

TIP THE SCALES:

5 COLOR METRICS TO DRIVE SALON PROFITS NOW



vish

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Introduction

2020 was the year to look at business differently, as salons adjusted operations and systems in ways never imagined. Now, securing and improving profitability is more critical than ever, and hair color, the leading revenue driver, is a logical, lucrative place for salon owners to focus.

With this special report from Vish, a company built on metrics, salon leaders can start to tap into new layers of **recently aggregated, industry-wide data** on hair color usage, then learn how to grow beyond the averages to tailor their salon's own specific color processes and pricing.

To ensure the salon business is maximizing profits effectively, **five key color metrics** presented by Vish CEO Joshua Howard frame a strategy to improve color efficiency, innovation and growth:

Big picture: 15 million pounds of hair color is **wasted** in North America every year.

Salon situation: 25-40% of hair color inventory is **wasted**, on average, per salon location.

Moving target: Cost-per-service variances are massive, with industry averages for **color costs ranging from \$3-\$18** per service. Relying on these averages to set prices can erode or even sabotage profitability.

Found money: 15% of hair color revenue **disappears** because incremental services or color product usage never get added to the POS.

In the margins: With a 20% variance in gross profit per service across color categories, salons have a tremendous opportunity to rethink pricing to standardize margins.

Key take-away:

For color-focused salons to survive and thrive in 2021, utilizing a system to develop a next-level strategy around efficient color usage and accurate, margin-stabilizing service pricing is essential.

What are your business goals?

Color-Conscious Behaviors

Good news! Smart color practices keep trending in the right direction. Industry estimates are that **more than 90% of salons in North America use some sort of scale** to measure hair color and track usage.

The majority of these color-focused salons embrace the **accuracy and time-saving innovation** that an automated, integrated **reweigh-based system** presents. Some owners choose to manually weigh color waste to try to reduce the amount of color used in services. Those who attempt their own system find it unwieldy and that it provides neither the valuable **salon-specific data** nor **aggregated user-group benchmarks** on hair color services and product lines that Vish puts at their fingertips.

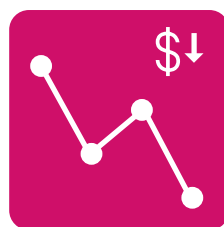
In fact, while Vish was originally created to solve salons' hair color waste challenges, **CEO Joshua Howard** says the **biggest problems he sees impacting hair color profitability today** stem from salons' struggle to:



Price hair color services accurately.



Charge for the service actually delivered by the service provider.



SALONS LOSE
15%
of potential hair color revenue

Too often, a **salon service expands beyond what was originally booked** online or discussed at consultation, but the **ticket doesn't get updated** with the incremental toner(s) or gloss a stylist includes, or the additional product needed to color correct or cover up a guest's extra regrowth, an issue which surged exponentially during salons' COVID re-openings.

Even in "normal" times, salons lose, on average, 15% of potential hair color revenue due to unbilled services, Vish has calculated. On top of substantially reduced dollars, salons' profitability rates erode as color inventory costs go up.

Opportunity:

Using an artist-friendly system to track and communicate the exact amount of hair color product mixed and applied—one that prioritizes reweighing the bowl after the service to adjust future formulations—everything syncs to address those obstacles and drive profitability up.

Key take-away:

Consistency protects the bottom line. Knowing exactly how much color product each stylist is using on every client, every time, helps establish strategic pricing benchmarks and product usage thresholds based on the ingredients and time going into the service.

A GOOD SYSTEM:



Is streamlined to eliminate guesswork.



Lets stylists focus on being creative.



Delivers data to power the business.

What steps can you take to conserve and track color?

Grow Beyond Averages

So, what does a successful, profitable hair color business look like these days, and where does it find **room to improve**? Before color tracking and other salon technology evolved, salon leaders were more dependent on external numbers and industry averages to compare and shape individual metrics, from service pricing to profit margins to formulation.

Studying the averages remains important and is still a good place to start, but it paints an incomplete picture. Today's salon leaders need to be **aware and sensitive to broad variances in those averages**, throughout the industry and within the salon itself, and be prepared to adjust accordingly. For instance:

- 1 *The industry average for a retouch is 40 grams of color, but what happens when more is used and not tracked?*

The salon runs out of inventory more quickly than anticipated and loses money on product they didn't charge back to the client.

- 2 *And what about the other end of the spectrum - using less than the anticipated 40 grams?*

The 40 grams has already been mixed, leaving all of the extra product to be poured down the drain, rather than staying in the salon inventory.

Both of these scenarios damage business, **affecting costs, profits and the environment**. Yet these are the problems every salon faces when basing product usage on industry averages.

Alternative?

Knowing exactly what each stylist in the salon uses on every service gives management the ability to accurately predict future profits, ensure inventory is correctly stocked, and enhance business success.

Practical benefit:

Vish pulls apart a salon's entire hair color service business to reveal which stylists and services are most (and least) profitable, who uses the least (and most) color per service and translates the data to help coach and educate the staff.

Pricing for Profitability

More data on massive variances: the **average cost per color services ranges from \$3-\$18 depending on:**



The service being performed



The color product line used



The experience level of the stylists

Additionally, according to aggregate data from Vish customers in the preliminary stages (first 90 days) of conversion to the system, **profitability by service category varies dramatically, by an average of 20%.**

Reinventing the process:

But what if a salon could look at pricing services a different way? What if no matter who is in the chair or what color services they are experiencing, the salon makes the same profit margin? With so many variables in play, following average prices or service costs can be tricky to justify, but a standardized, locked-in profit margin based makes sense.

Here's why:

TABLE X shows the average **cost per service for the three most common services performed at salons**, and the gross profit margin for each. Next, we'll look at how new pricing could work for each in an 8-chair salon based on its own data and salon averages.

TABLE X: Aggregated Salon Averages

Service	Cost Per Service	Gross Profit	Gross Profit Margin
Single Process	\$6.93	\$22.57	38%
Half Foils	\$3.74	\$35.76	45%
Toner	\$6.02	\$7.48	28%

Understanding the data:

While a highlighting service, which uses low-cost products like bleach, has a cost per service of only \$3.74 (and a gross profit margin of 45%), toners have a higher cost of \$6.02 and generate, on average, \$27 in revenue per service, leaving the gross profit margin at only 28%.

Vish recommends:

Salons strive for better margins across all services, and to make every service equally profitable, **ideally at a 50% margin.**

Exercise:

Standardize the gross profit margin to 50% across all services **for your own salon** and see if/how much your profits are positively affected.

TABLE Y shows the effect at an 8-chair salon.

TABLE Y: 8-Chair Salon

Service	Increase in Price	New Gross Profit	Increase in Gross Profit	Annual Increase in Profit
Single Process	23%	\$36.43	\$13.86	\$35,453
Half Foils	9%	\$43.24	\$7.43	\$11,486
Toner	44%	\$19.52	\$12.04	\$13,124

Reality check:

After testing this new standardized profit pricing strategy, the salon spotlighted in TABLE Y now charges based on a margin of 50% with product allowances and pricing thresholds, rather than a fixed, inclusive price, ensuring every service gathers the same return.

The results can be life-changing for salons, Howard explains, as he's seen **numerous 8-10 chair salons able to put \$60-100,000 on the bottom line** by using Vish technology and

tweaking to a standardized margin pricing strategy. Howard has the data to back him up, and is happy to walk any salon owner through the process of setting product allowance thresholds in the system to guarantee a 50% margin, and will deliver an estimate on the impact the adjustment can make to the salon organization. Many salons are **reinvesting the incremental revenue back into their businesses** or using it to rebuild a savings cushion for the next crisis or business pivot.

What changes should you make to pricing?

Pricing Structure Options

While Vish recommends the shift to a standardized profit margin model as the right pricing strategy at the right time, it is not the only option.

There are three distinct pricing structures in the professional salon industry, with two methods accounting for service and product separately, ensuring clients pay extra only for the actual color used on their heads.

All-Inclusive Pricing:

Historically the industry standard, inclusive pricing is based on setting a fixed price for color services based on either industry averages, competitive market averages or salon's own service averages, ideally after adjusting to reflect targeted color product usage and reduced waste. In other words, **no matter how much color or bleach product is used, it is included in the price.** This strategy works well for very high-end markets, but **less than 5% of the industry**, Howard says.

Separating Color Product "Parts" and Service Time (Or Labor):

The salon market is just starting to see this approach put into play more frequently, as technology becomes more sophisticated and salons more comfortable leveraging its nuances. The gist is that actual product costs are calculated, marked up and transparently added to the client ticket as a non-commissionable fee. A few Vish clients have piloted separating color "parts and labor" effectively, but Vish does not yet recommend it as the best strategy for most salons. Reason? Complexity and a complete shift in color pricing culture. It introduces variability on the front desk, potentially charging guests a different price each time they come in for the same service.

Setting Product Allowances:

This strategy parallels more of an artisan goods approach, similar to going to a nice restaurant and knowing that no matter what glass of wine you order, you are starting with a base of 6 ounces. If you want an extra half glass, half carafe or whole bottle, your cost scales up.

For hair color, product allowances are set for key service thresholds. The stylist knows for a new regrowth services or toner, there is a set amount of product included. If she needs to exceed it because the guest needs more color product for any reason--extra gray coverage or color correction due to appointment stretching, for instance--the system automatically triggers incremental charges.

Now, instead of eroding profitability, the salon has actually enhanced it. As part of the process, the salon team has been coached on how to have a very easy conversation with the customer, to explain why the price went up, the incremental cost is transparent. The guest understands, the pressure is off the stylist and the bottom line is protected.

Weighing The Benefits

Getting back to basics, the right color tool will help salons with pricing color services, track stylists' progress in reducing waste, and ensure more efficient formulas, all without ever getting in the way of the creative process.

Central to ongoing success: making sure clients don't pay for wasted product.

Despite a 90%+ awareness rate and some system of measurement attempted, salon waste of hair color is still a massive problem in the salon industry:



Every year, **15 million pounds of hair color is wasted** in North America alone



Equal to about **\$1 billion in salon color purchases thrown away** annually

This year especially, as the industry has struggled to cope with so much change, the need to become efficient wherever possible is top of mind. It's an **ideal time to upgrade or get Vish** systems in place, collect the data and look at what happens in your salon.

After just 90 days of collecting data, Vish will create benchmarks for your salon and share customized, exclusive reports analyzing your salon against Vish customers and industry averages.

Key metric:

On average, in the first 90 days of tracking color waste in a salon, Vish discovers **\$2-\$2.50 product waste per service**, or 25-40 percent of color inventory purchases going down the drain. For a high-volume salon that averages 800+ color services per month or 10,000 services annually, that translates to about **\$25,000 in inventory lost** to waste alone.

Try it yourself:

Color of Services Per Week (#)

_____ x \$2.00 =

_____ **Wasted Color**

Weekly Wasted Color (from above)

_____ x 52 Weeks =

_____ **Annual Lost Profits**

Calculate how much you can profit from investing in Vish →

Easy Fix

Every drop of color wasted eats away at a salon's bottom line.

Fortunately, color waste is the easiest challenge to address and fix if salon leadership puts a strategy in place. **But salons can't eliminate color waste completely.** There will always be *some* residual product in the bowl. However, with tools, technology, benchmarks and education in place, many top Vish salons have **reduced color waste** down to about **30 cents per application**, resulting in **25-40% reduction** in annual **hair color inventory purchases**.

Apply your own salon math again:

- 1 *What are your annual hair color inventory purchases?*
- 2 *What could it mean to your business to recoup 25-40% of that investment and apply it to your bottom line?*

Across the industry, and in color bowls across North America, there is massive room for improvement. With Vish's waste reduction system, reweigh feature and a solid color pricing strategy, you can reset and drive salon profitability.

THIS SPECIAL REPORT HAS IDENTIFIED:



Color-saving measures your salon can take



New ways to reinvent your processes to drive profits

Calculate your potential profits based on real data from Vish users. →