



Thinking of Selling a Salon?

Before you push the button, here are three simple steps to double the value of a salon...

Although it may well be something as mundane as the availability of adequate car parking that determines whether potential clients frequent a salon or not, there are steps that can be taken by the owner to increase the value of their salon, even during a period of extended economic uncertainty.

Ensuring that the physical appearance is up to scratch is an example. As with selling a house, so called "kerb appeal" is vitally important. When a homeowner wants to sell their house, they may paint it, fix up a couple of things that needed to have been done during the last few years, and polish the taps. Simple and obvious, but unarguably effective. So to with salon owners, they can improve the value of their salon by making a few changes. Remember, first impressions count.

However, the single biggest direct influence on the value of a salon – or any other business for that matter – is profitability. The financial figures will need to look right to get prospective buyers through the door in the first place. And by doubling the net profit (or 'the bottom line') in three years it is possible to double the value of a salon.

Although this may sound a sizeable task, it is actually possible by three simple simultaneous improvements to the salon's financial performance. So, to double the value of a salon in three years, a salon needs only to combine the following:

- **Increase Sales (income) by 7% each year**
- **Reduce Costs of purchases and staff costs by 1% each year**
- **Reduce General Overhead Expenses (such as utilities, travel etc) by 1% each year**

To illustrate this condition, the following example shows how these three relatively simple improvements can show a doubling of profits and, theoretically, double the return on investment value of the salon over three years.

How To Double Profits And The Value Of A Salon	Year 0	Year 1	Year 2	Year 3
Sales (Income)	200,000	214,000	229,000	245,030
Approx increase compared with previous year		7%	7%	7%
Cost of Product Purchases & Staff Costs	100,000	99,510	97,900	94,936
Approx decrease compared with previous year		1%	1%	1%
Gross Profit	100,000	114,490	131,100	150,095
General Overhead Expenses	50,000	49,755	49,511	49,269
Approx decrease compared with previous year		1%	1%	1%
Trading Profit	50,000	64,735	81,569	100,805
Profit growth compared with Year 0		29.5%	63.1%	101.6%

Note that profits can be doubled without having to slash costs by more than 1% per year, i.e. not to the extent of damaging the salon's business. In the day-to-day running of a typical salon, this equates in simple terms to a combination of **Increasing Sales**, **Managing Purchases** and **Cutting Overheads**.

This (above) is a theoretical example, but in a recent one-year update valuation of a salon undertaken by RA Valuation Services, income had increased (over the last year) by an insignificant 5% but purchases were maintained at the same level and overheads cut by 5%. The business was valued at over 40% higher (than the previous year) solely as a result of these changes.

How can these three improvements be achieved?

In the day-to-day running of a typical salon, the combination of increasing sales, managing purchases and staff costs, and cutting overheads can be achieved as follows:

INCREASE SALES Existing loyal clients are far more valuable – and less expensive to service – than new clients. To increase sales in real terms – that is to keep existing clients coming 'through the door' and to maintain a respectable level of spend per appointment – the salon should offer and promote services that bond clients with the business. The captive in-salon audience

can be targeted with regularly updated offers advertised through posters in key locations within the premises (i.e. by the till, entry and exit points). All staff are the salon's sales team, and should be trained accordingly. Obvious, of course, but simple and effective examples.

MANAGE PURCHASES An owner has to keep purchases of products and staff costs at sensible levels. They must avoid a build-up of worthless or obsolete product stock and review and compare supplier prices and reliability of service. Most importantly, the present economic situation can be capitalised upon with suppliers – there is unlikely to be a better time to negotiate price reductions and attractive terms.

CUT OVERHEADS By keeping a close eye on all overheads, using and reviewing management information on a frequent and regular basis, and highlighting any expenses that are becoming disproportionately high in relation to the level of business income, a salon owner can drive down their overhead costs.

Is there anything else a salon owner should do?

A salon should be effectively run. Ideally, the owner and a significant proportion of the payroll will be fee earners, and unnecessary management or administration would be avoided. If the premises are leasehold, advice should be sought over rent reviews and lease terms. Every expense can be covered – even utility suppliers can be reviewed and compared for best prices. Salon owners should not be afraid to enlist professional help to organise and plan, and then listen to the experts. Most importantly, they must be prepared with clear, up-to-date accounts showing an attractive and well-documented track record of profitable growth. Like the homeowner, polish and a fresh coat of paint will help with the kerb appeal. However, the bank will want to see that the potential buyer can pay back the loan. Ultimately, it all comes down to profit. If they get all of the above right, the financial figures will speak for themselves.

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 £200 + 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

