

The appeal? Not taking a haircut; Franchising; Budget hair salon proves to be recession-proof

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Stephen Kassinger spent years working in the custom home building business -- a capital-and time-intensive industry where he was heavily reliant on contractors and subcontractors -- before he decided to change careers.

On a trip to the Grand Canyon last year, he met a franchisee in a business with a cash base, no receivables and virtually no inventory -- the low-cost salon industry. At first, he shrugged it off. As the U.S. financial meltdown began, the franchisee continued to pull in significant revenue and expanded his business with 14 franchises, it became clear there was something more to it than a haircut.

"It's one of those businesses that's not going to be outsourced overseas [or] replaced by advances in technology," Mr. Kassinger says. "I got more confident it was a viable business. People still need people cutting their hair."

As the financial carnage began to unfold, Mr. Kassinger was signing up to become a franchisee with the Great Clips chain. It was a strange, if not uneasy, process.

The same day Lehman Brothers went bankrupt, Mr. Kassinger was shopping around for a loan with his business plan in hand, wondering if it was a sign he was in the wrong place at the wrong time. By the end of the day, though, he had two banks competing for his business.

"From a recession-proof standpoint, that in itself gave me some very good confidence that the banks were still willing to [lend] because it's a very sound business model," he says.

Last November, when the full extent of the economic downturn had become evident to everybody, he opened his first Great Clips salon in Oshawa, Ont.

Some businesses fail during a recession, but many success stories have been born in the depths of recession.

A recent study by the U.S.-based Ewing Marion Kauffman Foundation highlighted the fact multinationals such as General Electric, Microsoft, Hewlett-Packard and Burger King were all launched during bear markets.

In Canada, Manulife Financial, Petro-Canada and Bell Canada were similarly launched during less-than-spectacular market conditions.

In the franchising sector, the same hidden opportunities exist if you know where to look, says Andrew Patricio, co-founder of Bizlaunch.ca, a company that runs seminars and training programs for entrepreneurs across Canada. "You want to try to focus on the basics," he says. "As soon as you're selling something premium in these times, you're going to struggle a bit."

The service sector tends to do well in any economy, Mr. Patricio notes. Waste management companies, for example, have been thriving in recent months, and so have companies that provide homecare health services, cleaning services and, yes, inexpensive haircuts.

Mr. Kassinger is putting the finishing touches on a third location scheduled to open next year, and has plans to open more.

Rob Goggins, vice-president of franchise development for Great Clips, says the recession caused a lot of higher-end salon customers to drop down into the lower price market. Even with a recovery, he expects to keep a good chunk of those new customers. "When this economy turns around, I'm sure we'll lose some of those people back to the higher-priced salons, but we're confident a number of those people will stick with us."

"If you can survive this year and half-way into next year ... you are forced to become a better business owner," Mr. Patricio says. He emphasises that a slow economy forces the franchisee to be more conservative and to market more effectively, so when the economy picks up, the business has proven its staying power and the owner has enhanced his or her management skills.

Caution still applies: For many who have been laid off franchising may look like their saviour. But despite looking like a "perfect opportunity," would be franchisees must do the same due diligence and market research as they would for any business.

You also have to take financial realities into account. The cost of setting up a Great Clips franchise, for example, ranges from \$128,000 to \$245,000, with the average around the \$200,000 mark, including all major expenses.

But for Mr. Kassinger, who did this interview while fishing on a lake north of Toronto, with his sons, opening more franchises is part of his plan for the future: "I'm going to be very aggressive with my opening strategy."

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