



www.hcds4you.com

Booth Rental: Is It Right For You?

Renting booths vs. hiring employees is one of the most controversial and divisive issues in salon management today. Many people are entering into booth rental without a clear understanding of its consequences. As a result, the lives and standard of living of everyone working in the beauty profession is now affected. Division between salon owners who hire employees and salon owners who rent booths is making it difficult to address the many deep-rooted challenges facing all of us.

Having been a salon owner for over 41 years, I feel I am in a unique position to take a step back and examine the pros and cons of this hot topic. The information presented in this article is based both on my personal experiences and on the opinions of the thousands of hairdressers and salon owners throughout the U.S. and Canada that I have had the privilege of meeting as a popular speaker in our industry.

Which is the best salon management model for you? Only you can decide. Do your research, approach information – including this article – with an open mind, get advice from trusted and knowledgeable advisors, and seek answers from a labor law attorney who specializes in litigating independent contractor issues and then make your decision based on what will best fit your needs, goals, and vision.

Booth Rental: The Salon Owners' Perspective

When you follow the booth rental business model you are in effect just a landlord. Of course, many salon owners perceive it as a positive that they do not need to...

- Pay workers compensation or federal and state employment taxes
- Offer training and education.
- Provide liability insurance.
- Advertise for new customers.
- Manage employees.

The negative side of this business model is that, well, you are in effect just a landlord. Which means that as the salon owner you must deal with...

- Minimal or non-existent business growth, as you are dependent on rental income and working long hours behind the chair yourself.
- High staff turnover caused by staff pirating from other owners that offer lower rents and other perks. Because no business can continue to grow with a constant merry-go-round of staff turnover, this in turn can lead to business instability and failure



www.hcds4you.com

- The inability to manage and educate staff, and create and promote a well-managed business with a professional and positive salon atmosphere.
- A lack of quality control standards – and the damage that this can cause your salon’s reputation.
- In-fighting and a lack of teamwork as your salon’s stylists compete against each other for customers.
- Exposure to audits by state and federal taxing agencies, which are currently targeting our profession. Most owners unknowingly misclassify their workers and address tip compliance guidelines. This puts you at risk for audits, which can be triggered by anything from a labor law issue to a staff member filing for disability, or unemployment benefits. In fact, the EDD and IRS are targeting the beauty industry for misclassifying workers and tip compliance.
- With tax revenues at an all time low, audits will increase.
- The inability to sell other salon services or products.
- A temptation for not reporting income by both hairdresser and salon owner
- An inability to increase salon profits or grow your business. You are a landlord only.

A recent government report showed that 95% of all business failures are due to a lack of business management skills on the part of the business owner. By choosing to be a “landlord” rather than a “business manager” you are putting the success or failure of your salon in the hands of your tenants. However, because each of your independent contractor tenants views themselves as business owners, too, their decisions will be motivated by their own needs and goals, not yours.

The “Employee Model”: The Salon Owner’s Perspective

Okay, so what are the advantages and disadvantages of the “employee model” of salon ownership? Among the many benefits are...

- Control of your own destiny. You manage your business, its growth, and its profitability.
- Unlimited income and profit potential – provided you gain the necessary skills and knowledge to run a successful salon.
- The ability to create a staff development program, mentor new stylists, make staff changes when necessary, create and enforce quality standards, and provide leadership for your employees.
- The opportunity to market and promote your salon, set prices (including raising prices to combat rising costs), and create client retention programs.
- Dramatically reduced chances of losing an audit, losing your business, or running into problems with labor law.
- A greater opportunity for fulfillment, improved profits, a higher standard of living.
- You control your own success or failure...



www.hcds4you.com

In short, with this management model you manage your business rather than letting your business manage you. Plus, a well-run salon often has a competitive edge over other salons in the area.

Of course, no business model is all peaches and cream. Some of the drawbacks of running your salon on the “employee” model are...

- A high vulnerability to turnover, as competitive salon owners will try to pirate your top staff members by offering higher commissions or lucrative-looking booth rental arrangements.
- The risk of spending time and money on training and advertising, only to lose the stylist to a booth rental salon.
- The need to spend time training and managing people.
- An unequal playing field – you pay your taxes, workers comp, and liability insurance,
- While many booth rental salons do not.

Booth Rental: the Stylist’s Perspective

For a stylist, renting a booth can be very attractive. As an independent contractor you can...

- Set you own schedule.
- Manage you own business.
- Keep all of your earnings (less the booth rental fee).
- Choose your own product line.
- Possibly make more money.

On the negative side, though, renting a booth means you must...

- Cope with a lack of job security.
- Compete with other hairdressers in the same salon.
- Make less money during slow seasons.
- Advertise for new customers is time consuming and expensive.
- Pay for your own education.
- Do your own bookwork, including filing and paying quarterly income taxes.
- Pay the “employer’s” half of your social security taxes.
- Sometimes work in a negative and unprofessional salon environment.
- Pay an ever-increasing booth rental fee.
- Purchase your own supplies and equipment
- Inability to compete with well managed salons.



www.hcds4you.com

Plus, as an independent contractor you will not qualify for disability or unemployment payments if times get tough.

The “Employee Model”: The Stylist’s Perspective

Being an employee in a well-managed salon can have many advantages vs. booth rental. These include...

Mentoring, guidance, support, education, and training provided by an experienced salon owner.

- Job security.
- A nice flow of customers.
- The opportunity to benefit from the salon’s reputation and marketing efforts.
- A positive and professional salon environment.
- A team atmosphere where stylists learn from each other.
- Growth opportunities and incentives.
- Book work and taxes handled for you
- An opportunity to attract an upscale clientele.

Conclusion

In my opinion, booth rental is creating a temptation for dishonesty and an underground economy in our profession, an unequal playing field, staff turnover, and division among salon owners. I am alarmed by the way that constant turnover is stunting the growth of our profession, and concerned by the business and career instability that I see. To succeed we need unity between staff and management, business stability and growth of our profession, better education, and a higher standard of living for us all in these difficult and challenging times.

Price wars, commission wars, staff turnover, and staff pirating are especially alarming in today’s difficult economy. Whether you want to rent stations or hire employees, I urge you to think clearly about the long-term ramifications of your decision. Be sure to get legal advice from an attorney who specializes in labor law and independent contractor issues (an excellent web site for independent contractors is www.workerstatus.com). It is not my intention to further divide us as salon owners. My goal is to make sure everyone understands the consequences of their decisions based on facts, not hearsay. In the end you and only you can determine what model is right for you. An equal playing field will benefit us all. How can businesses and careers grow with a constant merry go round of staff turnover? Turnover affects the lives of everyone.