

# The Facts About Booth Rentals

**T**wo of the most controversial and divisive topics facing the beauty profession today are booth rental and the legal classification of independent contractors. It's time to speak out and address these highly controversial topics. These related issues are causing confusion, havoc, and business instability for everyone involved in the beauty profession. By not addressing and resolving these issues, our profession is paying a heavy price. In my 40 years of experience as a hairdresser and working salon owner, I've never seen another topic that is as divisive as these.

Sadly, these two issues—booth rental and the confusion over the legal classification of independent contractors—are undermining business growth and stability, causing business failures and job instability, and undermining the livelihoods and standard of living for hairdressers and salon owners.

I'm certain that I'll be harshly criticized by some of my colleagues for writing this article and addressing these controversial subjects. Many booth rental hairdressers and salon owners won't agree with my statements and advice. If honesty and a code of ethics are wrong, then I'm guilty. However, people who know me know that my only intent is to provide information and quality education to help raise the standard of living for everyone involved in the beauty profession, especially my fellow hairdressers and salon owners who work hard every day to provide a better life for themselves and their families.

I dedicate this article to my current colleagues and future generations of hairdressers and salon owners who truly want to make our profession one we are all proud of—personally, professionally, and financially. I hope this article will help to create an equal playing field, protect salon owners who may be exposing themselves to financial chaos due to misclassifying their workers, promote professionalism, separate fiction from facts, promote job stability, help raise everyone's standard of living, promote honesty and a high code of ethics, and help clarify some of the misconceptions and lack of information

regarding booth rental and independent contractor issues.

## We All Want the Same Thing: An Equal Playing Field

I know I speak for many concerned hairdressers, salon owners, educators, estheticians, nail technicians, sales reps, and everyone involved in the beauty profession who are concerned with their livelihoods and the future of our profession. These professionals ask for only one thing: an equal playing field.

An equal playing field will benefit everyone in our profession. It's a proven fact that most hairdressers and salon owners have no realistic medical insurance, retirement benefits, and vacation benefits comparable to other professions.

Unfortunately, most hairdressers walk a financial tightrope. Why? There are many reasons, but five of the main reasons are:

1. staff turnover,
2. poor business management skills on the part of the salon owner,
3. lack of quality education to focus on the clients' needs,
4. business interruption,
5. and an unequal playing field.

No salon or its staff will experience long-term success and profitability with a constant merry-go-round of staff turnover and business instability. Turnover affects the livelihoods of everyone in the salon. How can you continue to raise prices, raise your standard of living, keep pace with the high cost of living, offer job benefits to your employees, and ensure job security with these continuing obstacles? If your salon isn't profitable and fails, everyone loses. Business stability and an equal playing field will benefit everyone.

## Defining "Booth Rental" and "Independent Contractor"

Booth rental is a practice in which salon owners ostensibly operate their business



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as if the hairdressers are independent contractors. The salon owner can avoid the challenges of salon management, avoid paying liability and workman's compensation insurance, and avoid paying payroll taxes. In reality, however, most salon owners are exposing their salon and staff to financial hardship and possible business failure. In fact, over 95% of these salon owners are misclassifying their workers and will fail an Internal Revenue Service (IRS) audit.

Due to lack of business management skills and information on contract law, many salon owners are under the misconception that they're complying with their state's Employment Development Department (EDD) and IRS guidelines. This can create a climate and temptation for tax evasion by not only salon owners, but also their hairdressers. By misclassifying their workers as independent contractors, these salon owners and hairdressers are paying a heavy price.

Many booth-rental hairdressers are understating their true income to avoid tip compliance and paying their fair amount of taxes. In an all-cash business, they face the temptation for noncompliance of their tax responsibility, and they compromise their integrity.

This sets the stage for dishonesty in our profession. It's certainly not a good example for the next generation of hairdressers and future salon owners. Our profession should set a positive example for the generations that will follow. Honesty and a strong code of ethics is the only way to achieve long-term success for you and your family.

Unfortunately, a growing number of salon owners are unwilling to offer their vast experience and provide job training to new, inexperienced hairdressers in fear of losing them to a competitor after they gain experience and clientele at the owner's expense. As a result, many of our young people are being forced to seek employment at low-cost haircutting salons. (The proliferation of these salons isn't exactly a forward move for our industry!) We owe it to new hairdressers to give them better options and information, so they can make informed decisions for employment—whether it be low-cost salons or upscale, higher-priced salons.

## Creating an Unequal Playing Field

Consequently, salon owners who operate their salons within the law, provide training and education, pay their fair share of employment taxes, provide workman's compensation for their employees, provide liability insurance for their customers, and pay their personal and business taxes are being penalized by those who take advantage of this gray area of the law.

Those of us who run our businesses legitimately within the law are being penalized for honesty and a high code of ethics. We welcome competition; competition is good for our profession and only helps us improve. All we ask is to have an equal playing field. I firmly believe that there's more than enough business for everyone.

Far too many salon owners are unknowingly exposing themselves to business failure, audits, and possible financial disaster and bankruptcy, because they aren't getting the proper information about the legalities and business obstacles of booth rental. They're also risking the job security of the hairdressers who work in their salons.

## We Need Unity Among Salon Owners

Unfortunately, a lack of unity exists among salon owners who rent stations to "independent contractors" and those who either pay a salary, commission, or both. Price wars, staff pirating, rent wars, an unequal playing field, and business and staff instability affect our salons, our standard of living, and the future of our profession.

In addition to booth rental, many other deeply rooted obstacles affect our salons, our profession, and our standard of living. How can we unite and address these obstacles in a negative and divisive environment? Some of the obstacles salon owners should address include:

- The absence of apprenticeship internships for on-the-job training programs
- Having no representation at the state legislative level
- The need for a better partnership between salon owners and beauty schools to better understand each others' business and educational needs
- Lack of unity among salon owners
- The need for our industry to become more responsive to our business needs

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- Lack of honesty and a strong code of ethics
- Insufficient job benefits for hairdressers
- Staff turnover and business instability

We can only address these challenges with a united front. As united salon owners (and free of special interest groups), we would have tremendous power to combat business instability and staff turnover. Who better understands our educational and business needs than those of us who work daily in our salons? After all, aren't we the ones who provide jobs and pay taxes? However, in an effort to compete and survive, many salon owners allow themselves to be held hostage by some hairdressers in fear of losing them—and their clientele—to another salon owner. These salon

owners have reluctantly turned to booth rental and have allowed hairdressers to go into business for themselves with no financial risks. In this situation, hairdressers turn owner against owner.

Many salon owners who rent booths aren't even licensed salon owners. They must rely on hairdressers who bring a clientele: a clientele that was probably developed by another salon owner. If you're a hairdresser and someday open your own business, would you want this same scenario to happen to you after you work hard to establish your business, staff, and clientele?

### **If Everyone Plays by the Same Rules, We All Benefit**

Another major concern is the practice of staff pirating by unethical salon owners who establish their business at the expense of others. Many of these owners use unethical recruitment tactics and unrealistic promises to entice hairdressers to work in their salons. They send letters, postcards, or brochures in the hopes of gaining a hairdresser-and clientele-from other salon owners.

A word of warning if you're a hairdresser contemplating a job change: Whenever you're expected to bring clientele and a client list from your former employer, this should send a red flag to you. One result of these unethical recruitment tactics is rent wars between salon owners. If you're a salon owner and you choose to rent a station, that's fine, but don't do it at the expense of another salon owner. What goes around comes around.

Sadly, many hairdressers use certain salons as training centers. Many young hairdressers receive training, mentoring, and gain new customers through the advertising and marketing efforts of the salon owner. The salon then loses these newly trained hairdressers to a competitor after they gain experience and build a clientele.

Many sincere and hardworking salon owners develop their own in-salon training programs and invest time and money to train and develop young talent, only to lose them to booth-rental salons after they gain experience and clientele. Of course, the hairdresser expects the clientele to follow—despite the fact that this customer list was probably acquired through costly marketing and advertising by the prior owner.

Due to our own infighting, we're seeing a tremendous growth of low-cost haircut-

ting salons throughout the United States. With the constant rise in the cost of living, shouldn't our industry be raising prices for our services? How can we build a profession that we're proud to be a part of? How can we grow a profession that can offer job security, a decent living wage, pension plans, retirement benefits, and medical insurance for salon owners and hairdressers in this type of business environment? After all, this is one of the few professions you can get all the overtime you want, once you create a demand for your services. The sky is the limit. How can we find and attract quality people into our profession and our salons? If we want to attract higher caliber professionals into the beauty profession and compete with other professions, we must create an equal playing field for everyone.

### **Advice to Salon Owners Who Are Renting Stations**

Beware, the EDD and IRS are targeting booth-rental salons for tax and tip compliance. As a precaution, contact and get professional and legal advice from a competent labor law attorney who specializes in contract law and who has experience in these types of cases. This is a gray area of the law that can only be defined by an attorney.

Ask your attorney to review your booth rental agreement to see if you're complying with the tax laws. If you aren't, your attorney can give you professional advice on how to protect yourself and your business if you're selected for an audit. You can also receive a letter ruling from the Internal Revenue Service to make sure you're in compliance and not misclassifying your workers. I suggest you visit the IRS web site at [www.irs.gov](http://www.irs.gov). Contact your state's EDD office for the same information. Keep in mind that if you're audited and lose, the penalties can be enormous.

Here's another thought to keep in mind: If you hire an independent contractor, you have no control. In essence, you're only a landlord. How will you maintain quality control, provide a high degree of customer service, create a positive and professional salon environment, instill teamwork, promote marketing and advertising for an upscale clientele, maintain business growth and stability, improve profits, and provide benefits? Salons that have no leadership or an owner without strong business management skills will stagnate and eventually fail.

### **Advice to Hairdressers Considering Renting a Station**

I certainly understand your desire to want to earn more money and be independent. I cannot fault you for wanting a better life for yourself and your family. Before you decide to change jobs and take the booth-rental option, I would carefully weigh the pros and cons of this decision. You may be jumping out of one fire and into another.

There's no guarantee that your new salon won't have the same problems, and it may not be what you expected. There's no guarantee that all your clients will follow you. You'll be competing with other hairdressers in your new salon. You may not be accepted by other hairdressers in your new salon; you may encounter negativity, gossip, and jealousy.

Before you make your decision about a job change, talk to your current boss. You may be able to work out a mutual solution. Keep in mind that lack of communication between staff and management is a growing problem, present in many salons.

Keep in mind, too, that your present salon owner gave you the opportunity to maximize your full learning and earning potential, provided you with training and education, provided advertising and marketing for new customers so you could build a clientele, and gave valuable time to mentor you during your development. I agree that many salon owners don't provide the proper leadership that fosters loyalty. However, I have yet to meet a salon owner who wanted his or her business or staff to fail. Perfect bosses don't exist—and neither do perfect hairdressers. We all need to unite as fellow professionals to create a demand for our services and raise prices.

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One of the main reasons people make the move to booth rental is the perception that they can make more money and have more independence. For a very few, this is possible, but at the expense of job security? Remember, teamwork, strong management, marketing and advertising for new clients, customer service, professionalism, and a positive and professional salon environment are essential to build a successful and profitable salon. When the salon is profitable, everyone wins. However, if there is no management in a salon, the chance for survival is slim.

I have no problem with anyone who wants to better themselves, but not at the expense of others. Someday you may want to open your own business; would you want this to happen to you? If your new job is a better opportunity, that's fine. But let the new owner provide you with a clientele. When you leave to go to another salon, especially when you take a salon's customer list, you hurt the previous salon owner and jeopardize the job security and livelihoods of the other members of that team. You're now a competitor with your former fellow coworkers.

Also consider this: There's no guarantee your clientele will follow you. We hairdressers often overvalue our skills. But there's always someone better. If you decide to leave, make sure you weigh all your options carefully. If you're considering renting a booth, use caution—your livelihood is at stake.

Before you decide to go into booth rental, consider the following:

- There is a lack of job security: booth rental salons are failing at an alarming rate.
- When there is a lack of management without strong leadership, salons will eventually fail.
- Beware of a lack of teamwork. Essentially, you're all competing with one another. People going in different directions can create an unprofessional and negative salon environment.
- Is there a lack of professionalism? If you want to attract an upscale clientele and charge upscale prices, you must become an upscale professional.
- Is there educational training and support?
- Is there marketing and advertising for new clients?
- Is there a negative salon environment (jealousy, pettiness, and gossip)?

- Your Social Security and disability benefits will be affected. (Salon owners contribute half of the Social Security and Medicare benefits for workers who are employees.)
- Your credit history will be compromised.
- You expose yourself to tax audits. The EDD and IRS are now targeting both hairdressers and salon owners for tax and tip compliance.
- You expose yourself to job instability. If other hairdressers in your salon can't pay their rent, you are affected.
- What are the actual costs to rent a booth?
- What if you have slow weeks? How will you get new clients or pay your rent?
- Booth-rental salons cannot compete with well-managed salons.

After you weigh the pros and cons, you may be better off staying with your present salon. You may need your job back.

If you want to earn more money, consider working smarter, not harder, create a demand for your services, and raise your prices. Remember, it's not how much you earn, it's what you do with what you earn that will bring you financial security. If you still want to go it alone consider opening your own salon with one or two hairdressers. That way, you'll have control of your own destiny, pride of ownership, professionalism, fulfillment, and the opportunity to reach higher levels of excellence personally, professionally, and financially.

If you do decide to go into business, do so in an ethical and honest manner. Don't try to recruit staff members from your former team or try to take customer lists. You certainly wouldn't want your employees to do the same thing to you. Getting ahead at the expense of others will surely come back to haunt you.

### **It All Begins with an Equal Playing Field and a High Code of Ethics**

I believe we all want to reach higher levels of excellence personally, professionally, and financially. We should all join together as a team of professionals and as goodwill ambassadors for our profession and reach out to consumers to sell the benefits of feeling good about themselves. There are more than enough customers for everyone. Together, we can present a powerful voice and truly make our profession one that is respected by consumers and other

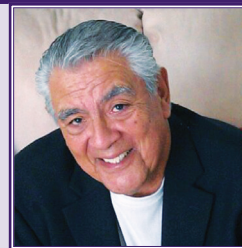
professions. Let's form a united front as professional hairdressers and salon owners to create a profession that we're all proud of. ■

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Jon Gonzales is president and founder of Hairdresser Career Development Systems, which is dedicated to educating and guiding hairdressers and salon owners on their journey to success.



**Jon Gonzales**

Jon travels extensively throughout the United States and Canada, conducting his popular business management seminars for salon owners and his personal-growth seminars for hairdressers. He's the author of *The Hairdresser's Guide to Success: Personal, Professional, and Financial* as well as multiple books, DVDs, and videos on the topics of success, management, and personal growth. An outstanding industry leader, Jon draws from his decades of in-the-trenches experience as a working salon owner and his fiery passion to improve the careers and lives of hairdressers and salon owners.

To learn how Hairdresser Career Development Systems can help you move to the next level in your journey—personally, professionally, and financially—visit:

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