Diagonal Reports

SAMPLE PAGES

THE PROFESSIONAL BEAUTY MARKET USA 2006

(BEAUTY – AESTHETIC – SPA – DAY SPA – INSTITUTE – SALON)

USA SECTION 1 – SUMMARY DATA

Number of professional beauty service outlets*:
xxx total.
xx spas/day spas.

Employees:
xx total
xxx to xxx in the spas/day spas.

Turnover: $xx billion total
$xx billion in spas/day spas.
Of turnover some xx% is from treatments/services, and x% from product retail on average in spas/day spas.

Trends: positive.
Spas had a cumulative growth of x% in the period 2003-05.

Product sales to channel: $ x million a year to spas/salons, at manufacturers' level.
Over x% of products are used in x, and over x% are sold over the counter for product retail.

The top 5 suppliers (ranked):
1 – x
2 – x
3 – x
4 – x
5 – x

The top five are followed by another half dozen. The top 5 could have a combined share of over x%, in terms of the number of outlets.

*This report only covers the outlets whose main business is the sale of beauty services, that is, spas and full service beauty salons. It does not cover the other types of outlets in the ~~x~~strong personal care services channel, such as those offering only x, x, x, etc.

All data refers to the year 2005 unless stated otherwise. Data is from the market experts consulted, including suppliers. They represent over 20,000 spas/beauty salons in USA.

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Table 3 USA beauty services estimated revenue (examples)

Segment - service	**Revenues**
X (2003)	$x billion
X	$x billion
X	$x billion
X	$x billion
Segment – outlet type	
X (2003)	$x to $x million
x — x units	$x billion
Spas –– x units (2003)	***$x billion***
--of which dayspas — x units	$x. billion
Professional beauty services (spas/salons)	$x. billion

(Source: DR Professional Beauty USA 2006)

The table above is a selection of the estimates in circulation of the revenues generated in the different types of outlets, and by the different services/treatments. The estimates are from a wide variety of sources, but all are the latest available.

Table 4 USA beauty / personal appearance workers - numbers

Type	**Persons**	**%**
Hairdressers	x	X
Shampooers	X	x
	x	x
Manicurists and pedicurists	X	x
Skin care specialists	x	X
Massage therapists	X	x
Total	x	x

(BLS-Bureau of Labor Statistics, Occupational Outlook Handbook, 2004-05, *Barbers, Cosmetologists, and Other Personal Appearance Workers*)
(Source: DR Professional Beauty USA 2006)

Estimates of the number of “personal appearance workers” in the USA range from almost x to x million. The latter figure could include persons working in a very wide range of beauty-related occupations, for example, beauticians who work in beauty bars in department stores, or in the film and TV industries.

Over x% of all “personal appearance workers” are classified as hairdressers (hair stylists, cosmetologists, and barbers), and shampooers (those who only wash hair but are not qualified to colour or relax hair).

Just over x% of workers are classified as manicurists and pedicurists (nail technicians), or skin care specialists, or hair removal specialists (electrologists). Their numbers in all these classes are growing fast, though the actual figures are much disputed.

Table 8 USA Outlet sizes - square feet per unit - examples

Outlet type (company)	**Square feet**
Spa x	X
Retail/spa (x)	X
Spa (x)	X
Spa medi-spa	X
Spa (hotel) with 6 treatment rooms)	X
Spa (x)	X
Spa (x)	X
Spa/ Retail (x)	X
Spa (x)	X

(Source: DR Professional Beauty USA 2006)

The table above lists examples of the different sizes of spas. These sizes compare with the typical dayspa in the USA which is of about x square feet.

Beauty services market structure – geography

In the USA the distribution of beauty service units reflects that of the population. The relatively large number of spas in x (x) is due to the composition of state's population, that is, the high number of baby boomers and of ethnic groups (Hispanics, Latin Americans, African-Americans), who spend more on beauty than the others in the USA.

Professional beauty – 50 markets in one?

The location of salons/spas is very important in the USA. This is because the regulations governing the sector vary by state. The most important regulations cover the training and licensing of personnel and of salons, and reciprocal recognition of licences by states.

Men are more likely to experiment with a service when it is described as "for men." As managers note, "that is good news for us. A new vocabulary costs us nothing."

"Add-ons" are an increasingly popular sales method. "Add –ons" are where a treatment is not available on its own, but only in addition to another service. For example, a 60-min massage for $x, allows an add-on of a 15-minute reflexology massage for $x.

Table 12 USA professional products usage (treatment vs. retail)

(As % of total product sales to salons.)

Destination	Suppliers
Used in the outlet	x-x%
Retail over-the-counter (OTC)	x-x%
Total	X%

(Source: DR Professional Beauty USA 2006)
(Market experts sample USA.)

The figures in the table above are the ranges reported by the experts for the breakout of product sales in terms of in spa use versus sales over the counter (OTC) to clients.

Experts caution that, in the large and extremely fragmented professional beauty market, there are no “averages” and that any average would mask the very wide variations – both in suppliers’ sales, and in how the outlets use products. For example, the larger sized suppliers suggest that over x% of their own product sales are used in spa treatments, and the remaining x% are sold over the counter (OTC). However, smaller sized suppliers report the reverse, that is, that x% of products are for retail sales.

All suppliers note that estimates of product usage are based on their own sales of “salon-size” versus “retail-size” packages. But, as in Europe, suppliers in the USA report that spas can use retail packs.

As an aside, suppliers note that consumers are profligate in their use of products. This contrast with the “very cautious professional use of products – they are eager to save money.”

Product retail market variations

In line with overall product trends in the professional channel, retail sales are growing. Suppliers and spas report that retail has grown x% a year in the three-year period 2002-05, and this rate is expected in 2006. Some spas that offer specialist massage services report that retail grew x% a year.

The strong growth in spa retail compares with the wider professional beauty (including hair) where 2005 sales were up 1.5% on 2004.

Product retail drivers in professional channel

Growth drivers of retail include those noted earlier in this report as growing the professional beauty services market:

- The increased number of outlets.
- Easier availability of products.
- Product improvements.
- The increasing number of baby boomers willing to buy more expensive, because more effective, anti-ageing products.

Proven growth drivers

Measures implemented by salon/spas also grow retail sales. The best performing outlets typically identified the measures listed below:

• Devote time and space to retail.
Devote time by training staff how to educate clients about the more expensive products on sale.
Devote space by making products are visible to clients – from outside and from inside the spa. That is, from the street, in the window, and inside the outlet. As managers note, “you don’t sell products when clients cannot see them.”

• Price discounts, offer clients who spend a specified amount on services (for example, $x) a discount (at least x%) on products.

• Product packages. That is, when spas select products to treat their clients’ most common problems. For example, where skin moisturising is the top selling service, package a moisturising product with a cleanser.

Table 13 Retail (%) revenues in best performers vs. rest of market

(As % of outlet revenues.)

Segment	% revenue	Product price
Sample average	x%	$x
Best performers	X%	$x - $x

(Source: DR Professional Beauty USA 2006)
(Market experts sample USA – Hair and beauty 2004.)

Measures employed in the professional hair channel could be implemented in beauty channel to grow retail. A Diagonal Reports survey of USA professional beauty outlets identified commonalities of the best performing retailers. The best performers generate a higher than average percentage of income from retail, and they sell high priced products.

These outlets identified retail as “a low-cost source of income” because it does not require an extra cabin or appointment. They train staff in the tried and trusted retail methods. For example, an initial greeting is followed by asking clients about their beauty needs, and then suggesting a package of products to meet those needs. The most popular products are already available for purchase in packages.

Retail negatives

In a generally positive market for professional retail there are some negatives. They include suppliers’ policies and the attitudes of some staff. Suppliers’ minimum orders are a negative when they are too large, or when they fail to offer a “sale or return” policy.

Some examples of the size of the orders are:
• A minimum of x products per order, and x dozen of each product.
• An x xx can buy $x worth of products a year from the company. The largest of these units can retail $x a year.