



Thinking of buying a salon?

Here are some key points to look out for before signing on the dotted line:

Mark Ridout, a director of RA Valuation Services Ltd, outlines the most important considerations when buying a hair or beauty salon.

There have always been ambitious hair stylists who 'one day' plan to run their own salon. In recent years, though, with uncertainty in the employment market, the likely increase in the age of retirement and a decline in industry recruitment, more and more hairdressers are taking that step to become their own boss.

The options are – put simply – to set up a new independent or franchised salon from scratch, or to buy an existing and established one. Typically the established salon will sell for a premium (i.e. it has generated 'goodwill'), as it will come with a loyal client base, stylists and staff familiar with these clients and the day-to-day operation of the business, an established position in the market place and so on.

So, what are the key things to look for when buying an existing salon?

1. To ensure that the salon will not take more than a few years to pay for itself. In other words, that the money it is likely to make over a few years of trading (after allowing for running costs and any notional adjustments) is enough to pay back the amount it cost. This is known as providing a sustainable return. If the sums don't add up then the asking price is probably too high. It sounds like a simple and important consideration, but it's probably one of the most overlooked by would-be salon buyers.
2. The salon has genuine growth potential. Beware an inflated asking price due to the business being marketed with potential that's 'easy to exploit'. If it were that easy, the existing owner would likely have done it already.

3. Not to fall into the trap of falling in love with a particular salon and wanting it at any cost. This is often the case when a would-be buyer works at a salon, or lives conveniently close to one, and doesn't look at others on the market.

4. Internal factors. In addition to the financials, consideration should be made as to the prospective owner's personal knowledge or expertise to run the salon. Will management, specialist skills or contacts (that the outgoing owner has) be required? Additionally, will staff remain at the salon? And, if so, will they remain loyal to the new owner?

5. External influences. These are largely outside the control of either the seller or the buyer but need suitable investigation and include location, footfall, town planning proposals or regeneration such as new housing that might bring new clients, local competition and – increasingly – regulation, red tape and even the threat of litigation.

6. Verify that a fair price is being paid for the business by getting it valued independently. An expert's valuation figure provides a fair and unbiased view of the worth of a business – independent of the ambitions of the seller or their transfer agent. In the considerable experience of RA Valuation Services, buyers have sometimes been able to negotiate a reduction of

tens or even hundreds of thousands of pounds after getting an independent valuation. In other situations, would-be-buyers have decided to walk away from a deal that – post valuation – they realised could have otherwise proved to be a highly costly mistake. Additionally, the report will double as a tool in helping to raise finance to buy the salon. This latter point is all the more important as bottlenecks are still occurring where buyers often struggle to get funding after a deal has otherwise been successfully agreed. Banks will continue to request firm evidence of a reasonable and achievable return on any investment well after the green shoots of recovery have genuinely sprung.

Buying a hair or beauty salon – no matter how large or small – is likely to be one of the biggest (if not the biggest) financial expenditures in life. And, statistically, it's unlikely to happen more than once. As 80% of transfers fail in the latter stages of contractual arrangements due to disagreements over the financials (leaving costly legal and accountancy charges still to pay on both sides), it's worth getting the 'true' value right in the early stages. The modest outlay of an independent valuation could save – at the very least – piece of mind but could well end up helping to save a small fortune.

Mark Ridout BSc (Hons) is a business valuation specialist and Director of RA Valuation Services Limited who has written numerous published articles, as well as consulting prospective business owners, on buying salons and many other types of business. RA Valuation Services has recently developed a low-cost Market Appraisal Service exclusively for the hair and beauty sector. The report is a summarised valuation document, which is coherent yet easy to read and understand quickly without any in-depth financial knowledge. The Market Appraisal is available to Hairdressing Council members at the discounted rate of £500 + VAT. RA Valuation Services Ltd can be contacted by telephone on 01425 402402, email at info@salonvaluations.co.uk or via www.salonvaluations.co.uk

