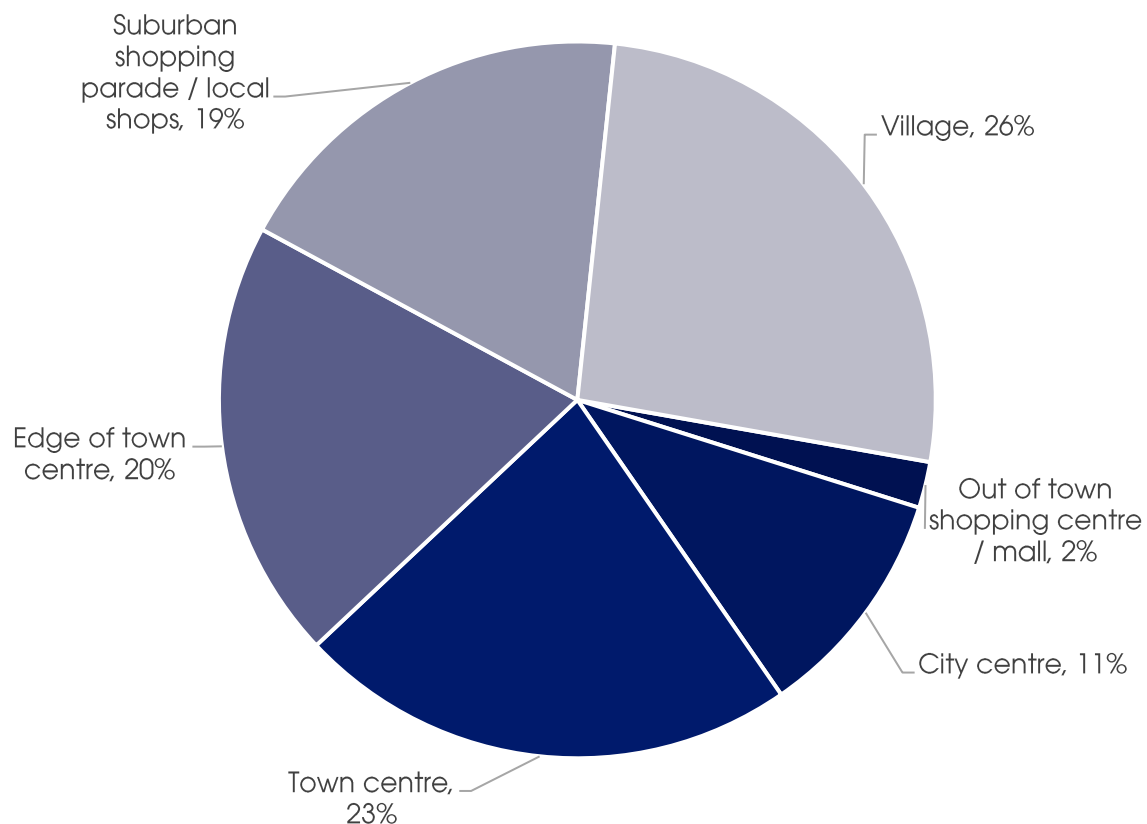
Share of hair and beauty industry employment by IMD decile
England, ONS data, 2019



Heart of every community. Not just High Street

The sector contributes to local economic activity and the vibrancy of community centres, as businesses tend to be located in towns, villages and suburban areas.

Description of hair and beauty business location
United Kingdom, survey data, 2020



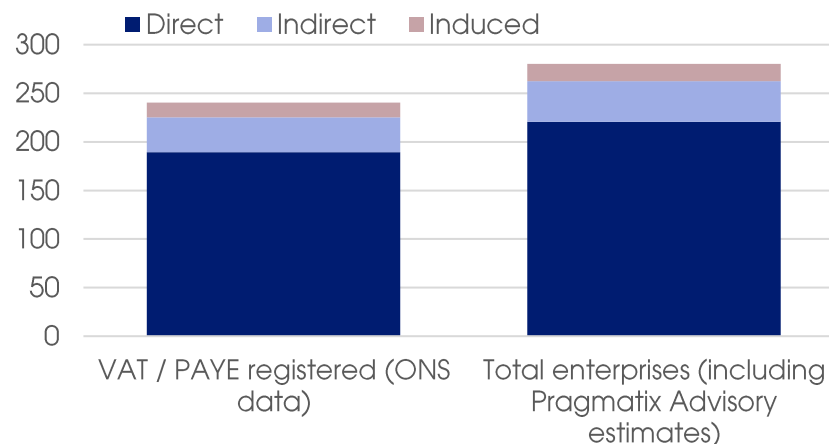
In addition to the those directly employed in the sector, there are jobs supported in the supply chain and through the spending of employees.

In total this amounts to 280,000 jobs supported by or directly employed in the sector.

(‘Indirect’ refers to supply chain effects. ‘Induced’ refers to economic activity supported by the expenditure of hair and beauty industry’s workers. See Appendix for details.)

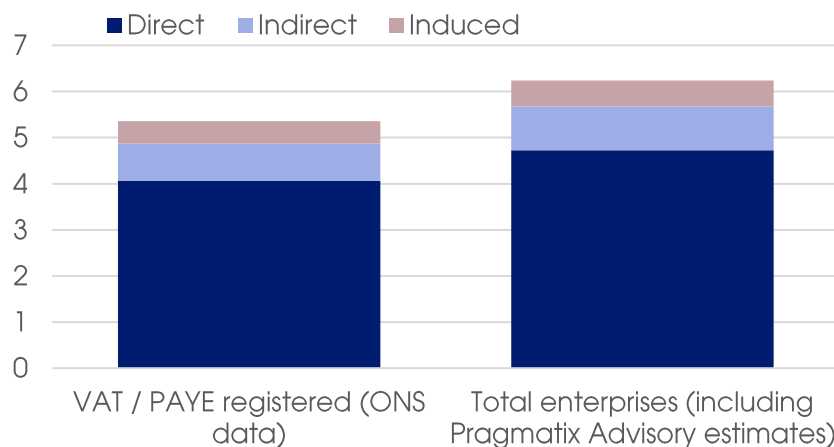
Employment contributed by the hair and beauty industry

United Kingdom, 2019, thousands



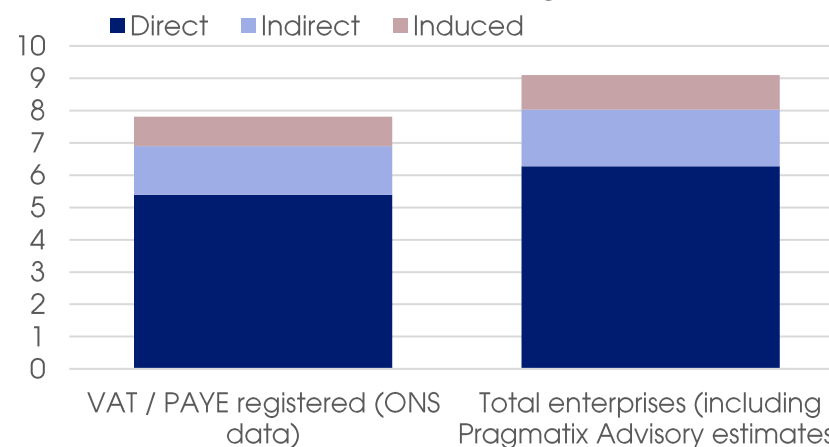
Gross value added contributed by the hair and beauty industry

United Kingdom, 2018, £ billions



Turnover contributed by the hair and beauty industry

United Kingdom, 2018, £ billions



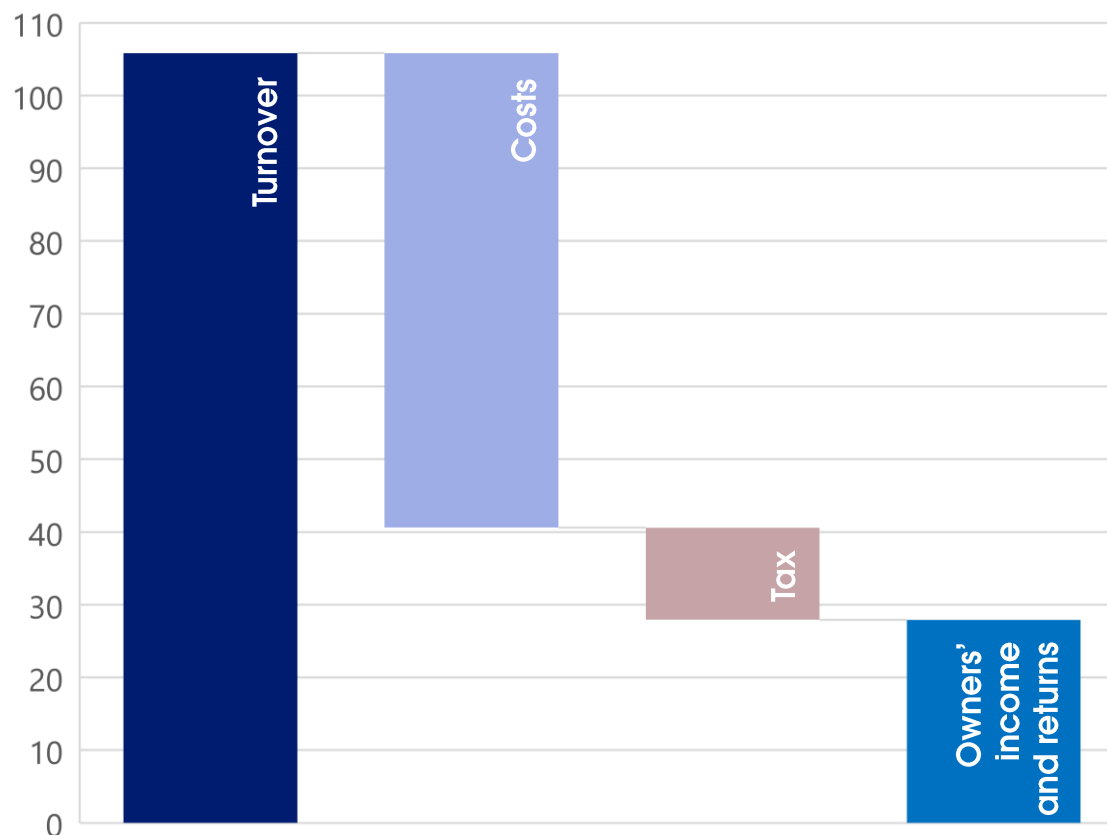
Average business had £28k cash surplus in 2019

Information gathered from our survey of hair and beauty enterprises in the UK shows the average business returned £28,000 to its owner in 2019, either as income and/ or additional reserves.

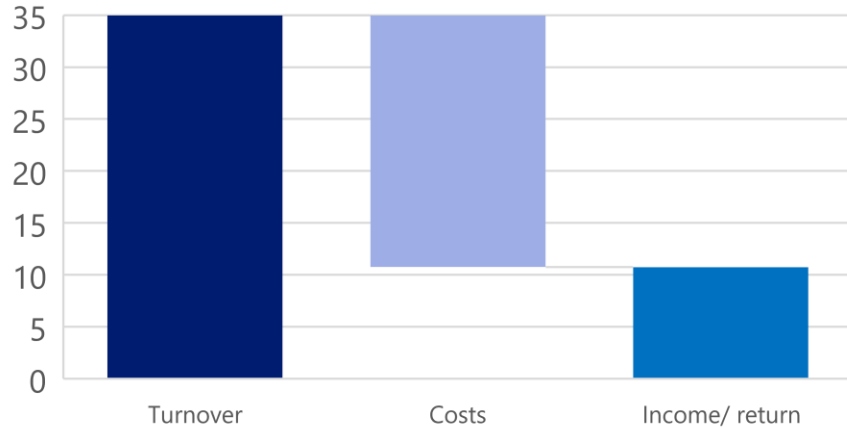
Employee and property costs, the cost of input goods and services, business rates and other costs amounted to £65,000 for the 'average' business.

VAT and corporation tax paid was approximately £13,000.

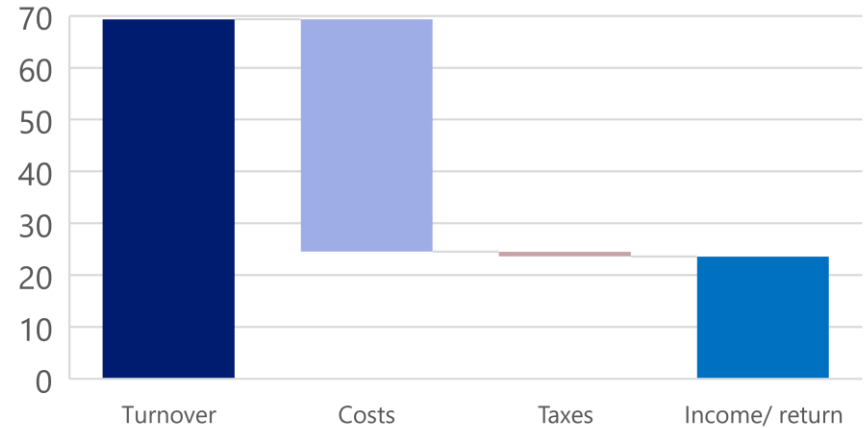
Cashflow impact of the 'average' hair and beauty enterprise
United Kingdom, 2019, £ thousand



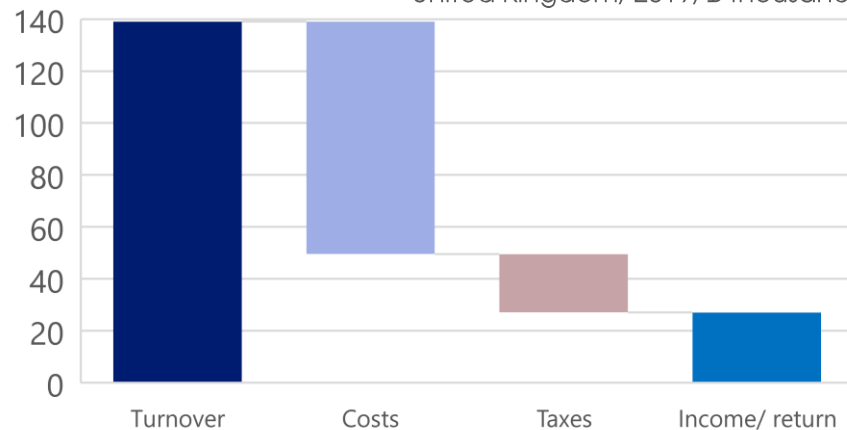
Cashflow of typical hair and beauty enterprises with turnover of £35,000
United Kingdom, 2019, £ thousand



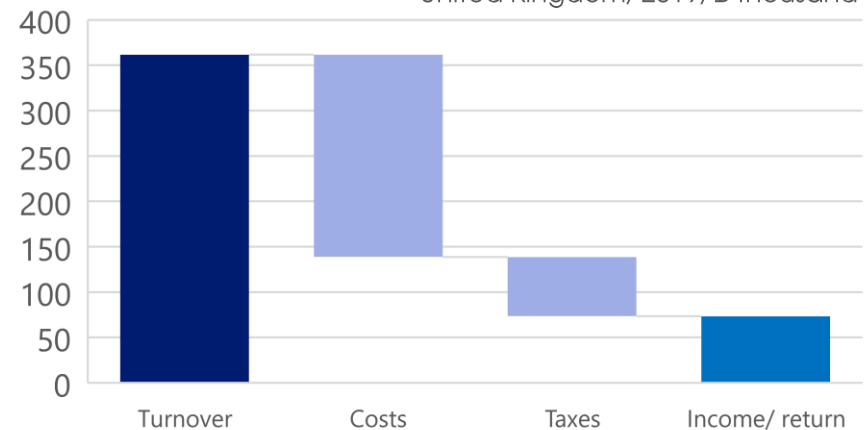
Cashflow of typical hair and beauty enterprises with turnover of £69,000
United Kingdom, 2019, £ thousand



Cashflow of typical hair and beauty enterprises with turnover of £139,000 (inc. VAT)
United Kingdom, 2019, £ thousand



Cashflow of typical hair and beauty enterprises with turnover of £362,000 (inc. VAT)
United Kingdom, 2019, £ thousand



The impact of covid

In order to assess the true impact of covid-restrictions on the hair and beauty sector, we have conducted quantitative surveys and a series of in-depth interviews with business owners.

Businesses saw an average loss in turnover of 45 per cent in 2020, and as much as 57 per cent in some regions. Out of lockdown, businesses were operating at around 70 per cent pre-pandemic capacity.

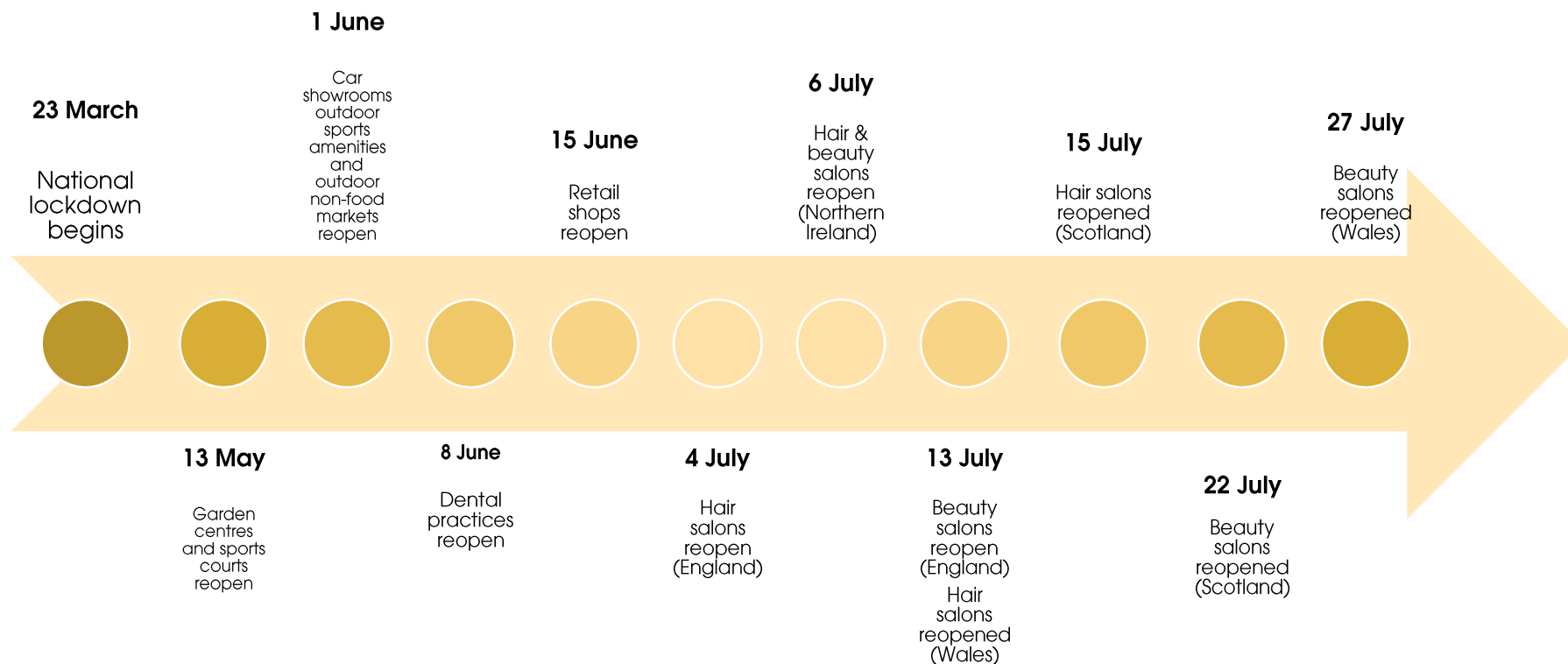
Despite the furlough scheme, full-time equivalent employment numbers were down by 21 per cent on 2019 as staff hours were cut, redundancies made and employees left for roles in more reliable industries.

Businesses over the VAT threshold have had a lower grant to turnover ratio, and have been disproportionately impacted by removal of the Job Retention Bonus scheme.

We have used the results of our original research, combined with official and industry data, to model the levels of business distress in the health and beauty sector.

Overall, owners of hair and beauty businesses took an average cash hit of £17,000 in 2020, with those over the VAT threshold suffering a disproportionately large impact. Across the industry, one in ten businesses will have failed to deliver any income or dividend return to their owners or owner-managers. Many in the industry are now acutely vulnerable to failure, with three-fifths of businesses having no cash reserves by the end of 2020.

First lockdown saw total closure for 100+ days



During the first UK-wide lockdown in 2020, hair salons and barbershop businesses were closed for between 103 and 116 days. Beauty businesses were closed for between 105 and 121 days.

Overall, 140+ full days lost in 2020

17 September Lockdown measures announced for North East England

27 September 2/3 of Wales population subject to lockdown measures

23 October Second national lockdown (Wales)

24 October South Yorkshire enters Tier 3

2 November Second national lockdown ends (Wales)

5 November Second national lockdown (England)

20 November Scottish central belt level 4 lockdown impacting 2.3m people

27 November Second national lockdown (Northern Ireland)

2 December second national lockdown ends (England)

11 December Second national lockdown ends (Northern Ireland)

16 December London, Essex and Hertfordshire enter Tier 3

19 December London, South East and East of England go into new Tier 4

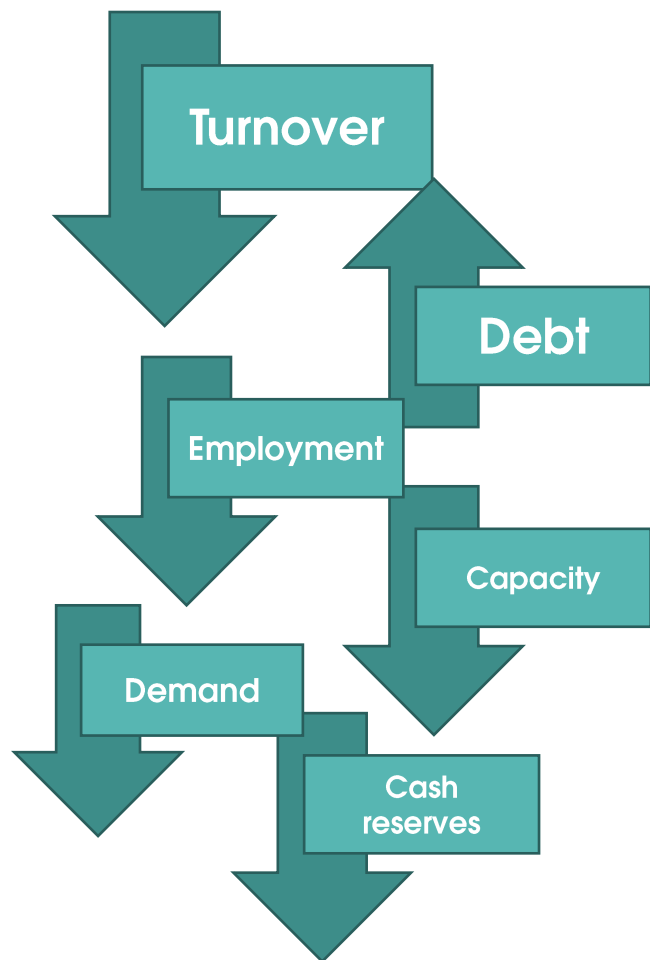
26 December Second national lockdown begins (Scotland)

26 December Third national lockdown begins (Wales and Northern Ireland)

5 January 2021 Third national lockdown begins (England)

Hair and
beauty
businesses were
closed for more
than 140 days
in 2020 due to
intermittent
lockdowns and
local restrictions

Hair and beauty industry hit hard in 2020



In late December and early January, we conducted a detailed quantitative survey and in-depth interviews of business-owners to get a picture of how the sector was impacted by covid-restrictions in 2020 (see appendix). In addition, the NHBF carried out surveys of their members in August and November and we have also drawn upon their results.

National and local lockdowns saw income completely disappear. When businesses were allowed to open, social distancing measures meant capacity was reduced by 30 per cent. On top of this, businesses saw reduced demand from clients.

Overall, turnover in the hair and beauty industry fell by 45 per cent in 2020.

Despite unprecedented government support, employee numbers fell as staff hours were cut and redundancies were made. Many owners used personal savings to support their business, as well as taking on additional debt. Half of VAT registered businesses also deferred VAT payments in 2020.

By the end of the year, two thirds of hair and beauty businesses had no cash reserves or business savings, up from 27 per cent in 2019.

Average turnover almost half of 2020.

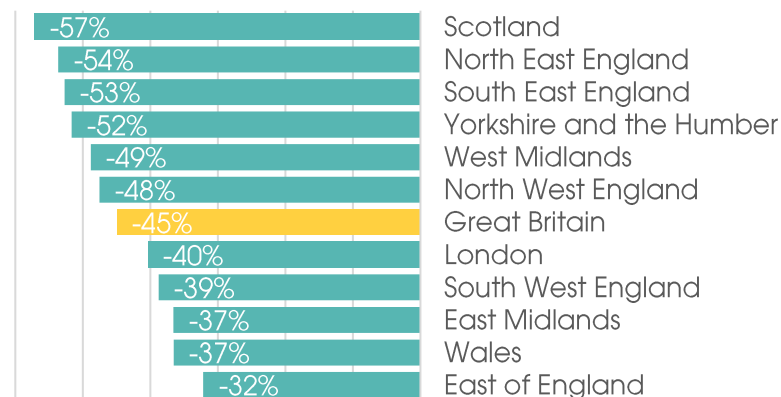
Intermittent lockdowns and other measures implemented to reduced the spread of covid have hit business incomes hard.

Across Great Britain, hair and beauty businesses saw turnover in 2020 fall by an average of 45 per cent compared to 2019, with businesses in Scotland and the northeast of England seeing the largest falls.

Mobile businesses and those based in city centres have taken a bigger hit in comparison to those in smaller towns and shopping centres. Those in villages and on the edge of town have seen turnover half.

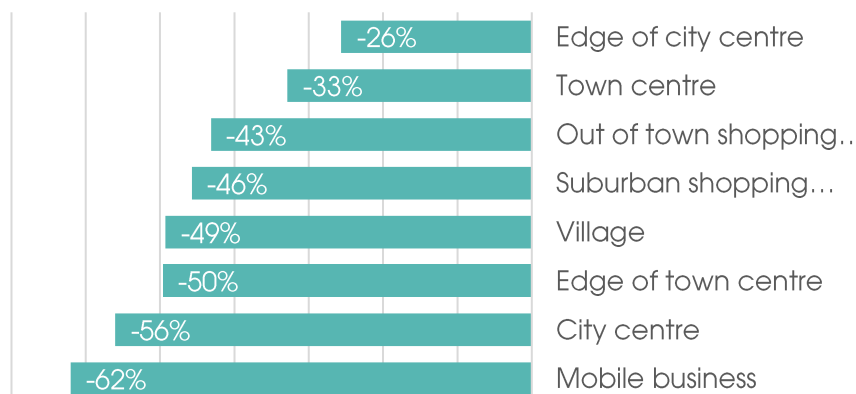
Average change in annual turnover of hair and beauty businesses

Great Britain, 2019 to 2020 (sample=443)



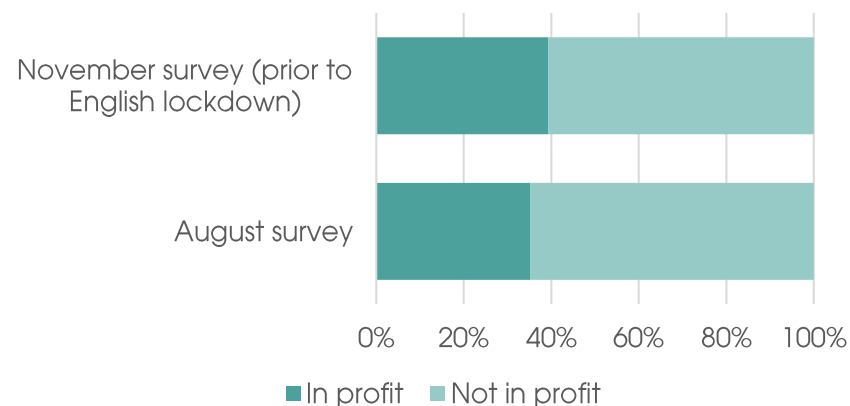
Average change in annual turnover of hair and beauty businesses by type of location

Great Britain, 2019 to 2020 (sample=450)



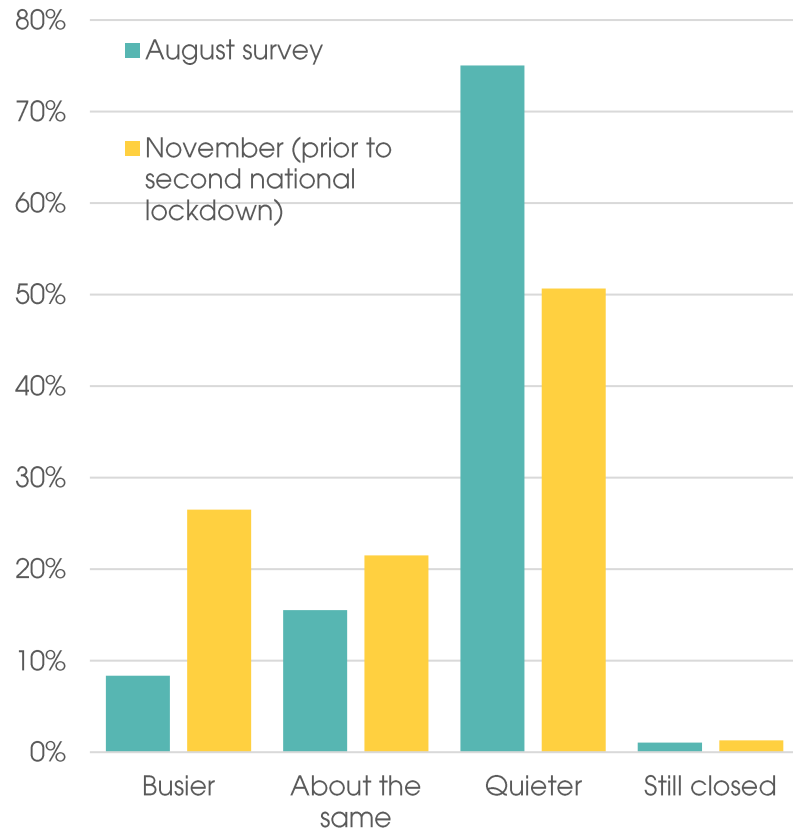
Monthly earnings of hair and beauty businesses

United Kingdom, 2020 (sample=1,893)



Salons operating at seventy per cent capacity

Hair and beauty business appointments compared to pre-covid
United Kingdom, 2020 (sample=4,912)



When open, hair and beauty salons have lost around 30 per cent of their pre-covid capacity.

While some physically larger salons have been able to implement distancing measures with relative ease, businesses have had to lengthen appointment times by around fifteen minutes to allow for additional cleaning and sanitising between customers.

This has a knock on effect, losing around two hours of appointment time per day per staff member.

Smaller premises have had to close off chairs to permit the necessary distancing between work stations, and reduce the waiting capacity due to limits on the number of clients that can be in the salon at the same time.

Owners we have spoken to also report losing out on business through the inability to overlap customers – where before one staff member could be attending to two clients at once, the need for social distancing, changing PPE and sanitising between clients prevents it.

Further capacity issues have arisen because of staff absence, and the need to isolate if a close contact has tested positive for covid.

Reduced demand deals further blow

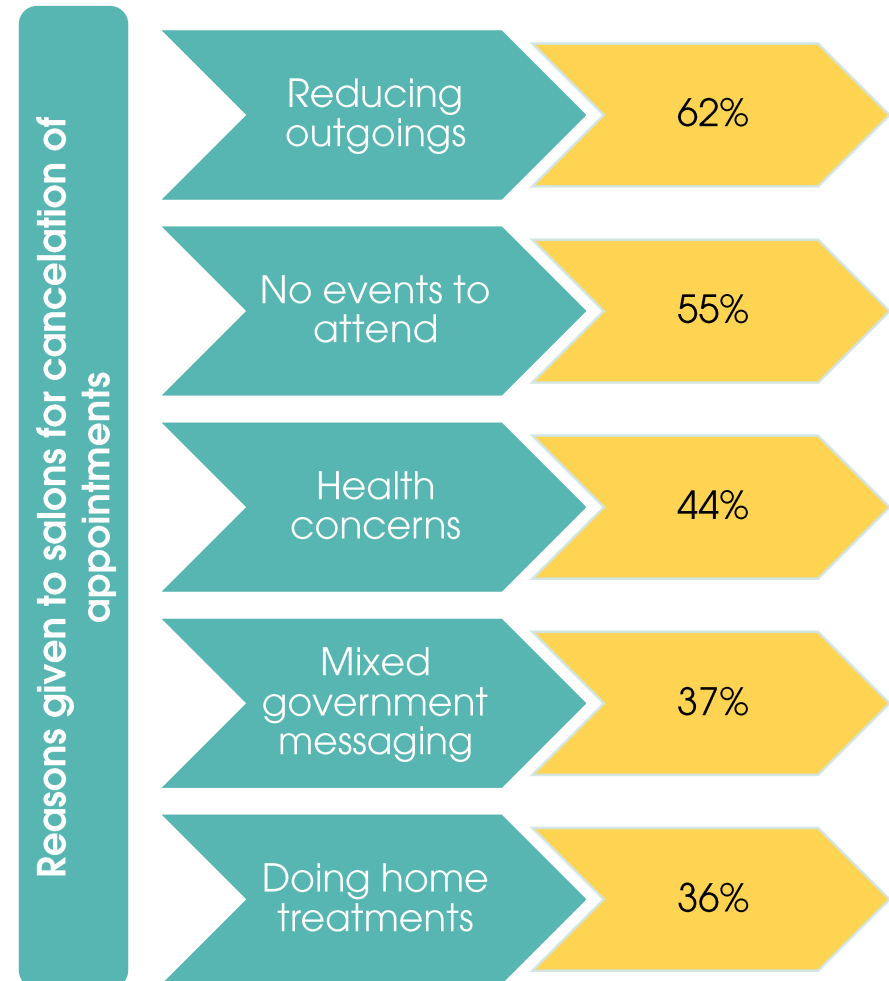
Although the majority of businesses report customers being satisfied with hygiene and safety measures implemented by salons, reduced demand is further impacting turnover.

Clients are visiting less often – for example, many who would previously visit once a month are now only visiting every three months. Some customers have switched to home treatments, while many barbershops report former clients purchasing the equipment required for family members or partners to cut their hair at home.

The lack of social events such as nights out has meant multiple lost appointments, and particularly for businesses specialising in weddings, an almost total loss in business .

Salons have seen a further reduction in bookings due to shielding and health concerns, especially those with a largely older clientele.

The main factor driving reduced demand, however, is people looking to reduce their outgoings.



Employee numbers down, apprenticeships hit

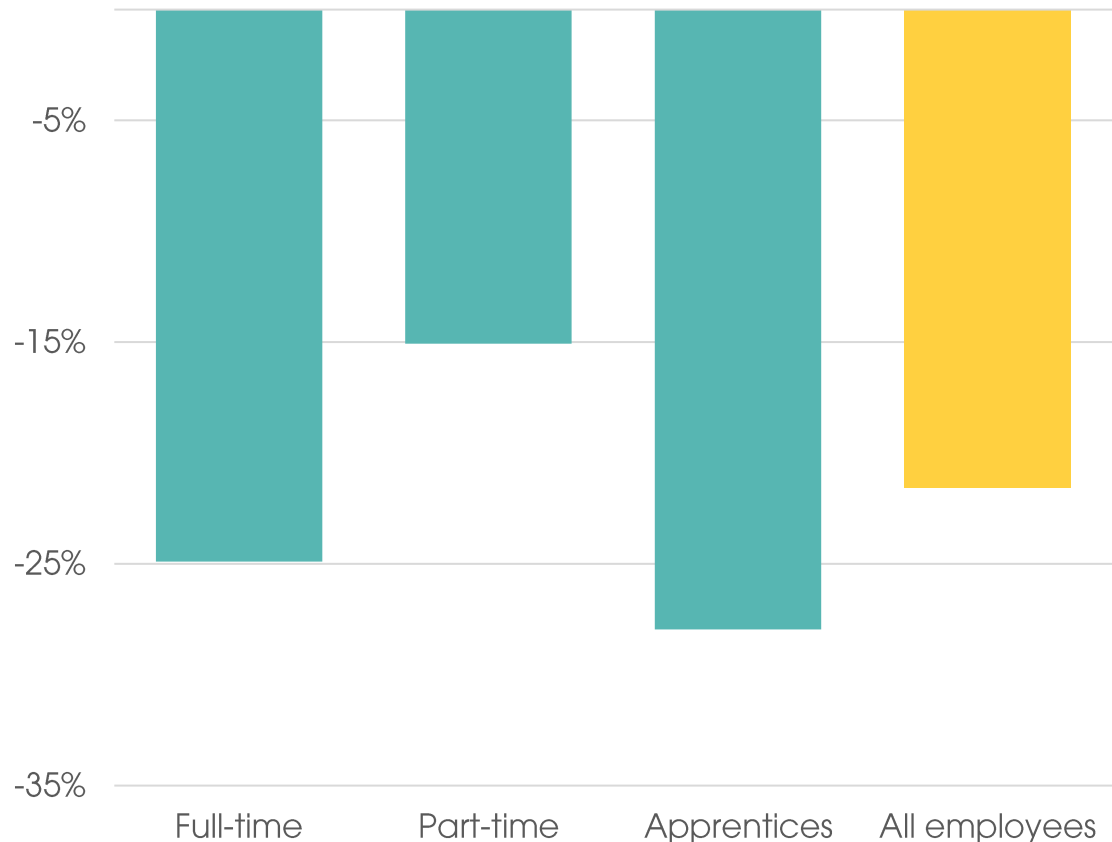
Despite financial support from government to help pay staff wages, employee numbers in the hair and beauty sector fell by around a fifth in 2020.

The number of full-time employees fell by a quarter, while there was a reduction in part-time employees of fifteen per cent. The number of apprentices employed saw the biggest drop – down almost 28 per cent on 2019.

In response to the NHBf’s State of the Industry survey for November, over half of business owners said they had cut staff hours due to covid, with some switching from full-time to part-time working.

One in eight salons reported making redundancies in 2020, with a similar number planning to make further redundancies once furlough ends.

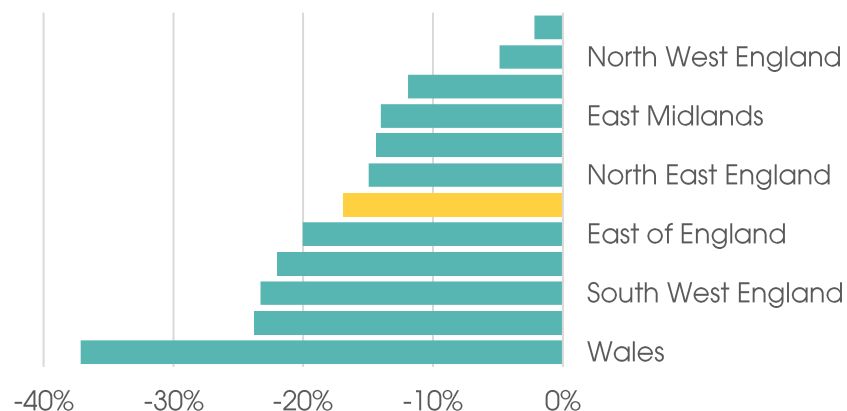
Annual percentage change in employees*
United Kingdom, 2019 to 2020 (sample=225)



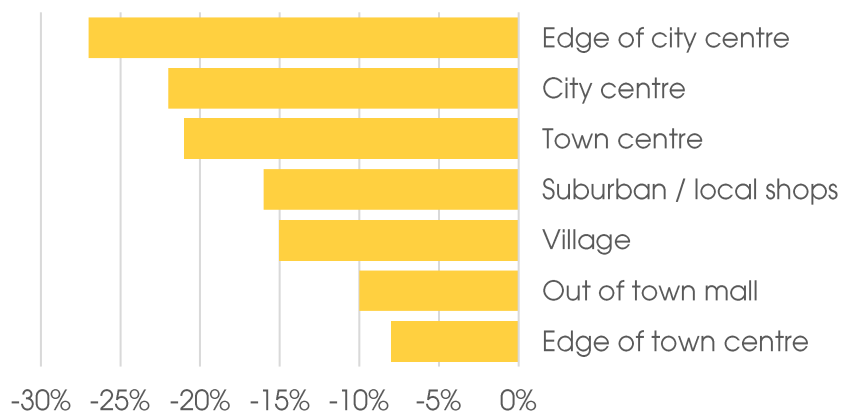
*Note: Figures do not take account self-employed workers or companies without employees. Source: NHBf/ Pragmatix Advisory business survey

53 per cent of hair and beauty businesses have cut back staff hours due to the pandemic

Average change in full-time equivalent hair and beauty jobs by region / country
Great Britain, 2019 to 2020 (sample=450)



Average change in full-time equivalent hair and beauty jobs by business location
United Kingdom, 2019 to 2020 (sample=450)



Staff switching jobs in search of more reliable employment.

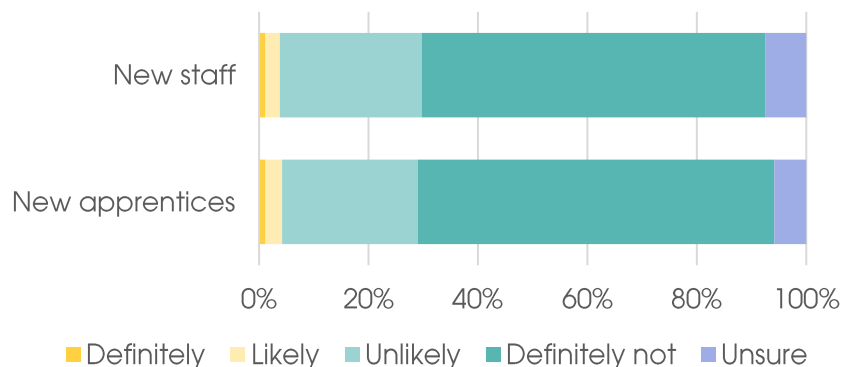
The fall in full-time equivalent jobs is partly the result of salons cutting hours or making redundancies.

In our interviews with business owners, a significant number also mentioned losing employees who had taken up jobs in other sectors they saw as more reliable in the short to medium term.

Jobs in supermarkets, cleaning or in hospitals appear popular, and are seen as a more dependable option during intermittent lockdowns and covid-restrictions.

Intentions of business owners to take on new employees within three months

United Kingdom, November 2020
(sample=4415)



Apprenticeships continue annual decline.

The drop in the number of apprentices employed in 2020 may not be solely due to covid - apprenticeships fell by thirty percent the previous year.

During our interviews, some businesses owners reported struggling to recruit new apprentices prior to the pandemic. Others pointed to longer-term growth in 'chair-renting' reducing the number of businesses hiring apprentices.

The trend looks set to continue, with less than one in twenty business owners likely to employ a new apprentice within the next three months.

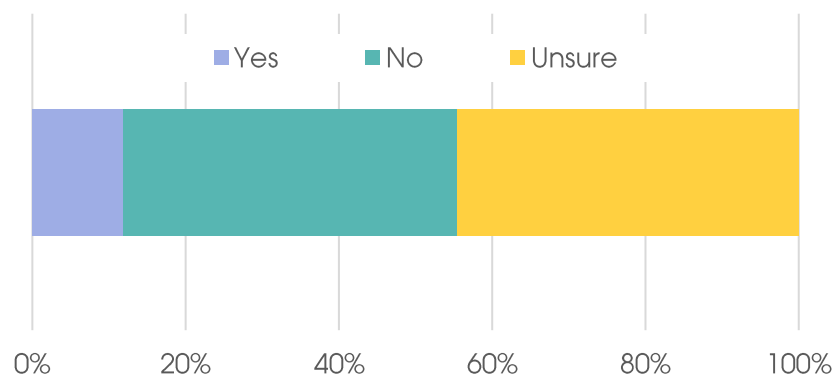
Additional redundancies on the horizon.

By the beginning of November, one in eight business owners had made redundancies as a result of covid.

Although the Job Retention Scheme has undoubtedly prevented job losses for many, less than half of hair and beauty businesses could not rule out making redundancies once the furlough scheme ends.

Likelihood of businesses making further redundancies once furlough ends

United Kingdom, November 2020
(sample=2788)



Businesses wary of implementing price rise

Like many industries, hair and beauty businesses are facing additional costs due to more frequent deep cleaning and the need for staff and client PPE.

Roughly 30 per cent of business owners we spoke to had instigated a charge to cover the cost of personal protective equipment. This ranged from two per cent to 25 per cent. On average, it was around five per cent.

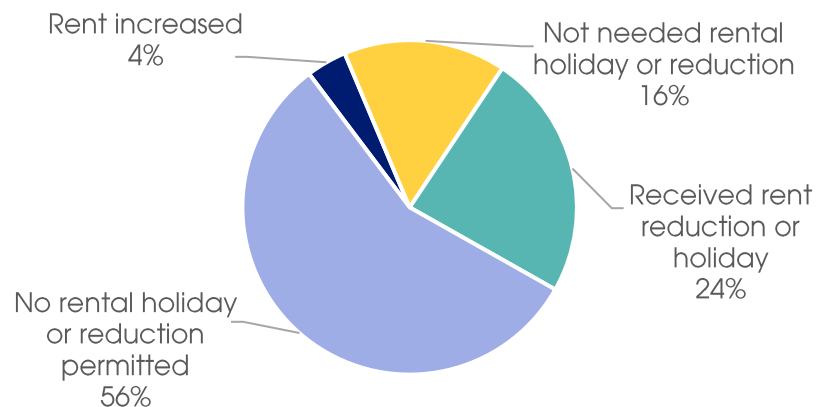
Two thirds of barbershops and salons had not added an additional charge to cover covid-related costs, and instead chose to absorb the costs themselves. Various reasons were given for this, including:

- Clients having reduced income
- Clients switching to cheaper salons/ salons that were not implementing a charge
- Additional costs minimal so did not warrant a price increase

While not implementing a covid-related price rise, around a fifth businesses did apply a planned annual price increase, albeit it delayed in some cases.

There were a small number of businesses who said after initially introducing a PPE and cleaning surcharge for clients, they were forced to remove it as clients went elsewhere.

Hair and beauty businesses rental relationship with landlord
United Kingdom, 2020 (sample=274)



Majority of renters unable to secure temporary rent reduction.

Over half of all hair and beauty business tenants were unable to secure a temporary rental reduction or rental holiday from their landlord. Fourteen per cent of businesses with a mortgage on the premises were refused a payment holiday.

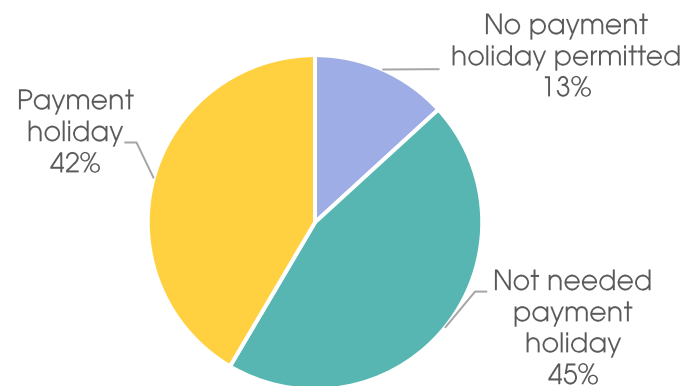
Four per cent of businesses in the sector saw their rental payments increase in 2020.

Mortgage providers more accommodating than landlords.

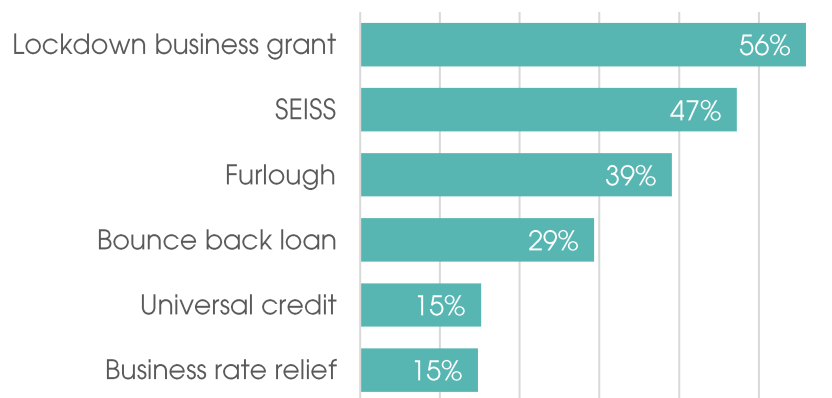
Just under half of businesses with a commercial mortgage secured a payment holiday, compared with around a third of renters.

On average, businesses with a mortgage received a payment holiday of 4.3 months, compared with 3.2 months for those in rental premises.

Hair and beauty businesses relationship with mortgage provider
United Kingdom, 2020 (sample=53)



Covid-related financial support received by hair and beauty businesses
United Kingdom, 2020 (sample = 4551)



Financial support from government has been a lifeline during covid restrictions.

For many enterprises, government support grants allowed them to remain in businesses in 2020. The total average grant award per business as of December 2020 was £20,000.

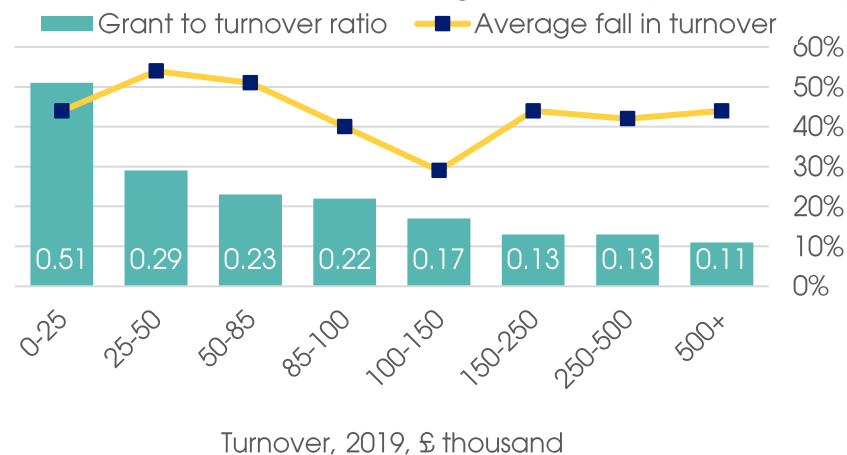
Though the majority of businesses received some form of government assistance, a survey undertaken by the British Association of Beauty Therapy and Cosmetology shows nineteen per cent of respondents received no government support.

Businesses above VAT threshold have lower grant to turnover ratio.

Analysis shows businesses that earned less than £85,000 in 2019 have a higher grant to turnover ratio than those above the VAT threshold.

Our calculations include all government grants available to support businesses, including the Coronavirus Job Retention Scheme (furlough), Self-employed Income Support Scheme, initial coronavirus grants, and local restrictions grants. They exclude financial support in the form of loans.

Covid support grants to business turnover ratio of hair and beauty enterprises
United Kingdom, 2020 (sample=375)



Disproportionate impact from scrapped bonus

As well as facing a lower turnover to grant ratio, businesses above the VAT threshold are also more likely to have been impacted by the removal of the Job Retention Bonus.

The scrapping of the scheme was identified in our interviews as a let down to many businesses owners.

While grateful for the extension of furlough payments until the end of April, employers had planned for a cash injection of £1,000 per employee in February. Some had taken on additional apprentices to be funded using the bonus.

Given the comparatively low average salary of hair and beauty industry workers, as well as the large share working part-time, the Job Retention Bonus as a proportion of labour costs would have been more significant in this sector.

Occupation	Median annual salary	JRB as share of annual salary
Hairdressers & barbers	£12,200	8.2%
Beauticians	£11,900	8.4%
UK (all sectors)	£25,800	3.9%
Chefs	£19,900	5.0%
Receptionists	£13,900	7.2%
Carpenters & joiners	£28,300	3.5%
Catering & bar managers	£21,100	4.7%
Travel agents	£19,800	5.1%
Call centre workers	£18,700	5.3%

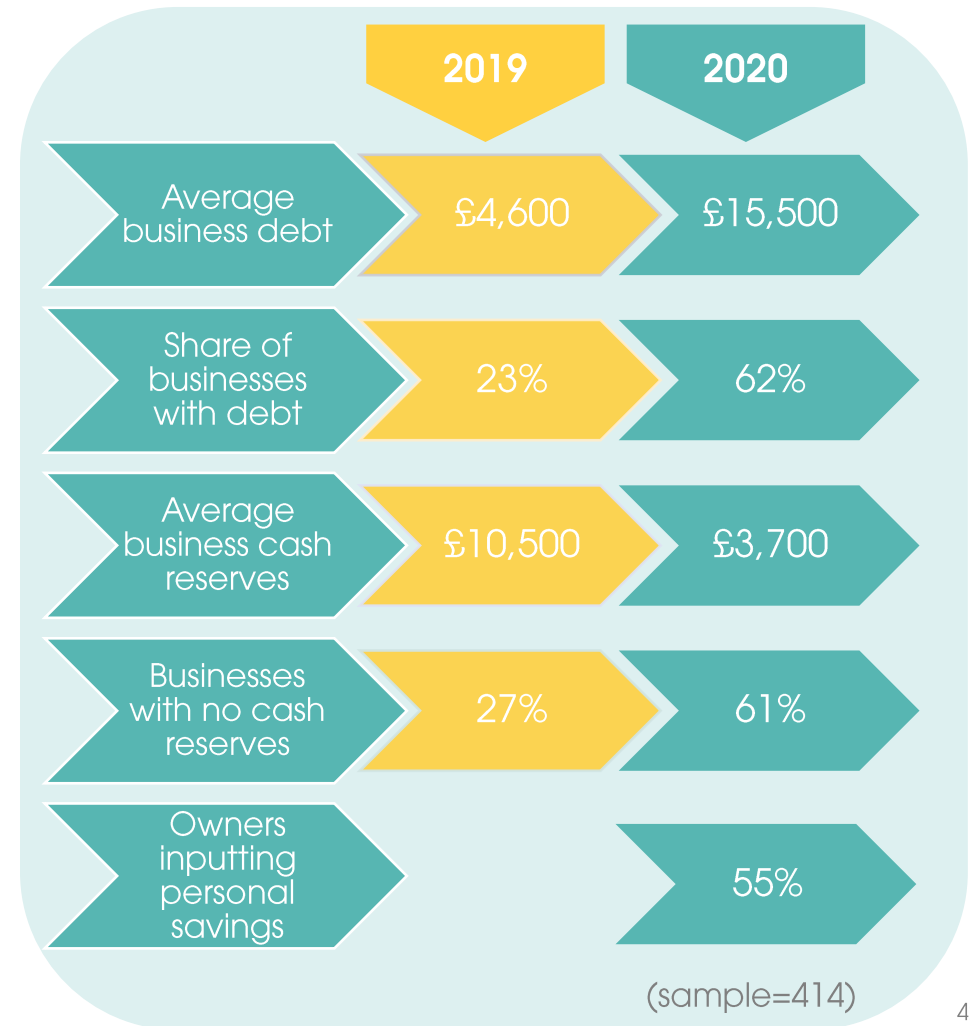
Median annual salary of selected occupations
United Kingdom, 2020

Personal savings used and additional debt

Despite unprecedented support from government, many businesses are still struggling.

Hair and beauty business owners have taken on additional debt and used personal savings to keep their businesses afloat in 2020.

- At the end of 2019, a quarter of businesses had some form of debt – by the end of 2020 it was two thirds.
- Cash reserves held by businesses have more than halved, while the number of businesses with no cash reserves has more than doubled to 61 per cent.
- 55 per cent of owners have used personal savings to support their business during the covid period.
- Average value of savings put in to business so far is £6,500.
- Our data shows as much as £145,000 of savings used by some business owners.



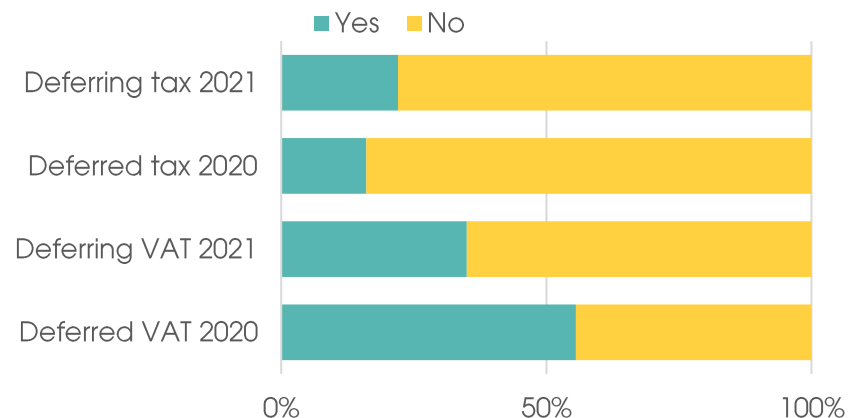
Over half of businesses deferred VAT in 2020.

In response to a reduction in turnover, many businesses have deferred VAT and tax payments in 2020.

Data from November's NHBF survey show hair and beauty businesses see a reduction in VAT to five per cent as the most helpful form of government support they could receive for the upcoming year.

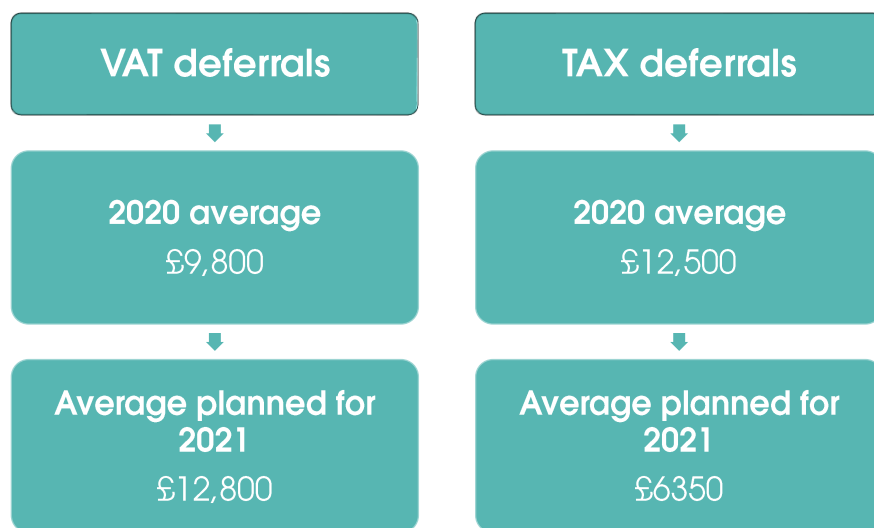
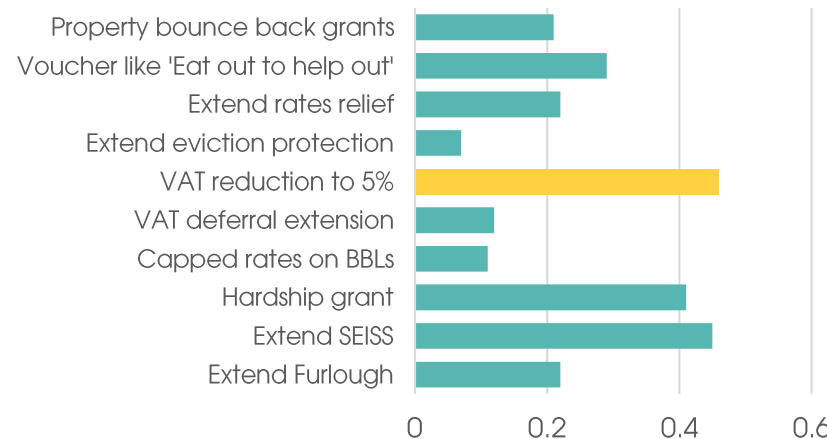
Hair and beauty industry VAT and TAX deferrals

United Kingdom, 2020 (sample=441)



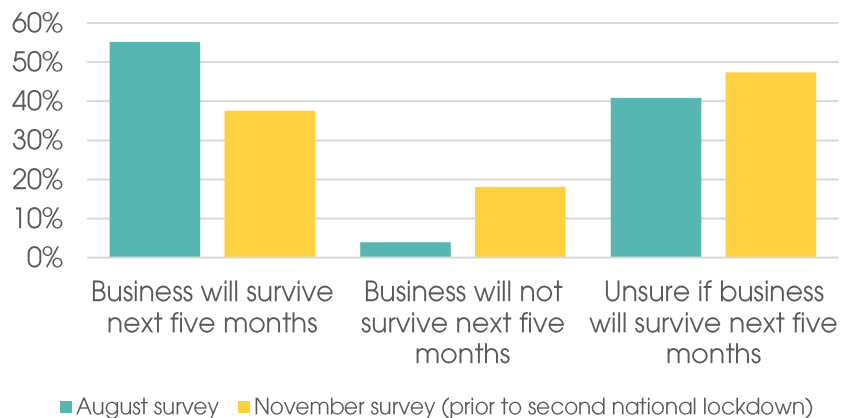
Support most beneficial to hair and beauty businesses in the next twelve months

United Kingdom, 2020 (sample=4182)



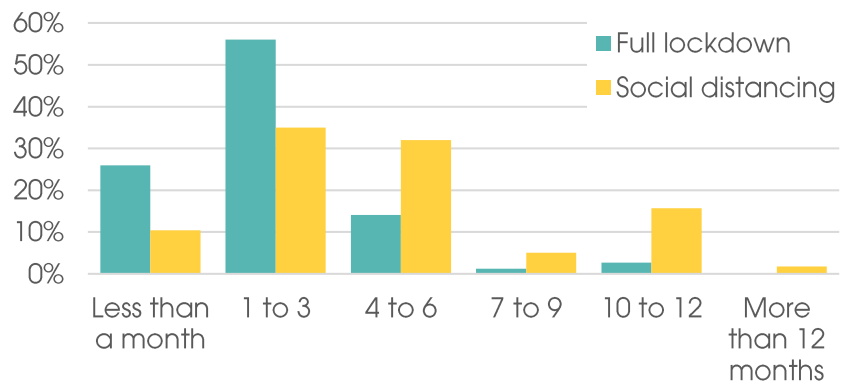
Survival expectations of hair and beauty businesses

United Kingdom, 2020 (sample = 4619)



Number of months survival of hair and beauty businesses without further government support

United Kingdom, 2020 (sample = 412)



	Full lockdown	Social distancing
Average across all businesses	2.3	5.6
Businesses with employees	2.6	6.2
Businesses without employees	2.0	5.0
Chair/ room renters and mobile businesses	2.0	5.7
Businesses with premises	2.3	5.6
Businesses in cities and towns	2.6	6.0
Businesses in villages, suburban, and shopping centres	2.1	5.2
Northern businesses	2.2	5.6
Southern businesses	2.3	5.6
Businesses below VAT threshold	2.3	5.3
Businesses above VAT threshold	2.6	6.3

Average monthly survival expectations of hair and beauty businesses, without further support
United Kingdom, 2020 (sample=412)

We have used the results of our original research, combined with official and industry data, to model the levels of business distress in the health and beauty sector.

The Pragmatix Advisory ‘Vulnerability In Hair and Beauty Enterprises’ (‘VIHBE’) model allows us to estimate the impact of covid on the turnover and costs of businesses in different sub-sectors and of varying sizes, and to simulate different environmental and policy factors on 2021 performance. (See appendix for model assumptions.)

Turnover down £48k leaves 18% hole from 2020

Each hair and beauty enterprise suffered an average cash loss of £17,000 over 2020.

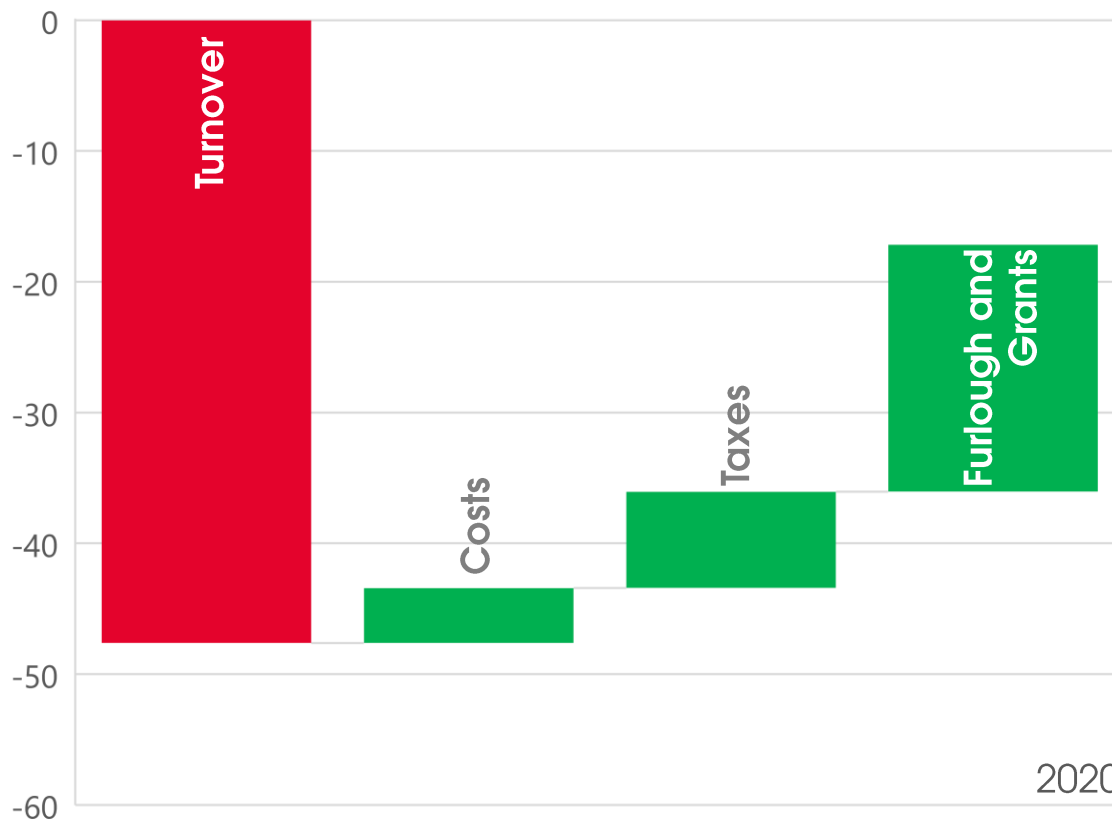
This is the equivalent of eighteen per cent of 2019's revenues (ex VAT).

The industry saw turnover in 2020 fall by 45 per cent against its 2019 performance, which equates to £48,000 per business on average (including VAT).

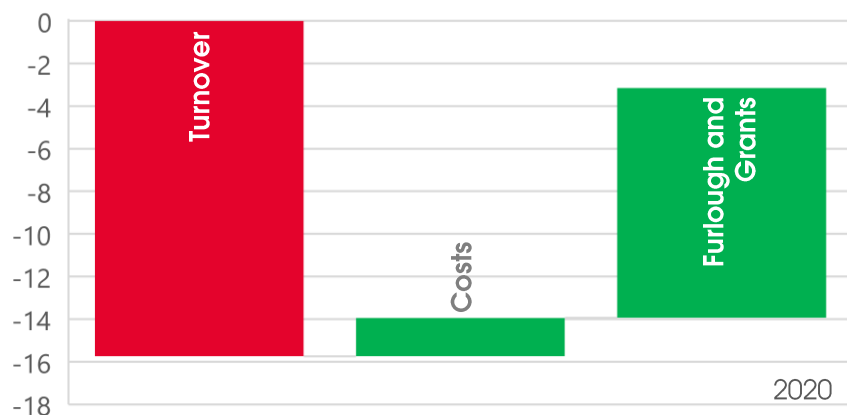
Factors offset some of the lost revenue:

- Reduced costs, including supplies, property and reductions in staff-hours, provided a £4,000 benefit
- Lower VAT, corporation and rates bills delivered a further £7,000
- Government pandemic business support schemes provided a welcome £19,000

Cashflow impact of covid on the 'average' hair and beauty enterprise United Kingdom, change on 2019, £ thousand



Cashflow impact of covid on typical hair and beauty enterprises with turnover of £35,000
United Kingdom, change on 2019, £ thousand



Businesses below VAT threshold saw cash position down eleven per cent

Our modelling shows a hair and beauty business that turned over £69,000 in 2019 would have seen that reduced by an average of £31,000 in 2020.

Cost and tax savings alongside furlough payments and coronavirus grants reduced the gap, but the business was still £11,000 worse off – equivalent to eleven per cent of 2019 turnover.

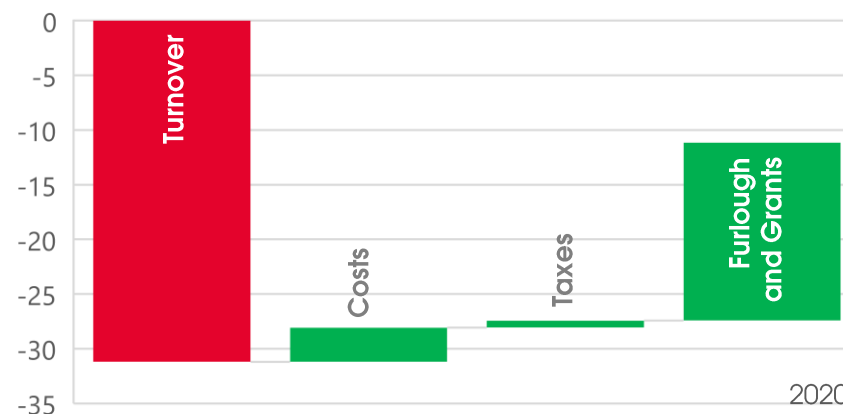
Smallest businesses took hit of £3,000 in 2020

The smallest hair and beauty enterprises saw their cash position last year deteriorate by nine per cent of 2019's turnover.

For those previously earning £35,000, which is our exemplar business for the 'under £50,000' category, turnover typically fell by almost £16,000.

Some cost savings were made – just under £2,000. Government support grants, in particular the Self-employed Income Support Scheme, were a lifeline for small businesses and boosted the cash position by £11,000.

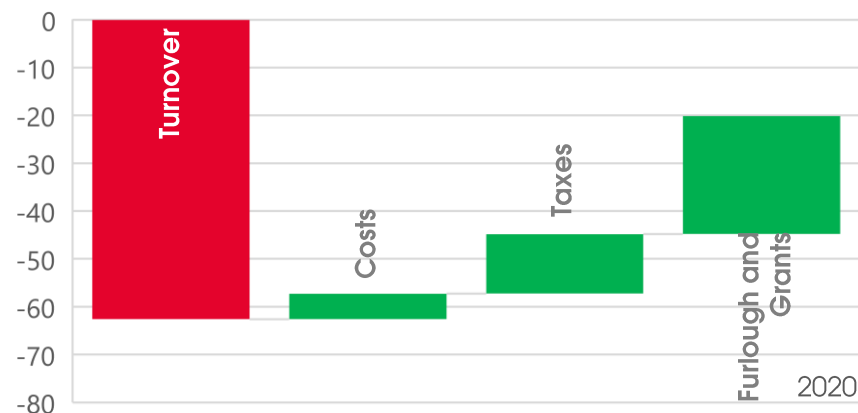
Cashflow impact of covid on typical hair and beauty enterprises with turnover of £69,000
United Kingdom, change on 2019, £ thousand



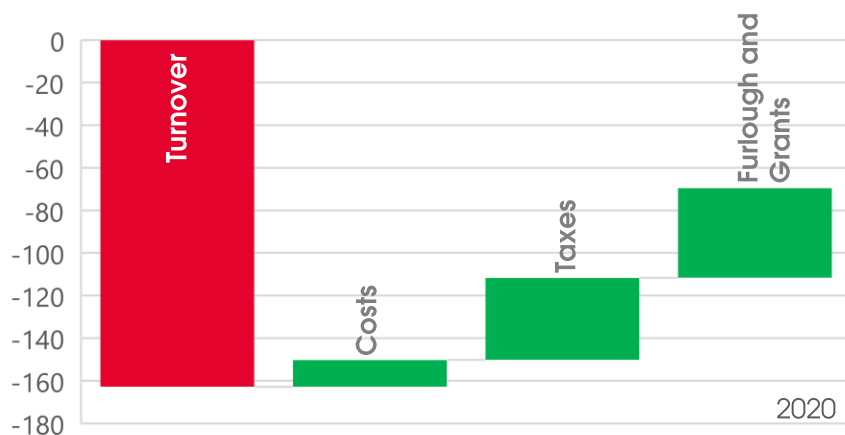
Tougher story for VAT-paying businesses

A typical business in the £85,000-£150,000 turnover category in 2019 ended 2020 with a £20,000 covid deficit – a reduction in their cash position of fourteen per cent of turnover.

Cashflow impact of covid on typical hair and beauty enterprises with turnover of £116,000 exclusive of VAT
United Kingdom, change on 2019, £ thousand



Cashflow impact of covid on typical hair and beauty enterprises with turnover of £302,000 exclusive of VAT
United Kingdom, change on 2019, £ thousand



Largest businesses took biggest hit

The biggest businesses in the hair and beauty sector saw the most impact on their end of year cash position.

Our modelling shows a typical business with turnover over £150,000 in 2019 was down £70,000 in 2020. This equates to nineteen per cent of 2019 turnover, inclusive of VAT.

Although they made cost savings of £13,000, paid £39,000 less in corporation tax and VAT, and received £42,000 in covid-support grants, this could not make up the £163,000 drop in turnover.

VAT registered businesses most vulnerable

We have used the Pragmatix Advisory VIHBE model to assess the number of businesses acutely vulnerable to failure.

We have deployed a tough metric for vulnerability: a business being unable to deliver any reward to its owner (or owner-manager) in a calendar year.

Across the industry as a whole, we estimate that nine per cent of businesses will have been unable to pay or provide a dividend to their owners and owner-managers at all during 2020 because of the impact of covid.

The pandemic will have pushed sixteen per cent of businesses with turnover over the £85,000 VAT registration threshold into this acute level of vulnerability last year.

Businesses and their owners can survive, at least temporarily, in these circumstances by, for example, drawing down reserves. This is no longer an option for many in the sector. Although over three-quarters had cash reserves at the end of 2019, one year later, that share had fallen to 38 per cent. And, for those with reserves, the average value had fallen from £15,600 to £8,500.

Turnover	2020
All industry	+9
All over £85,000	+16
Less than £49,999	+4
£50,000 to £84,999	+8
£85,000 to £149,999	+13
Greater than £150,000	+19

Percentage point change in hair and beauty business acute vulnerability compared to 2019
United Kingdom

Three-fifths of businesses have no cash reserves

Turnover	Average year-end cash reserves for enterprises with reserves				Share of enterprises with no reserves	
	Mean 2019	Mean 2020	Median 2019	Median 2020	2019	2020
All businesses	£15,600	£8,500	£6,000	£5,000	23%	62%
All over £85,000	£19,500	£6,700	£15,000	£10,000	18%	58%
Less than £49,999	£3,100	£1,000	£3,500	£2,000	30%	68%
£50,000 to £84,999	£6,500	£2,700	£6,000	£4,000	20%	56%
£85,000 to £149,999	£11,100	£3,500	£10,000	£9,000	18%	63%
£150,000 and above	£25,000	£8,800	£20,000	£15,000	19%	55%

Cash reserves of hair and beauty business enterprises
United Kingdom

Outlook for 2021

Using the Pragmatix Advisory VIBHE model, we have simulated three scenarios for the hair and beauty sector in 2021.

Our central scenario shows the average hair and beauty business will have an overall hole in its cash position of £41,000 by the end of this year. The smallest enterprises will have lost the equivalent of 29 per cent of 2019 turnover, while the cash position of the largest will be down by 42 per cent of pre-pandemic annual revenues.

The biggest businesses will be the most at risk in 2021. Our model estimates fourteen per cent of businesses over the VAT threshold will be acutely vulnerable, which rises to a quarter in our downside scenario. The downside scenario also shows a fifth of the industry being acutely vulnerable by the end of 2021.

Although larger businesses will pay slightly more than they did in 2020, the amount of tax paid by the average business will be less than half that of 2019. Smaller businesses will pay less than they did last year, as their cash position weakens due to reduced government support grants and SEISS payments.

Central scenario

We have used the Pragmatix Advisory 'VIHBE' model to simulate the industry's performance in 2021.

We do not pretend to be able to predict the coming year with any certainty, but we can build some stylised scenarios in our model to test the scale of change likely for the industry and its vulnerable enterprises.

The key assumptions in the central scenario are:

- Three months of lockdown with businesses closed
- Furlough scheme to end April
- Six months of local tiered operation and strict social distancing, with 70 per cent capacity and prevalence of local lockdowns similar to 2020
- Three months without any restrictions, but demand ten per cent down on pre-covid levels reflecting new behaviours
- SEISS scheme to end April, and coronavirus business grant awards at levels announced in January 2021

Average £41k covid hit to businesses in sector

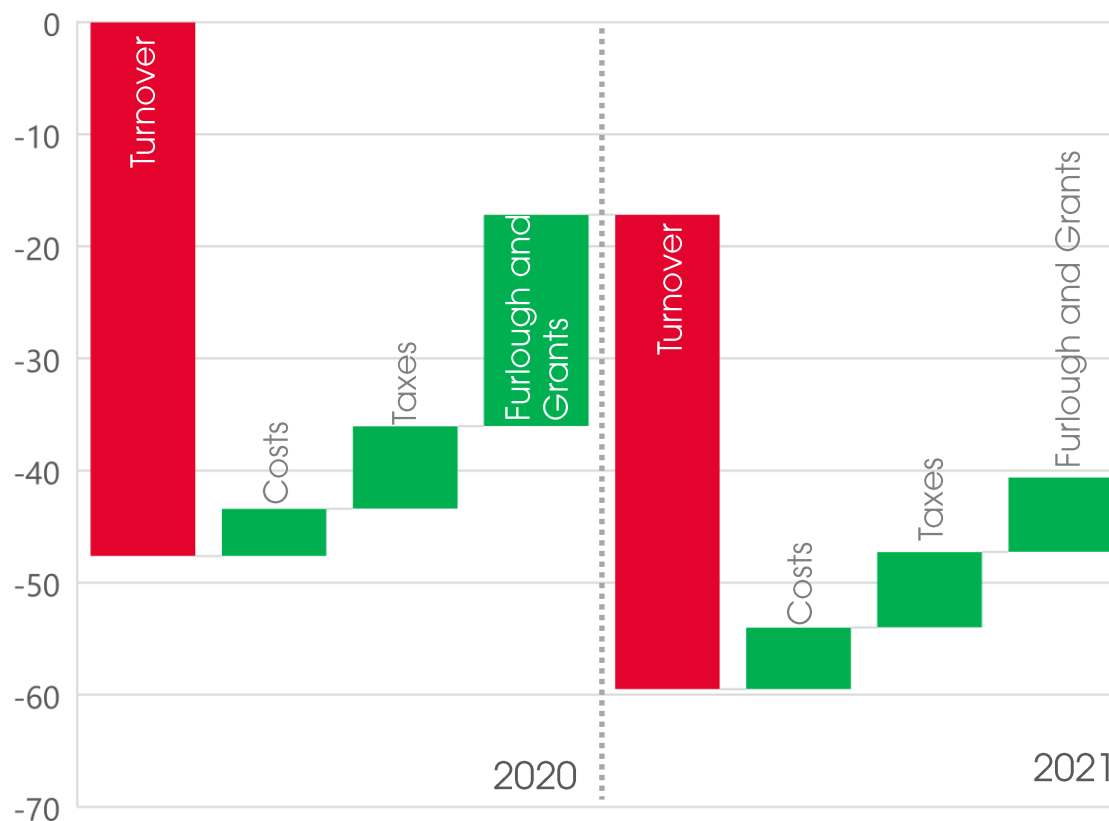
On the basis of our central scenario assumptions for 2021, we anticipate further deterioration in the financial viability of businesses in the industry this year.

We estimate that the average hair and beauty business will see an overall fall in its cash position of £41,000 by the end of 2021.

This is equivalent to 39 per cent of 2019 turnover inclusive of VAT.

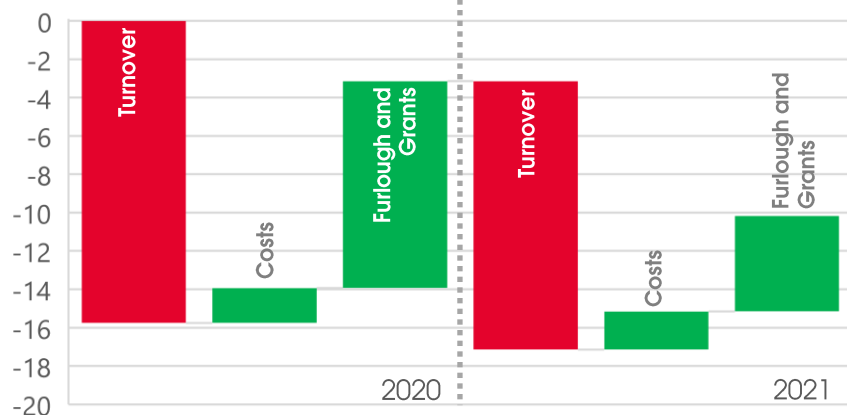
Costs will again be lower in 2021, but a reduction in the value of government grant support received compared with last year will mean a larger gap in the cash position than 2020.

Cashflow impact of covid on hair and beauty enterprises with turnover of £94,000 exclusive of VAT
United Kingdom, change on 2019, £ thousand



Cashflow impact of covid on hair and beauty enterprises with turnover of £35,000

United Kingdom, change on 2019, £ thousand



Tougher outlook for those in the £50,000 to £84,999 bracket

The end of 2021 will see cash positions down by almost £29,000, equal to 41 per cent of their 2019 turnover.

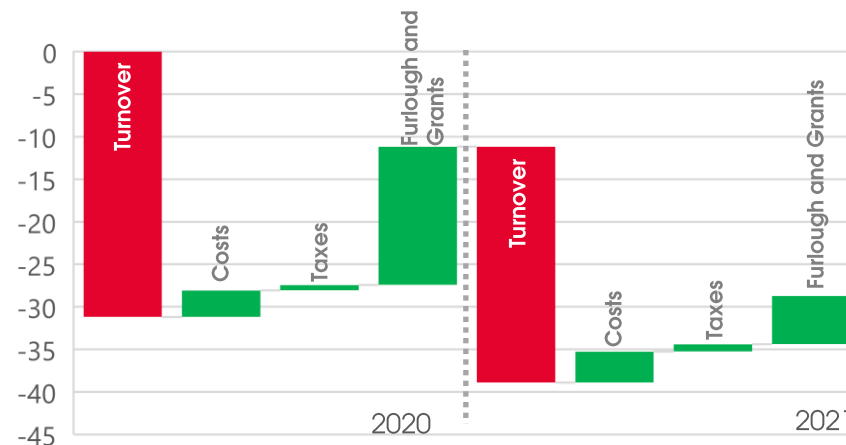
Businesses in lowest turnover band down equivalent of 29 per cent by the end of 2021

Additional lockdowns and covid-restrictions this year will see issues compounded for small hair and beauty enterprises. They will end 2021 down £10,000, the equivalent of 29 per cent of their 2019 turnover.

They will be impacted most by the end of the Self-employed Income Support Scheme, as grants will fail make up the same share of lost turnover as they did in 2020.

Cashflow impact of covid on hair and beauty enterprises with turnover of £69,000

United Kingdom, change on 2019, £ thousand

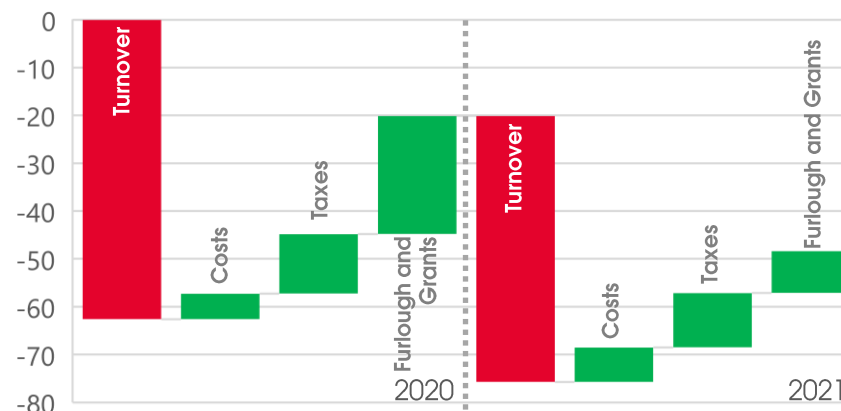


Two-year fall in cash position equal to 35 per cent of 2019 turnover for those VAT registered

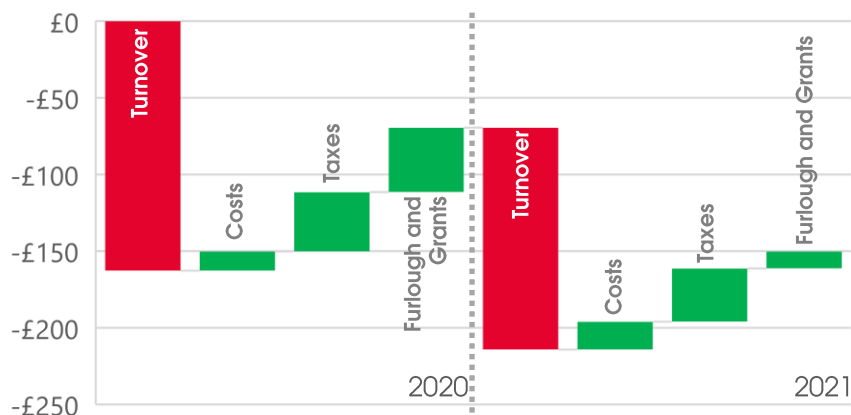
Despite further government support in 2021, businesses in the £85,000 to £149,999 turnover bracket will continue to be impacted in 2021.

We expect a business in this band to be down over £48,000 by the end of this year, equal to 35 per cent of 2019 turnover.

Cashflow impact of covid on hair and beauty enterprises with turnover of £116,000 exclusive of VAT
United Kingdom, change on 2019, £ thousand



Cashflow impact of covid hair and beauty enterprises with turnover of £306,000 exclusive of VAT
United Kingdom, change on 2019, £ thousand



Largest businesses will face biggest combined loss

For the average business that earned over £150,000 in 2019, 2021 is set to be another challenging year.

Though tax and cost savings will continue this year, the lesser grant and furlough support will hit hard.

Modelling shows a combined drop in cash position of £150,000, the equivalent of 42 per cent of 2019 turnover.

Biggest firms remain most vulnerable in 2021

A large proportion of businesses in the sector will remain acutely vulnerable in 2021.

Fourteen per cent of VAT-registered businesses are expected to be unable to deliver any income or dividends to their owners or owner-managers this year.

Given the weak performance in 2020, the large and growing proportion of businesses with no cash reserves, and this level of acute vulnerability, a sharp and significant increase in business failure can be expected in the sector over 2021.

	2021
Industry average	+11
Industry over VAT threshold	+14
Industry with turnover < £49,999	+8
Industry with turnover £50,000 to £84,999	+11
Industry with turnover £85,000 to £149,999	+13
Industry with turnover > £150,000	+15

Percentage point change in hair and beauty business acute vulnerability compared to 2019, central scenario
United Kingdom

Scrapped retention bonus blow to finances

During interviews with hair and beauty business owners, many pointed to the scrapping of the Job Retention Bonus as a blow to their finances.

Our model shows the impact this scheme would have had across various turnover bands.

The bonus would have improved the cash position for all sizes of hair and beauty business, as well as reducing those falling into the acutely vulnerable category.

For the biggest businesses, the bonus would have improved their cash position by an average of £8,000 and reduced those in the acutely vulnerable category by eight percentage points.

	Cash position, £		Acute vulnerability, percentage point change	
	2021	2021 with JRB	2021	2021 with JRB
Industry average	-17,273	-15,027	+11	+8
Industry over VAT threshold	-36,609	-31,364	+14	+8
Industry with turnover < £49,999	-5,386	-4,691	+8	+6
Industry with turnover £50,000 to £84,999	-14,061	-12,706	+11	+10
Industry with turnover £85,000 to £149,999	-19,586	-16,371	+13	+10
Industry with turnover > £150,000	-57,707	-49,945	+15	+7

Cash position and acute vulnerability of hair and beauty businesses compared to 2019, central scenario, United Kingdom

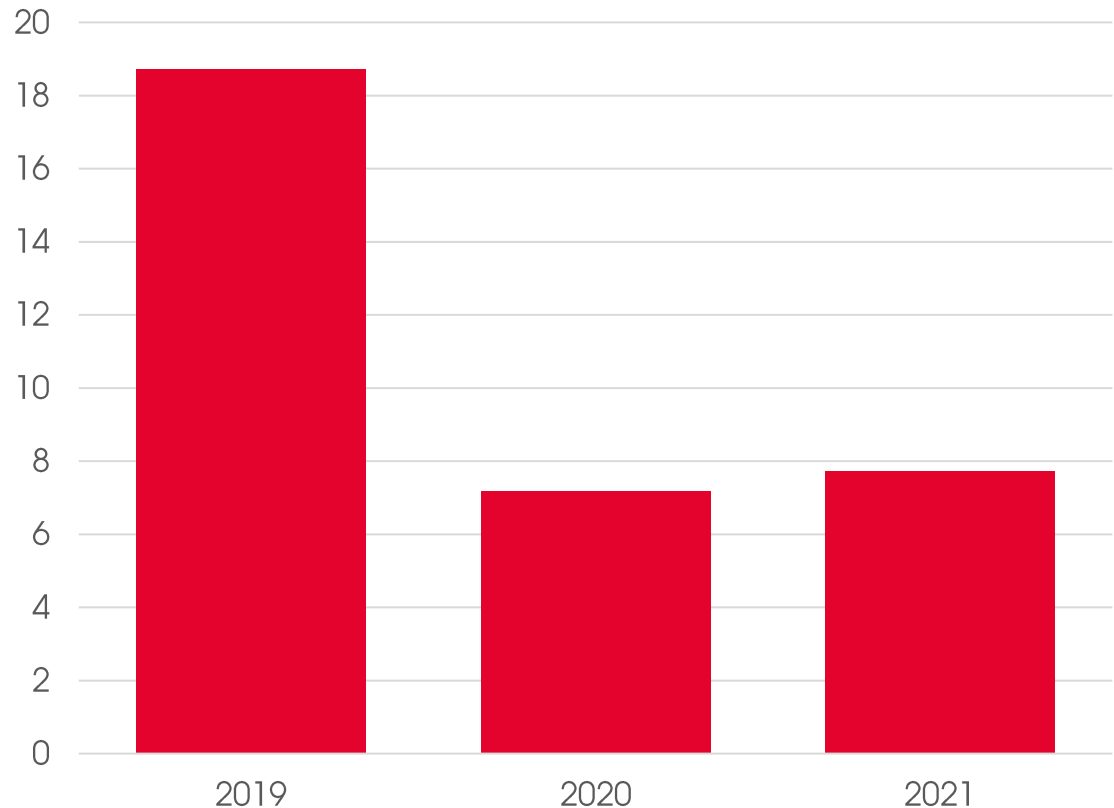
Tax paid this year will be less than half of 2019

Hair and beauty businesses will pay an average of £7,500 in taxes this year.

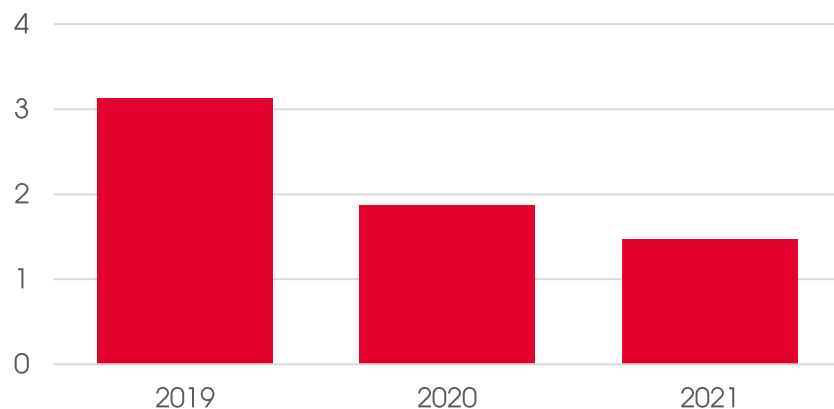
This includes VAT, income taxes National Insurance and corporation tax.

This is marginally more than in 2020, but still £11,000 less than 2019.

Total tax paid by the 'average' hair and beauty enterprise
United Kingdom, £ thousand



Total tax paid by the 'average' hair and beauty enterprise with 2019 turnover less than £84,999 (excluding VAT)
United Kingdom, £ thousand



Businesses under VAT threshold will pay less tax than 2020

The cash position of smaller hair and beauty enterprises was boosted in 2020 by the level of grant support available.

Lower levels of government support in 2021 means businesses with turnover of less than £85,000 will pay less tax than they did in 2020.

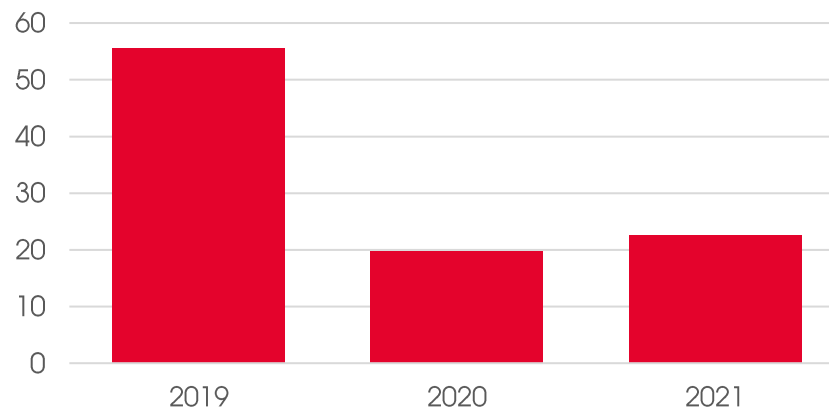
Total tax paid will be around half of 2019 levels.

VAT registered enterprises will pay slightly more than 2020, but still far less than 2019

The biggest hair and beauty businesses will pay £3000 more in tax this year than they did in 2020.

This will still be significantly down on 2019, when the average business over the VAT threshold paid £56,000. In 2021, they will pay only £23,000.

Total tax paid by the 'average' hair and beauty enterprise with 2019 turnover more than £85,000 (excluding VAT)
United Kingdom, £ thousand



Alternative scenarios

We have developed and tested two alternative scenarios for 2021 to provide a sensitivity test for our central scenario results.

The upside scenario has three months lockdown, three months open with social distancing, six months fully open with demand at 90 per cent. Furlough and SEISS until end of April, coronavirus business grants at levels announced at the start of January 2021.

The downside scenario has four months lockdown, eight months open with social distancing. Furlough and SEISS until end of April, coronavirus business grants at levels announced at the start of January 2021.

Over 1-in-5 firms acutely vulnerable in downside

Although the upside scenario improves prospects, the downside places 21 per cent of businesses into acute vulnerability.

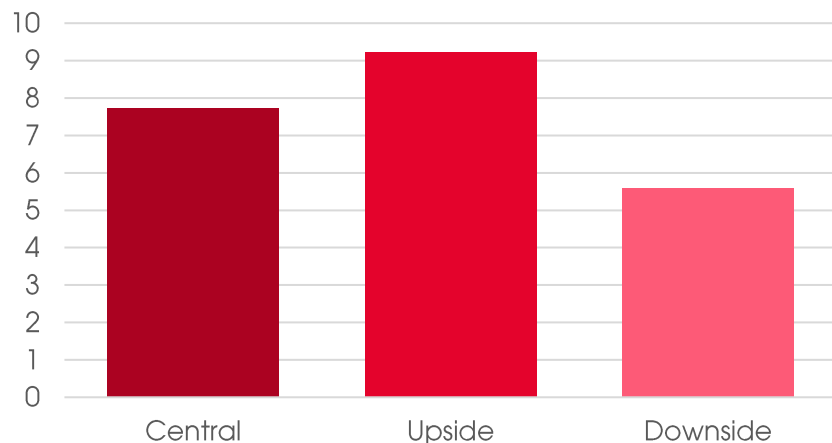
Over a quarter of VAT-registered firms are unable to deliver any income for their owners or owner-managers in 2021 under the tougher assumptions.

	2020	2021 Downside	2021 Upside
Industry average	+9	+21	+7
Industry over VAT threshold	+16	+26	+10
Industry with turnover < £49,999	+4	+17	+5
Industry with turnover £50,000 to £84,999	+8	+21	+8
Industry with turnover £85,000 to £149,999	+13	+25	+11
Industry with turnover > £150,000	+19	+28	+10

Percentage point change in hair and beauty business acute vulnerability compared to 2019, by scenario
United Kingdom

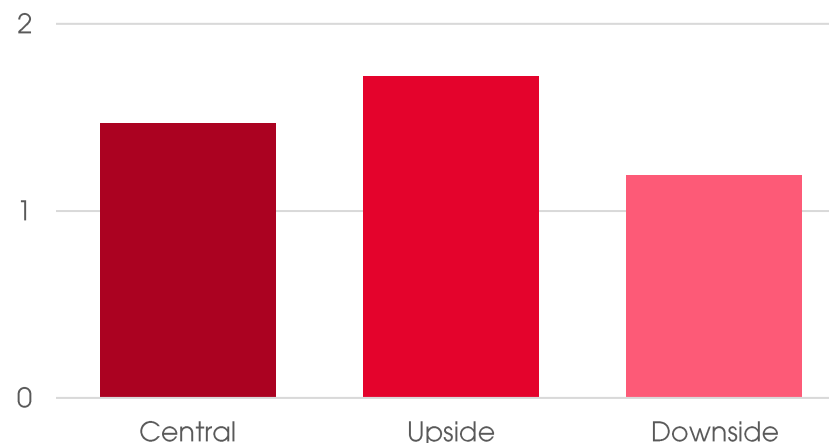
Total tax paid by the 'average' hair and beauty enterprise

United Kingdom, 2021, £ thousand



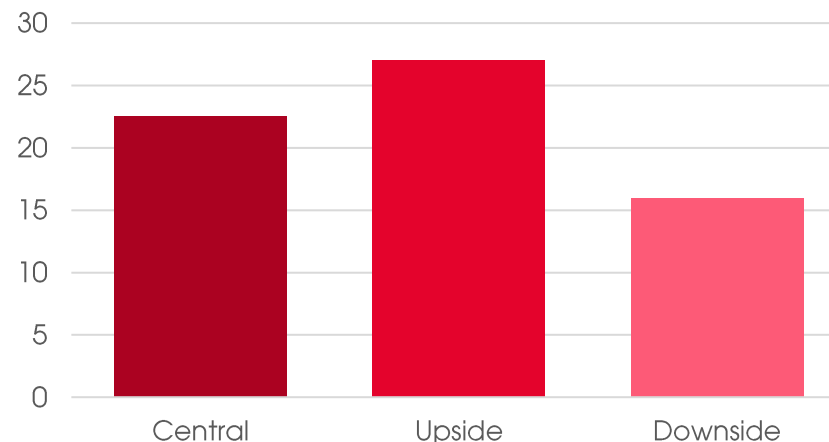
Total tax paid by the 'average' hair and beauty enterprise with turnover less than £84,999 in 2019

United Kingdom, 2021, £ thousand



Total tax paid by the 'average' hair and beauty enterprise with turnover more than £85,000 in 2019

United Kingdom, 2021, £ thousand



Tax receipts further knocked back under downside scenario

While under the central scenario, the average business will contribute £7,700 in taxes in 2021, this will fall to £5,600 under the downside assumptions and increase to £9,200 with the upside.

Evaluating policy options

In order to meet the financial challenges facing hair and beauty businesses in 2021, we have modelled three possible complementary policy responses.

They are a reduction in the VAT rate to five per cent, an extension of the Self-employed Income Support Scheme, and additional coronavirus support grants. We have examined the impacts individually and combined the three on the outlook for 2021.

While there are pros and cons to a VAT reduction, it would help to close a third of the 2021 cash gap for businesses in the sector. It would also half the number of firms with turnover above the £85,000 VAT threshold that would become acutely vulnerable.

All three policy options impact business cash positions and vulnerability in different ways, but a combination of all three would limit the risk of business failure.

Although the return to the Exchequer would be lower with the reduced rate of VAT from those businesses that carry on trading, the impact on overall tax receipts and government spending may be positive as fewer businesses fail and fewer workers become unemployed.

Evaluating policy options

We have used the Pragmatix Advisory 'VIHBE' model to simulate a reduction in VAT on the hair and beauty industry as well as other potential covid emergency measures.

We have examined the impact individually and combined of three potential policy measures on the outlook for 2021:

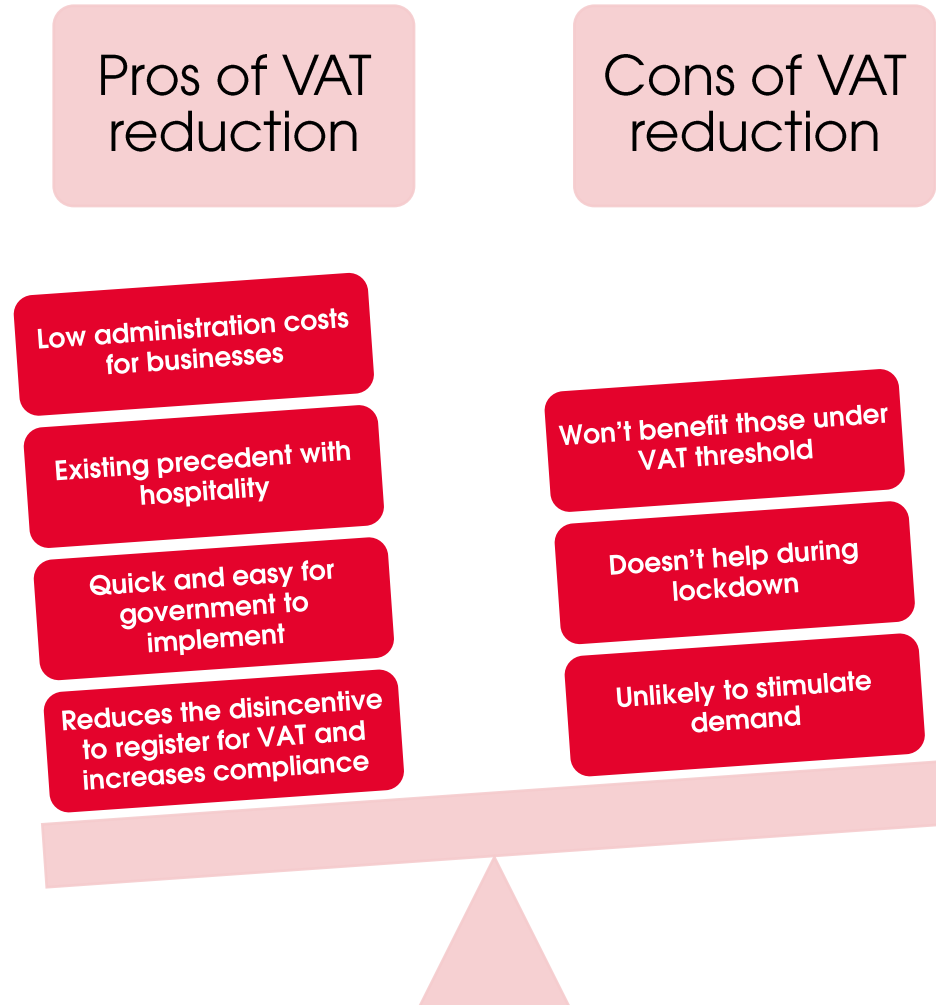
- VAT for hair and beauty services reduced from twenty to five per cent
- Self-employed income support scheme extended to the end of July
- Coronavirus business grants extended to be equivalent in scale and value to those available in 2020

Pros and cons of hospitality-like VAT reduction

A reduction in VAT for hair and beauty enterprises similar to that applied to the hospitality sector will support their recovery after lockdown has ended and businesses reopen.

In our discussions with business owners, none reported that they would pass on much or any of a VAT reduction to customers through lower prices – although some said it would help them minimise any price rises in 2022.

Instead, reduced VAT bills will be used directly to bolster businesses' finances.



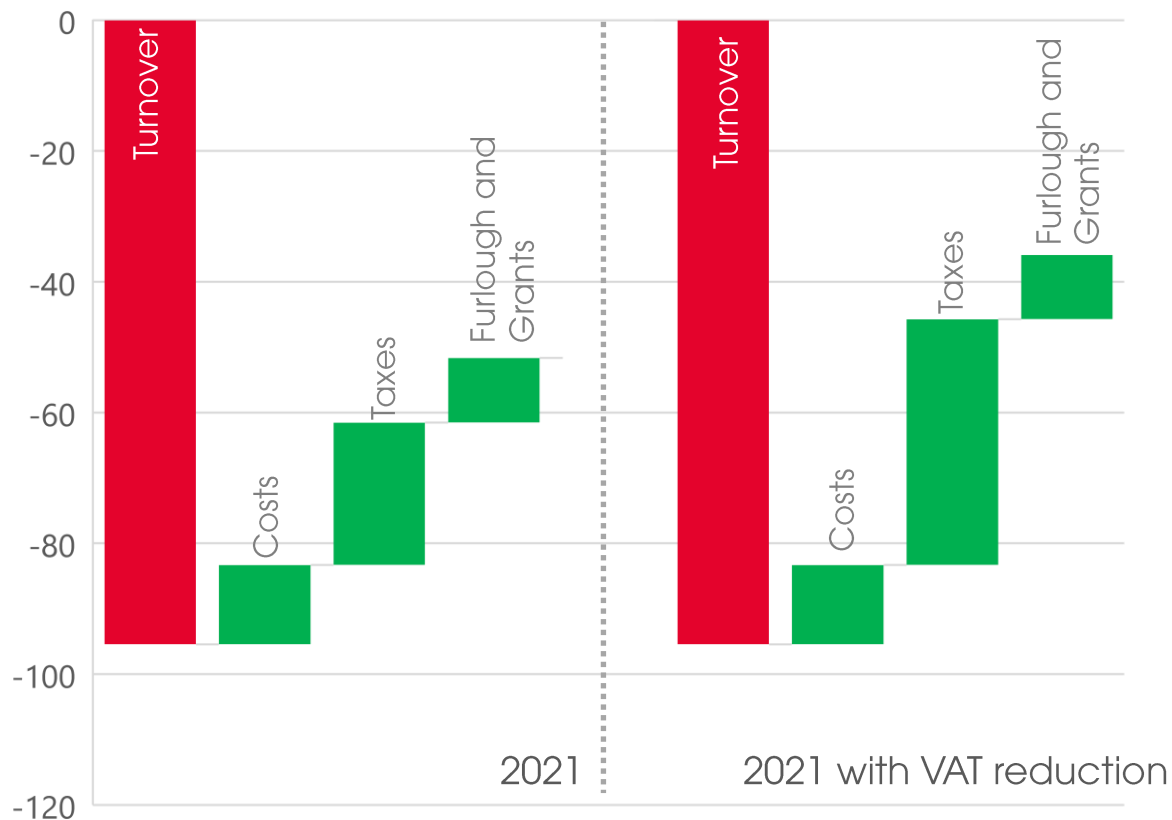
5% rate would close third of the 2021 cash gap

For the average VAT-registered hair and beauty business, a reduction in the VAT rate to five per cent will provide an additional £16,000 in 2021.

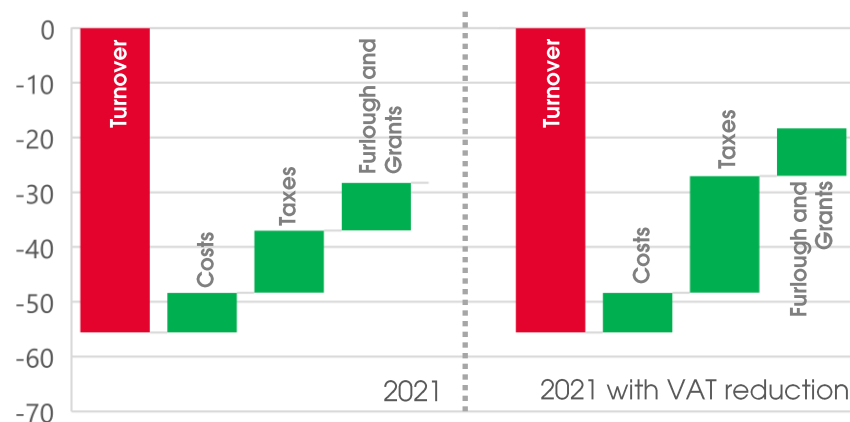
This would reduce the cash position gap by almost a third.

(For ease of analysis, the VAT reduction is assumed to apply for the full 2021 calendar year.)

Cashflow impact of covid on hair and beauty enterprises with turnover above VAT threshold
United Kingdom, change on 2019, £ thousand

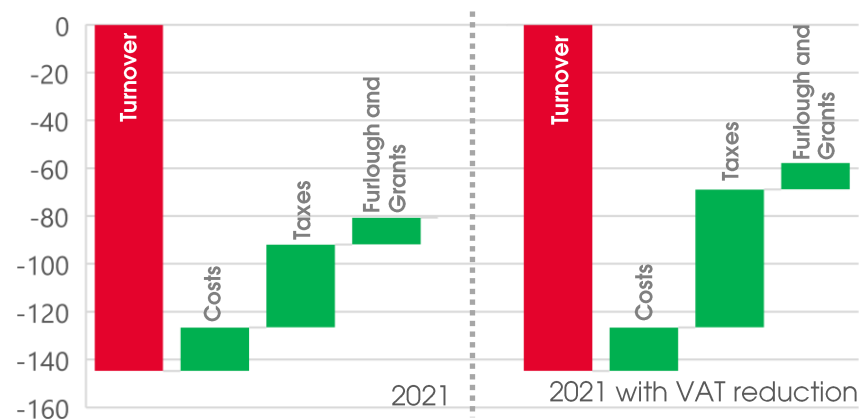


Cashflow impact of covid on hair and beauty enterprises with turnover of £116,000 exclusive of VAT
United Kingdom, change on 2019, £ thousand



Businesses in the £85,000 to £149,999 turnover band save £10,000

Cashflow impact of covid hair and beauty enterprises with turnover of £302,000 exclusive of VAT
United Kingdom, change on 2019, £ thousand



Businesses with turnover over £150,000 retain £23,000 on average

Lower VAT halves vulnerable registered firms

A five per cent VAT rate will reduce the share of VAT-registered businesses that are acutely vulnerable from fourteen to six per cent.

	2020	2021	2021 with 5% rate of VAT
Industry average	+9	+11	+8
Industry over VAT threshold	+16	+14	+6
Industry with turnover < £49,999	+3	+8	+8
Industry with turnover £50,000 to £84,999	+8	+11	+11
Industry with turnover £85,000 to £149,999	+14	+13	+5
Industry with turnover > £150,000	+19	+15	+7

Percentage point change in hair and beauty business acute vulnerability compared to 2019, central scenario
United Kingdom

Different measures impact in different ways

Mix of measures will further support the sector. Extending grants, extending SEISS and reducing VAT will add over £8,000 to the average business, but substantial deficits remain.

The overall impact of a VAT reduction is larger than that of the additional grants and extension of the SEISS when tested separately.

The impact of the different policies vary between different businesses. The VAT reduction benefits only larger businesses, while the grants target those with rateable property and the SEISS support self-employed.

Grant support is important during period of lockdown, while businesses are closed but, once open, a VAT reduction is effective.

2021	Central scenario	5% rate of VAT	Additional grants	Extension of SEISS	5% VAT, additional grants and extension to SEISS
Industry average	-17,273	-12,586	-15,894	-16,223	-8,886
Industry over VAT threshold	-36,609	-20,843	-24,429	-34,610	-16,838
Industry with turnover < £49,999	-5,386	-5,836	-4,442	-3,748	-1,862
Industry with turnover £50,000 to £84,999	-14,061	-14,061	-12,897	-12,760	-10,424
Industry with turnover £85,000 to £149,999	-19,586	-9,625	-17,101	-19,586	-5,068
Industry with turnover > £150,000	-57,707	-34,745	-55,902	-57,706	-31,424

Cash position of hair and beauty businesses compared to 2019, central scenario, £ United Kingdom

Combination of measures limits risk of failures

Extending grants, extending SEISS and reducing VAT together will reduce the share of acutely vulnerable businesses from eleven to four per cent.

From the three tested policy options, only the VAT reduction has a significant impact on the number of larger businesses that are acutely vulnerable.

Additional grants and the extension of SEISS do little or nothing to reduce the fragility of larger businesses in the sector.

2021	Central scenario	5% rate of VAT	Additional grants	Extension of SEISS	5% VAT, additional grants and extension to SEISS
Industry average	+11	+8	+9	+9	+4
Industry over VAT threshold	+14	+6	+12	+14	+5
Industry with turnover < £49,999	+8	+8	+5	+6	+1
Industry with turnover £50,000 to £84,999	+11	+11	+10	+10	+7
Industry with turnover £85,000 to £149,999	+13	+5	+11	+13	+3
Industry with turnover > £150,000	+15	+7	+14	+15	+7

Percentage point change in hair and beauty business acute vulnerability compared to 2019, central scenario
United Kingdom

Exchequer loss unlikely as businesses stay open

Reducing the VAT rate has a reasonable chance of improving the government's fiscal position.

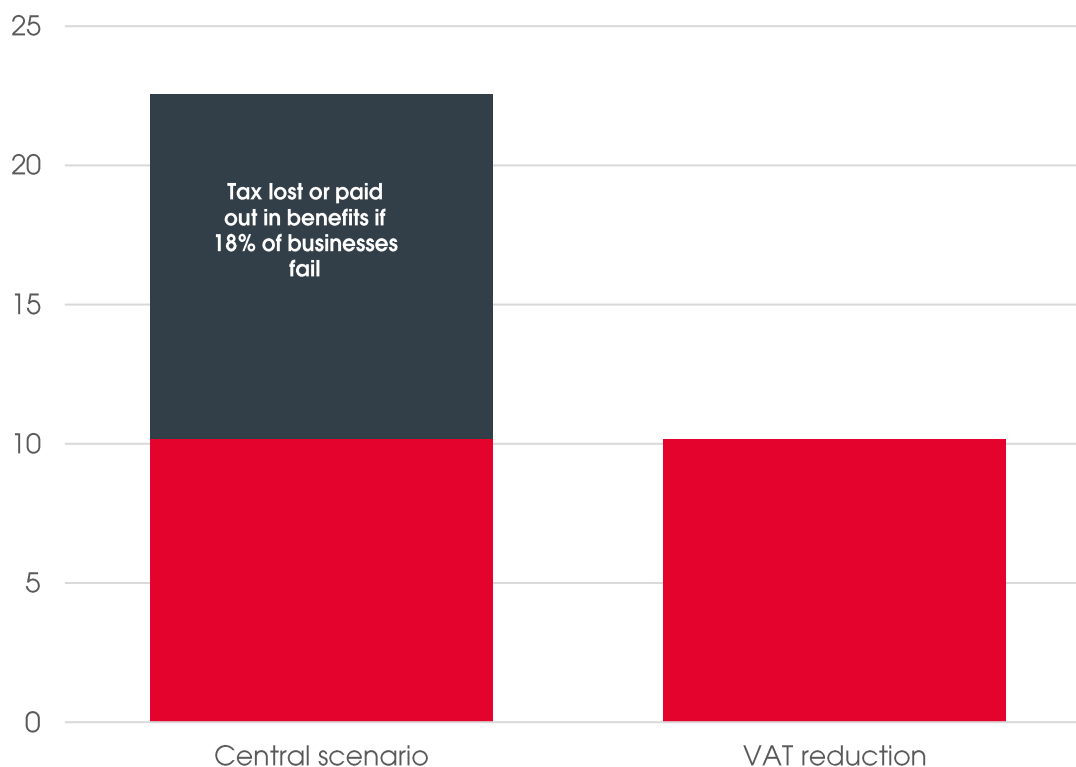
A lower VAT rate will reduce the amount paid in taxes by the average active business in the sector from £22,500 to £10,200 in 2021.

But the higher rate of VAT will make more businesses vulnerable and likely lead to higher failure rates.

For each business failure, future tax revenue is lost and government expenditure on benefits potentially increases.

It requires only eighteen per cent of businesses to fail at the higher VAT rate that wouldn't have with the five per cent tax for the VAT reduction policy to pay for itself for the Exchequer. This is on the assumption that workers become unemployed for 2021.

Total tax paid by 'average' hair and beauty enterprise with turnover more than £85,000 in 2019
United Kingdom, 2021, £ thousand



Lower VAT helps in downside scenario but it remains bleak for the sector

	2020	2021	2021 with 5% rate of VAT
Industry average	+8.6	+7.3	+5.1
Industry over VAT threshold	+15.8	+9.6	+2.3
Industry with turnover < £49,999	+3.47	+5.4	+5.4
Industry with turnover £50,000 to £84,999	+8.1	+7.6	+7.6
Industry with turnover £85,000 to £149,999	+13.5	+11.2	+3.6
Industry with turnover > £150,000	+18.8	+10.4	+3.0

Percentage point change in hair and beauty business acute vulnerability compared to 2019, upside scenario
United Kingdom

	2020	2021	2021 with 5% rate of VAT
Industry average	+8.6	+21.0	+18.3
Industry over VAT threshold	+15.8	+26.4	+17.3
Industry with turnover < £49,999	+3.47	+16.6	+16.6
Industry with turnover £50,000 to £84,999	+8.1	+21.4	+21.4
Industry with turnover £85,000 to £149,999	+13.5	+24.7	+16.0
Industry with turnover > £150,000	+18.8	+28.5	+19.0

Percentage point change in hair and beauty business acute vulnerability compared to 2019, downside scenario
United Kingdom

Appendix



The business of hair, barbering and beauty

For the purposes of this report, we have defined the hair and beauty industry as class 96.02 in the Office for National Statistics' standard industrial classification (SIC 2007) of economic activities.

It includes all those enterprises whose primary function involves hairdressing, barbering and/or the provision of beauty treatments (including but not limited to facial massages, manicures and make-up).

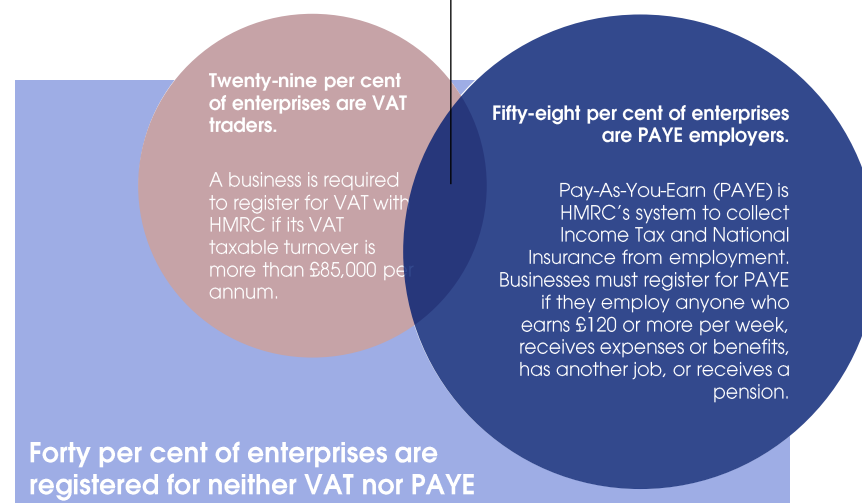
It does not include businesses that manufacture hair and beauty products. Although businesses within the hair and beauty industry may at times serve as retailers of such products, this is not their primary business function and accounts for only a small share of turnover.

Many estimates of the size of the industry published by the Office for National Statistics rely on HM Revenue & Customs data and relate only to VAT and/or PAYE registered enterprises.

We estimate that the hair and beauty industry includes nearly 30,000 more businesses than these official statistics suggest.

The vast majority (93 per cent) of these hidden enterprises are self-employed individuals or sole-traders, most commonly (34 per cent) operating mobile salons or renting chairs / rooms. Just five per cent of hidden enterprises offer employment to more than one person. One third of these businesses operate in villages, compared with seven per cent in cities.

Twenty-seven per cent of enterprises (61 per cent of companies, but just ten per cent of self-employed / sole traders) are registered for both VAT and PAYE.



The hair and beauty industry
United Kingdom, survey data, 2020

Variations in ONS data sources

Source	Inter-Departmental Business Register	Business Register Employment Survey	Annual Business Survey	ONS Special Analysis by NHBF request*	Annual Population Survey
Description	Comprehensive list of businesses in the United Kingdom based primarily on administrative data provided by HMRC.	Structural business survey of enterprises capturing employment by detailed industry for Great Britain.	The main ONS structural business survey of enterprises capturing financial information for businesses representing the non-financial business economy in the United Kingdom.		Continuous household survey capturing the main social and labour market variables in the United Kingdom between censuses.
Year	2020 release	2019	2018		2019
Enterprises	44,880		43,292	44,835	-
Turnover	£5,389,687,000	-	£4,466,000,000	£8,205,052,000	-
GVA	-	-	£3,364,000,000	-	-
Employment	189,269	177,600	160,000	-	286,795
Employees	165,748	155,400	-	-	261,698 including 166,478 hair and 95,220 beauty

Economic impact

Our estimates of the full economic impact of the industry are based on multipliers published by the Office for National Statistics and the Scottish Government.

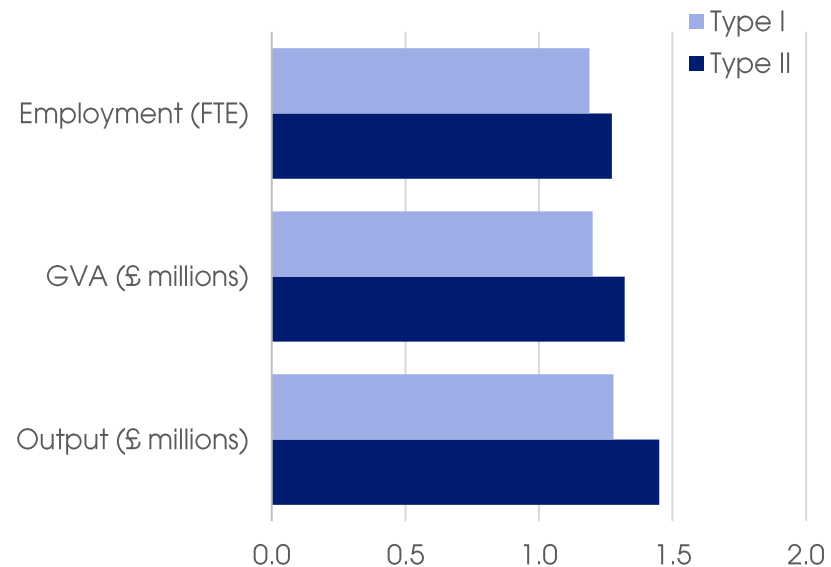
These multipliers potentially represent a conservative approach as the multipliers are significantly lower than those calculated by other economic impact studies, e.g. Oxford Economics (May 2019).

Type I GVA and output multipliers are based on the multipliers for the 'other personal service activities' sector in the United Kingdom Input-Output Analytical Tables for 2016.

The Type I employment multiplier is based on the Blue Book 2018 consistent estimate of the FTE multiplier for the 'other personal service activities' sector.

Type II multipliers were calculated by scaling the Type I multipliers by the equivalent multipliers for Scotland (2017).

Hair and beauty industry multipliers
United Kingdom, ONS data with Pragmatix Advisory calculations, 2016



Pragmatix Advisory ‘VIHBE’ indicative model: Assumptions

The Pragmatix Advisory ‘Vulnerability In Hair and Beauty Enterprises’ (‘VIHBE’) indicative model allows us to estimate the impact of covid on the turnover and costs of businesses in different sub-sectors and of varying sizes, and to simulate different environmental and policy factors on 2021 performance.

Assumptions:

Reduction in business rates of 40 per cent in 2020 and 13 per cent in 2021, reduction in property costs of 5 per cent in 2020, but no reduction in 2021, reduction in input goods and services of 23 per cent in 2020 and 20 per cent in 2021, Furlough paying 38 per cent of employee salaries in 2020 and 33 per cent in 2021, FTE salary of £16,529 in 2019, increasing in line with national minimum wage increases in 2020 and 2021

Central scenario:

Three months of lockdown with businesses closed, furlough scheme to end April, six months of local tiered operation and strict social distancing, with 70 per cent capacity and prevalence of local lockdowns similar to 2020, three months without any restrictions, but demand ten per cent down on pre-covid levels reflecting new behaviours, SEISS scheme to end April, and coronavirus business grant awards at levels announced in January 2021

Upside scenario:

Three months lockdown, three months open with social distancing, six months fully open with demand at 90 per cent. Furlough and SEISS until end of April, coronavirus business grants at levels announced at the start of January 2021.

Downside scenario:

Four months lockdown, eight months open with social distancing. Furlough and SEISS until end of April, coronavirus business grants at levels announced at the start of January 2021.

Policy scenarios:

VAT for hair and beauty services reduced from twenty to five per cent, Self-employed income support scheme extended to the end of July, Coronavirus business grants extended to be equivalent in scale and value to those available in 2020

Type of business	Weight
Barbershop	20%
Beauty salon	13%
Hair and beauty salon	11%
Hair salon	23%
Nail salon	5%
Chair or room renter	18%
Mobile	10%

Turnover bracket (exclusive of VAT)	Weight*
£0 to £49,999	40%
£50,000 to £84,999	30%
£85,000 to £99,999	5%
£100,000 to £149,999	12%
£150,000 to £499,999	12%
£500,000 to £999,999	1%
£1 million+	0.3%

NHBF and Pragmatix Advisory surveys

NHBF and Pragmatix Advisory survey ran online from 14 December 2020 to 6 January 2021 on SurveyMonkey platform, and was open to all businesses in the hair and beauty sector:

- The survey had 1644 individual respondents.
- Respondents were presented with questions that were filtered based on previous answers (for example whether or not they were VAT registered)
- Questions posed were a mix of multiple choice and open which requested figures
- 28 per cent of respondents completed all relevant questions

Other NHBF surveys referenced in report:

- State of Trade Summary, August 2020 - conducted online via SurveyMonkey platform from 20 to 31 August 2020. Survey received 2,018 individual responses.
- State of the Industry Survey, November 2020 - conducted online via SurveyMonkey platform from 5 to 16 November 2020. Survey received 5,072 individual responses.

Interview sample

	City centre	High street	Suburban	Small town	Rural / remote
Northern England		1 x Hair & Beauty Salon	1 x Chair renter	2 x Hair Salon	1 x Barber shop
Midlands and Eastern England	1 x Hair Salon	1 x Hair Salon	1 x Beauty Salon	1 x Hair Salon	1 x Hair Salon
London and Home Counties		1 x Hair & Beauty Salon	1 x Hair Salon 1 x Barber shop	1 x Hair Salon	
Southern England	1 x Hair Salon	1 x Hair & Beauty Salon	1 x Hair Salon	1 x Hair Salon	1 x Hair Salon
Scotland	1 x Hair Salon		1 x Chair renter		
Northern Ireland				1 x Barber shop	

Authors

This report has been written and the research behind it carried out by a team from Pragmatix Advisory.

Pragmatix Advisory help businesses, trade associations and public bodies overcome their biggest challenges through the intelligent and pragmatic use of research and analysis.

The team was led by Mark Pragnell, director. Rebecca Munro was project coordinator with Clare Leckie as consultant and analyst.

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