

# 'Beauty Parlors and Spas'



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This report contains market research and proposed banking products, based on primary research survey results and secondary sources, carried out for SME segment "Beauty Parlors and Spas" by Corporate Development Partners (CDP).

The purpose of this research report is to provide segment specific credible information for the commercial banks to facilitate them in designing and delivery of banking services to small and medium enterprises (SMEs) in a responsible, profitable and sustainable manner.

## Table of Contents

<b>1</b>	<b>Guidelines for using this Research Report</b>	<b>1</b>
1.1	Market Assessment	1
1.2	Product Suite	1
1.3	Marketing and Distribution	1
<b>2</b>	<b>Introduction &amp; Objectives</b>	<b>2</b>
2.1	Limitation of the Study	3
2.2	Sampling Plan	4
<b>3</b>	<b>Economic Overview</b>	<b>8</b>
<b>4</b>	<b>Beauty Parlors and Spas Industry Overview</b>	<b>10</b>
4.1	Demand	11
4.2	Supply	11
4.3	Key Players	12
4.4	Future Developments	12
4.5	Success and Survival of the Businesses in this Sector	13
<b>5</b>	<b>Market Assessment</b>	<b>14</b>
5.1	Market & Demographic Profile	14
5.1.1	Market Sizing and Lending Potential	15
5.1.2	Segment Demographics	16
5.2	Owners Profile	17
5.3	Business Linkages	18
5.4	Business Cycle	20
5.4.1	Working Capital	21
5.5	Financial Assessment and Profile	22
5.6	Financial Information	23
5.7	Indicative Business Requirements	25
5.8	Financial Need Analysis	27
5.9	Usage of Banking Products	29
5.10	Segment Risk Considerations	30
<b>6</b>	<b>Proposed Banking Product Suite</b>	<b>32</b>
6.1	Product Features	32
6.2	Eligibility Criteria for Asset Products	36
<b>7</b>	<b>Distribution and Communication Considerations</b>	<b>37</b>
7.1	Marketing Objectives of Banks	37
7.2	Promotional Activities by Banks	37
7.3	Distribution Strategy for Banks	38

### Index of Tables

TABLE A: SAMPLING PLAN .....	4
TABLE B: ECONOMIC CONSIDERATIONS .....	8
TABLE C: SUMMARY OF INDUSTRY OVERVIEW .....	10
TABLE D: CLUSTER LOCATIONS FOR 'BEAUTY PARLORS AND SALONS' .....	15
TABLE E: STAKEHOLDERS AND THEIR INTERESTS .....	18
TABLE F: ' <i>BEAUTY PARLORS AND SPAS</i> ' PRODUCTS .....	19
TABLE G: SECTOR FINANCIALS SNAPSHOT .....	22
TABLE H: INDICATIVE EQUIPMENT REQUIREMENT .....	25
TABLE I: WORKING CAPITAL / ADVANCE PRODUCT SUPPLIES.....	33
TABLE J: EQUIPMENT FINANCING .....	34
TABLE K: SME BUSINESS BANK ACCOUNT .....	35
TABLE L: OTHER PRODUCTS .....	35
TABLE M: ASSET PRODUCTS CRITERIA .....	36

**Index of Figures**

FIGURE 4.5-A: INDICATORS OF BUSINESS SUCCESS .....	13
FIGURE 4.5-B: KEY MEANS OF SURVIVAL AS AN SME.....	13
FIGURE 5.1-A: NUMBER OF YEARS IN OPERATION.....	16
<i>FIGURE 5.1-B: CUSTOMERS' PRESENCE WITHIN THE COUNTRY.....</i>	<i>16</i>
FIGURE 5.2-A: EDUCATION LEVEL OF BUSINESS OWNERS .....	17
<i>FIGURE 5.2-B: AGE GROUP OF BUSINESS OWNERS .....</i>	<i>17</i>
<i>FIGURE 5.2-D: OWNERSHIP TYPE.....</i>	<i>17</i>
<i>FIGURE 5.2-C: NUMBER OF EMPLOYEES UNDER BUSINESS OWNERS.....</i>	<i>17</i>
<i>FIGURE 5.3-A: COMMUNICATION WITH CUSTOMERS.....</i>	<i>18</i>
FIGURE 5.3-B: NUMBER OF SUPPLIERS .....	19
<i>FIGURE 5.3-C: SUPPLIER RELATIONSHIP .....</i>	<i>19</i>
FIGURE 5.4-A: BUSINESS MODEL .....	20
<i>FIGURE 5.4-C: REPAYMENT TERMS TO CUSTOMERS .....</i>	<i>21</i>
<i>FIGURE 5.4-B: REPAYMENT TERMS OFFERED BY SUPPLIERS .....</i>	<i>21</i>
<i>FIGURE 5.6-A: BUSINESS ASSETS .....</i>	<i>23</i>
<i>FIGURE 5.6-B: CAPITAL EXPENDITURE .....</i>	<i>23</i>
<i>FIGURE 5.6-C: TOTAL REVENUE.....</i>	<i>24</i>
<i>FIGURE 5.6-D: ANNUAL EXPENSE .....</i>	<i>24</i>
<i>FIGURE 5.6-E: TOTAL INCOME .....</i>	<i>24</i>
FIGURE 5.8-A: BUSINESS FUNDING NEEDS .....	27
<i>FIGURE 5.8-B: FIXED ASSETS FINANCING REQUIREMENTS .....</i>	<i>28</i>
FIGURE 5.10-A: BUSINESS EXPANSION RESTRAINTS .....	30
FIGURE 5.10-B: HOW BUSINESS RISK IS ADDRESSED .....	31

## **1 Guidelines for using this Research Report**

The '*Beauty Parlors and Spas*' Segment Research Report provides indicative business and financial characteristics based on the information derived from a sample of business owners via primary research survey. It can be used by Banks/DFIs as a starting point for development of program based lending products for tapping the underutilized potential for providing financing products to small business owners.

The 'Beauty Parlors and Spas' Industry overview is developed by using information obtained from secondary and tertiary sources, including industry associations and data available in public domain.

### **1.1 Market Assessment**

This section contains analysis based on primary findings of survey exercise conducted in main cities of Pakistan, mainly Karachi, Islamabad and Lahore among others; the information can form the basis of identifying the characteristics of a typical business entity in the segment.

### **1.2 Product Suite**

Proposed banking product suite provides a number of potential core banking products templates that can be used by Banks/DFIs to design appropriate banking products for gaining access to the particular segment. However, it is highly recommended that product development undergoes the usual general practice and protocols employed by the bank. It is also recommended that the product development and the business line team work together to conduct a quick market research of a small sample in order to validate the results of this study.

### **1.3 Marketing and Distribution**

Marketing and Distribution considerations are indicative and have been based on the assumption that banks will employ their individual marketing and distribution strategy for product development. However, information presented can be utilized by banks for developing certain hypothesis to be validated for developing their marketing and delivery strategies.

## 2 Introduction & Objectives

According to the latest data cited in SMEDA and Economic Survey Reports 2010-2011, Small and Medium Enterprises (SMEs) account for approximately 40% to GDP contribution of Pakistan and play a major role in spurring economic activity with a contribution amounting to 80% of non-agriculture GDP of Pakistan. The segment is largely unbanked and the willingness to use banks for further assistance in growth of businesses through funding is low due to the following impediments:

- A different risk profile
- Lack of substantial collateral
- Conservative approach adopted by financial institutions
- Lack of awareness and willingness of banks

SMEs present immense business opportunities for financial institutions from the perspective of increasing book size while generating strong risk adjusted returns, however, there is an imminent need to understand the dynamics of this segment in order to enable financial institutions to structure products that meet overall risk management guidelines and facilitate the growth of this SME segment.

In this context, State Bank of Pakistan (SBP) has mandated Corporate Development Partners to conduct a secondary research and a primary survey of ten major SME subsectors of Pakistan to determine banking and financial needs of the sector.

This research report contains findings pertaining to the segment of "*Beauty Parlors and Spas*" which includes small set up scattered all over rural and urban areas of the country.

Service sector in Pakistan has emerged as a major contributor towards promoting economic growth and recently went through major transformation with share of service sector increasing to 58.1% of the GDP in the year 2013-14 (Economic Survey 2013-14). With more focus being placed on the service sub-sectors, these sectors have the capability to grow to the fullest potential.



## **2.1 Limitation of the Study**

- The sample may not be geographically exhaustive.
- The sampling plan may not suit the requirements of every bank.
- Some of the recommendations are not backed by quantitative primary research but are based on knowledge of the market and best practices.
- Some of the questions in the questionnaire, especially in the financial information section were considered too personal by many business owners; therefore, many of them refused to answer. Hence, the responses in this regard may be evasive and cannot be verified with respect to their accuracy.

## 2.2 Sampling Plan

The primary research exercise conducted for identifying the financial needs of the SME segment was based on the following sampling methodology.

Table A: Sampling plan

Particulars	Criteria	Rationale
<b>Size</b>	<ul style="list-style-type: none"> <li>1,000 detailed one-on-one interviews for 10 sub-sectors</li> <li>100 SMEs surveyed within each sub sector.</li> </ul>	<ul style="list-style-type: none"> <li>Sample size is sufficient enough to gather relevant qualitative and quantitative information on each sub sector</li> <li>Increase in the sample size will only add marginal value to the overall information collected from the survey exercise</li> </ul> <p><b>Change of Definition of SME by SBP</b></p> <ul style="list-style-type: none"> <li>Small enterprises are defined as those businesses that have employees up to 20 and annual turnover up to PKR 75 million</li> <li>Medium enterprises are businesses with more than 20 employees and turnover above PKR 75 million and up to PKR 400 million for the purpose of classification and segmentation by banks</li> <li>For the purpose of this research, the small portion of medium entities that we have reviewed include entities that have revenue up to PKR 150 million (i.e. two times the sales of Small Enterprises)</li> </ul>

Particulars	Criteria	Rationale
<b>Status</b>	<ul style="list-style-type: none"> <li>At least 60% will be informal businesses</li> <li>At least 20% will be formal businesses</li> </ul>	<ul style="list-style-type: none"> <li>Informal businesses would be entities that do not have formal accounting and book keeping system. They do not get their accounts properly audited and are normally not registered under an official trade/regulatory body.</li> <li>A wide majority of businesses operating in Pakistan are informal businesses in terms of their quality of record keeping and accounting information, in the absence of which banks do not offer them any credit based products.</li> <li>A study of informal businesses enables us to gauge the reasons of these proprietors to remain within the informal segment and still compete in the market with formal business enterprises within the same industry segment.</li> <li>Moreover, as per revised SME Prudential Regulations, Small businesses are allowed financing up to PKR 15 million without the audited financials. This regulatory change will enable SMEs to qualify for a structured lending product by maintaining the basic system of book keeping and accounting.</li> <li>Formal businesses are those entities that are relatively larger in size and have a proper book keeping system. These are also registered businesses that are operating either under an association of businesses or under a formal regulatory license, with a fair amount of transparency in their accounting and book keeping systems</li> <li>Including the above businesses give us a fair representation of entities that are eligible for all financial services being offered by banks and their extent of using banks as their main financiers and other service providers or only for holding their business operating accounts</li> <li>Formal businesses have more structured requirements than those who use banks only for products such as fund transfers</li> </ul>

Particulars	Criteria	Rationale
<b>Turnover</b>	<ul style="list-style-type: none"> <li>At least 50% with turnover less than PKR 75 million</li> <li>At least 20% with turnover more than PKR 75 million</li> </ul>	<ul style="list-style-type: none"> <li>The corresponding sample mix has been adopted to ensure majority coverage of small businesses in the overall sample size since these would be the primary candidates for programme lending products</li> <li>However, for the purpose of understanding the financial needs of medium sized entities that are close to the threshold point of small and medium, we have covered a minor portion to understand their requirement for structured loan products as well as other financial services generally required by businesses that are relatively mature and larger sized than small enterprises</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>60% will have less than 20 employees</li> <li>40% will have more than 20 employees</li> </ul>	<ul style="list-style-type: none"> <li>SMEs that are not in the manufacturing segment are relatively understaffed owing to the small size of their business and ease of management</li> <li>Moreover, businesses that have more than 20 employees will now be classified as medium sized hence we have covered a substantial portion of such entities as well</li> </ul>

Particulars	Criteria	Rationale
<b>Banking history</b>	<ul style="list-style-type: none"><li>▪ At least 70% with banking history</li><li>▪ At least 10% with no banking history</li></ul>	<ul style="list-style-type: none"><li>▪ As per SBP prudential regulations any business operated by an individual as a proprietor, but meets the classification criteria of the regulations will be termed under SME</li><li>▪ On account of above a majority of sample in the market are operating their businesses through a bank account (either in the name of the proprietor or in the name of the business)</li><li>▪ Most of the financial needs and preferences that are objectives of this assignment, have been obtained from the above sample who are using a bank for their businesses operating needs</li><li>▪ However, a very small portion of the totally unbanked SMEs in the sub-sector is also covered during our survey to understand their reasons for not availing the banking services and fulfilling their needs for financial services through other, more expensive, informal channels</li></ul>

### 3 Economic Overview

Pakistan's economy has shown resilience despite challenges which include domestic factors such as political instability during the last few years, security situation and international financial crisis, in addition to an unprecedented rise in food and energy prices. As per the Economic Survey of Pakistan (2013-14), after a period of slow growth due to floods and law and order crisis, the economy showed a significant growth in 2013-14 on the back of immense recovery from the industrial sector along with moderate growth in agriculture and service sectors. With industrial sector expanding by 5.84% when compared to last year figure of 1.37%, while the economy grew by 4.14% in FY-2014.

**Table B: Economic Considerations**

<b>Positives</b>	<ul style="list-style-type: none"> <li>▪ Heavily populated, (over 180 million people) translating into strong future potential for improvement in work force as well as purchasing power, leading to growth in consumer related segments.</li> <li>▪ Despite many challenges faced by the country, Pakistan has performed better than many developing countries with the GDP growth rate of 4.14% in FY 2014 which is highest in the last three years when compared with GDP growth in FY 2013 and FY 2012 of 3.7% and 3.84% respectively.</li> <li>▪ Rising rates of urbanization – with the UN forecasting the proportion of city dwellers climbing from 34.9% of the population in 2005 to more than 50% by 2035 – should continue to serve as a key driver of economic growth.</li> <li>▪ The industrial sector showed a huge growth of 5.84% compared to previous year of 1.37% which has been a huge boost to the economy as it contributes to 20% of the GDP. It is also a major source of tax revenue.</li> <li>▪ Investment activities are continuing to take place, backed by the fact that public investment has recorded a remarkable growth of 17.12% while last year it had a negative growth of 0.35%.</li> <li>▪ Foreign Direct Investment (FDI) has also shown a remarkable increase from USD 1,277 last year to USD 2,979 in the period July – April 2013-14, an increase by 133%. Major portion of FDI was for oil &amp; gas exploration, electricity &amp; power, financial business and chemicals.</li> </ul>
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### Challenges

- Positive trend of remittance over the last 10 years has greatly supported the country's balance of payment position.
- National saving is showing a decline, with 12.9% of GDP in FY14 while in FY13 it was reported 13.5% of the GDP. Covering the saving-investment gap remains to be a challenge.
- The FY 2013-14 has shown slight improvement in fiscal deficit which reduced by 3.2% compared to previous year. Structural weakness in tax system however still prevails with low tax to GDP ratio while the expenditures continue to exceed the revenues.
- Balance of payments has shown a surplus of USD 1,938 million compared to last year deficit of USD 2,090 million in FY 2013-14. However despite that, the current account balance further showed a deficit of USD 2,162 million in July-April 2013-14 compared to last year in the same period.

## 4 Beauty Parlors and Spas Industry Overview

Table C: Summary of Industry Overview

Factors	Comments
<b>Demand</b>	With growing number of working women and improved lifestyles, the demand for beauty parlor and spa services is increasing with time and will continue to rise in the years to come.
<b>Supply</b>	With high demand and easy business set up, many beauty parlors and spas have emerged over the years in great numbers not only in urban areas but all over the country.
<b>Key players</b>	Toni & Guy, SABS, Nabila's, Oxygen, Duplix, Rubinas, Mahrose, Peng Saloon, Alle'Nora, Zara's Salon, Angie's Salon & Academy
<b>Regulatory Body</b>	Ministry of Industries
<b>Recent Developments</b>	Due to media and increased awareness, more and more spas have emerged due to significant rise in demand for such services.
<b>Future prospects</b>	The need for beauty parlor and spas will not decrease but only rise with more improvement in the lifestyles. With more working women and men, the need for relaxation and stress relief will rise which in turn will increase the demand for more spas and related services.



## 4.1 Demand

Demand for beauty parlors and spas has been on a constant rise as increasing number of people have improving lifestyle and greater health and grooming awareness. In the past, beauty parlors and spas were mostly focused on women but in recent times this sector is also paying closer attention to men.



The most sought out services are of hair styling, skin care, makeup and medicure / pedicure, however; another main reason why clients visit these parlors and spas is for relaxation and stress relief. With a rigorous urban life and an increasing women workforce with more disposable income, the most preferable relaxation places are spas.

However, with high demand, it is of utmost importance of maintaining quality services and a good repo with the customers, as one bad experience of a client can prove to be disastrous for the businesses in this sector and create problems to retain other clients too. Therefore, the staff has to be extra careful in ensuring to keep developing trust and long term client relationship.

With urban life getting busier and increasing travelling experiences, people have become more aware of various therapy and stress relaxing experiences which has resulted in a boom of spa salons. However, as spa services are more costly, it is a common notion that it caters mostly to the affluent members of the society. This perception is however changing fast with time and a growth in spas and salons is continuing to rise.

With increasing number of beauty salons and spas, rising competition and challenges to retain customers not only push these businesses to provide better quality services but also to provide a good interior ambiance and atmosphere.

## 4.2 Supply

With increasing demand, many beauty parlors and spas have opened up not only in main cities and urban areas but also in semi-urban areas of the country. Many of the establishments in this sector also include small haircutting and grooming salons for men.

There is no lack of skilled workforce in the beauty parlor and spa sector in the urban areas and therefore great source of employment is available for females/ males who mostly come from rural areas for better earning opportunities. On job training is easy and in-expensive short course ensures easy availability of skilled work force. With changing trends and fashion,

the workforce needs to be updated and so frequent training is required. According to the survey, 40% of the salons provide inhouse training to their staff.

In order to provide good quality services, the skin and beauty products used should be of an equally good quality. Therefore, most of the beauty palors and salons use imported beauty products which is a major part of the cost in running their businesses. About 98% of the products and machines are imported in this sector. International beauty products are, however, easily available in local markets and so do not pose complexities in maintaining stocks. China, as in other cases, is now a major supplier of such products.



One of the major issues faced by SMEs in this sector is the use of unlicensed/ imitation products by some beauticians, with less or no training, causing many cases of skin diseases in the rural areas. These untrained beauticians and lack of awareness of skin products have caused some serious concerns and so much emphasis is placed on beauty professionals to hold licenses for the treatments they provide. Also, as various sophisticated services have emerged such as, hair transplant, stress therapies, use of various chemicals for skin treatments, laser treatments, etc, it has further added the importance of certified beauticians who are capable of providing professional health care. It has become really critical that these beauticians must have license to work in beauty parlors and their salons are registered before opening to the public.

### 4.3 Key Players

The major key players of beauty parlors and spas sector are Toni & Guy, SABS, Nabila's, Oxygen, Depelix, Rubinas, Mahrose, Peng Saloon, Alle'Nora, Zara's Salon, and Angie's Salon & Academy.

### 4.4 Future Developments

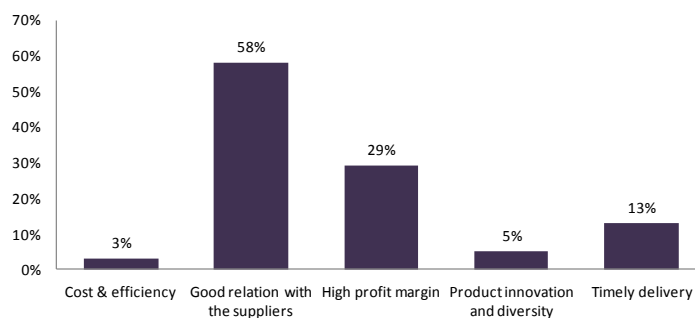
Beauty salons and spas will witness increasing demand in the years to come as improving lifestyle and grooming awareness is on the rise. About 20% of the beauty salons in this sector cater to more than 100 customers per month. With more working women and men, the need for relaxation and stress relief will rise which will in turn increase the demand for more spas. Many businesses are showing expansion despite increasing competion, with about 40% of beauty parlours in the survey stated having more than 10 competitors in their area.

#### 4.5 Success and Survival of the Businesses in this Sector

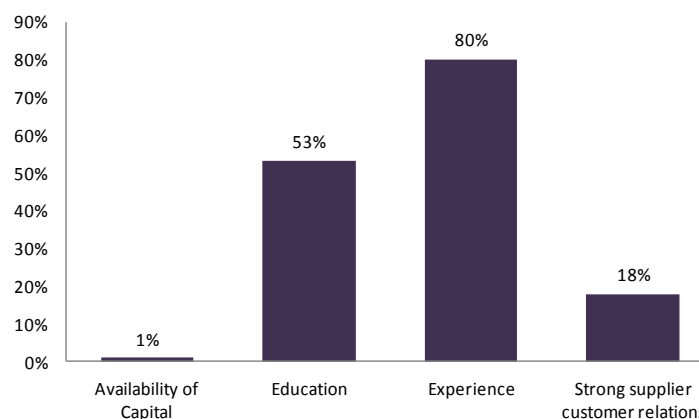
From the survey interviews (*Figure 4.4-a*), business owners felt that good relations with the suppliers (58%) and high profit margin of the services provided (29%) were the major success factors for the businesses in this sector.

For survival of an SME (*Figure 4.5-b*), the experience was thought to be most essential element by 80% of the business owners, followed by education by 53% of the business owners. 18% also felt that due to strong supplier-customer relationship, their businesses managed to survive.

**Figure 4.4-a: Indicators of Business Success**



**Figure 4.5-b: Key means of survival as an SME**



Source: Survey Findings

## 5 Market Assessment

### 5.1 Market & Demographic Profile

This sector is mainly unorganized with beauty parlors and spas scattered in many parts of the country. There are many establishments operating out of private homes. With no administrative body or effective association involved in this sector, private beauty salons are therefore not in any way regulated or organized. Most businesses in this segment are family owned with members of one family serving different functions of business. Underlying issues inherent to the segment include:

- 1) Limited avenues for funding sources
- 2) No official quality certification
- 3) Lack of registered establishments

The beauty parlors and spas sector is largely dispersed across various urban and rural areas of the country. The raw material includes imported and limited local beauty and skin care products which are easily available in the local market, especially in the urban areas of the country. This sector has abundant availability of skilled workforce and continues to provide training with changing trends and techniques.





### 5.1.1 Market Sizing and Lending Potential

As mentioned before, the businesses in this sector are widely dispersed all over the country but due to many unregistered and small setups at homes and flats, no official data is available, therefore only a rough percentage of the cluster can be provided. The following table (**Table D**) shows cluster locations along with research estimate of beauty salons and spas all over Pakistan.

Table D: Cluster Locations for 'Beauty Parlors and Salons'	
Area	% of establishments
Karachi	35%
Lahore	27%
Rawalpindi	9%
Hyderabad	7%
Islamabad	7%
Faisalabad	6%
Sialkot	4%
Peshawar	3%
Multan	2%



Source: Survey estimates

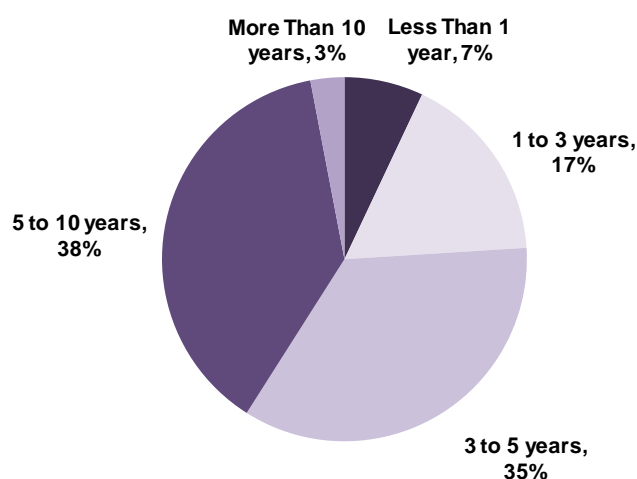


### 5.1.2 Segment Demographics

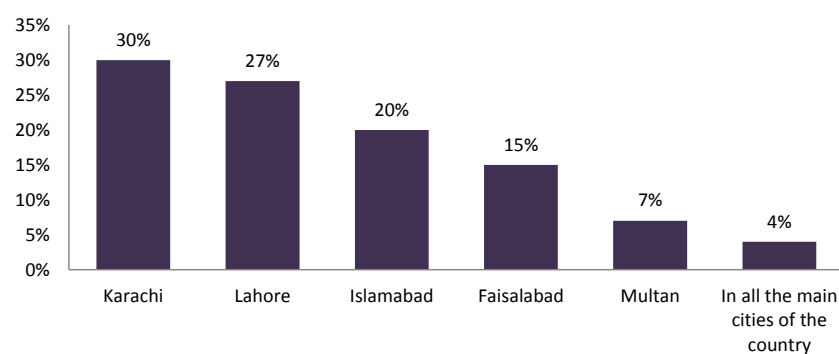
Demographic information is obtained from industry sources and primary research conducted using a selected sample of businesses in major cities of Pakistan. The segment is widely spread out across various regions in the country with highest concentration in the main cities like Karachi, Lahore and Islamabad. 4% of the respondents claimed to have their customers in all the main cities of the country (**Figure 5.1-b**). This pertains to those beauty parlor and spa setups that have their branches opened in multiple cities.

Majority of the businesses have been in operation for many years, with 35% operating for 3 to 5 years, while 38% have been in operation for 5 to 10 years (**Figure 5.1-a**).

**Figure 5.1-a: Number of years in operation**



**Figure 5.1-b: Customers' presence within the country**

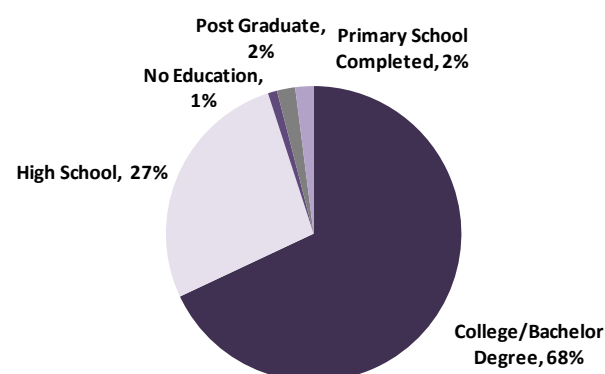


Source: Survey Findings

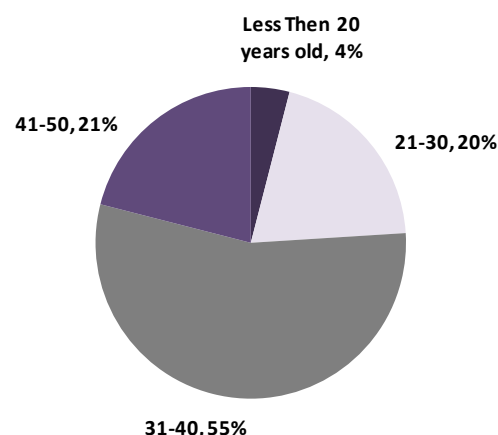
## 5.2 Owners Profile

The business owners consist mainly of middle aged people in the age group of 31-40 years (**Figure 5.2-b**) who have been working in well established businesses, with 56% having workforce between 10-24 (**Figure 5.2-c**). This indicates that the business owners are young and also experienced in their profession and will successfully run their businesses for many years to come. Due to the nature of work, higher level of education is not considered as a major factor for business owners. More focus is placed on the training of the employees; despite the fact that 68% have bachelor degree (**Figure 5.2-a**). Predominantly businesses are established by the owners themselves (**Figure 5.2-d**). Only 21% of the businesses are established with a family member as a partner.

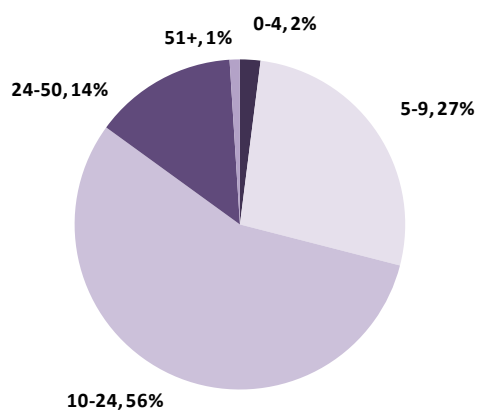
**Figure 5.2-a: Education level of business owners**



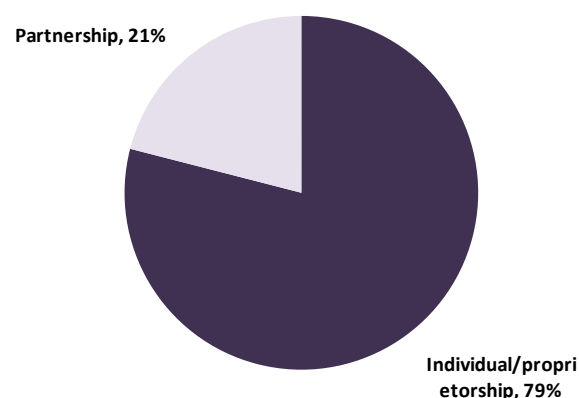
**Figure 5.2-b: Age Group of Business Owners**



**Figure 5.2-c: Number of employees under business owners**



**Figure 5.2-d: Ownership type**



Source: Survey Findings

### 5.3 Business Linkages

Businesses in the segment are connected to various institutions, which are directly or indirectly affected by the business operations. Primary stakeholders and their interests are enlisted in the following table (*Table E*):

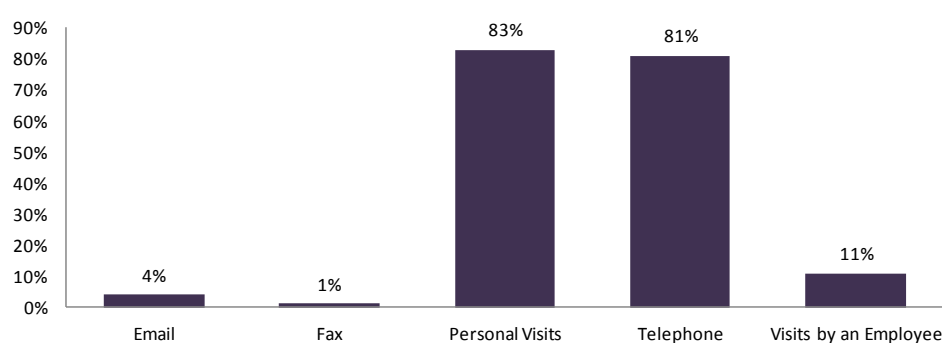
*Table E: Stakeholders and Their Interests*

<i>Beauty Parlors and Spas</i>	
Stakeholder	Interest
Owners	Growth and access to finance
Suppliers	Better terms and consistent quality
Customers	Service quality and reasonable pricing
Financial Institutions	Financing products and profitability
Government	Economic growth, employment

Businesses employ various mediums as means of communication with customers (*Figure 5.3-a*); including mass media and now social media, however, due to the personalized nature of work; personal calls for appointments are widely utilized.

The competitive level of the businesses in this sector vary, depending on their location. While some may face strong competition in their locality, there are others who happen to be one of the very few setups in their surrounding. According to our survey majority of the businesses have just one to five competitors while few businesses claimed having more than ten competitors in close vicinity.

**Figure 5.3-a: Communication with customers**



Source: Survey Findings



Major raw material for beauty parlors and spas includes (**Table F**):

**Table F: 'Beauty Parlors and Spas' Products**

Skin Products (Scrubs, lotions, serums, masks, bleach)

Cosmetics products and makeup

Herbal oils

Hair products (Dyes, Hair protein treatments, Mouse, gel, hair spray, hair extensions, etc)

Injectable Cosmetic treatments (Botox, dermal fillers, etc)

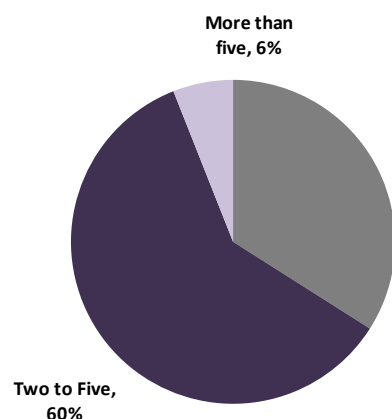
Towels, sheets, cleaning facial pads, etc



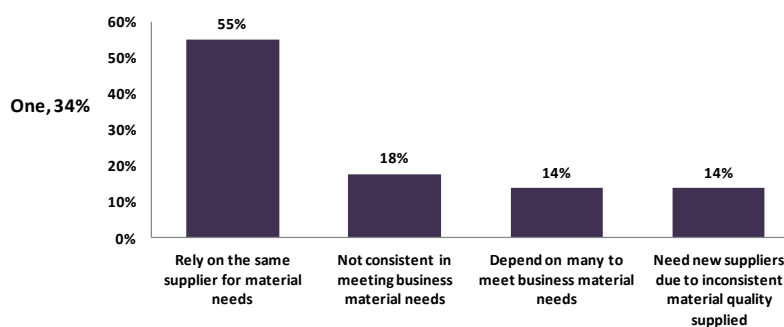
More than half of the businesses (55%) depend on same suppliers to meet their raw material needs which ensures that consistent supplies are available of consistent quality (**Figure 5.3-c**). 14% of the businesses either depend on many suppliers to meet business needs or need new suppliers due to inconsistent quality of material supplied. 60% of the businesses have between two to five suppliers on whom they depend on for their products (**Figure 5.3-b**) which provides as a security of having their products available at all times.

Raw material needs are met locally, buying from the same stores. The products available, however, are usually imported to ensure quality results. Many beauticians make international trips for their training courses where they are introduced to new products in the market. Some even purchase products only during their training trips for their businesses as most of the products have long shelf life.

**Figure 5.3-b: Number of Suppliers**



**Figure 5.3-c: Supplier Relationship**



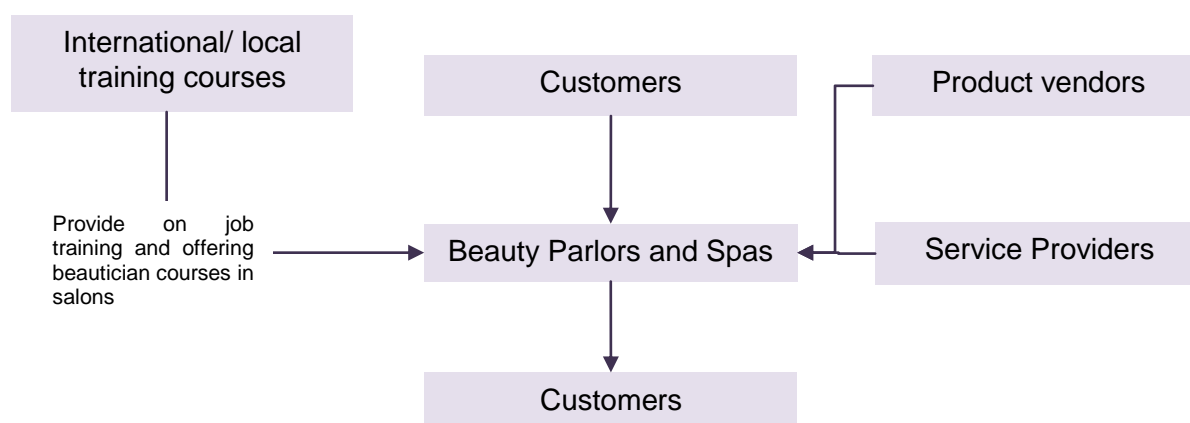
Source: Survey Findings

## 5.4 Business Cycle

Beauty service industry is stable with no disruption due to inflation or fluctuation in the petrol and fuel prices. This sector is not seasonal but during eid and wedding seasons, high business activity is observed. With increase in number of working women, which has also led to increase in awareness, has ensured frequent visits of clients to beauty parlours and spas.

The businesses do not experience cyclical trends as such with customers requiring beauty parlors and spa services all round the year. This sector has a very simple and short business cycle with direct interaction with both customers and suppliers (**Figure 5.4-a**) and instant revenue collection.

**Figure 5.4-a: Business Model**



### 5.4.1 Working Capital

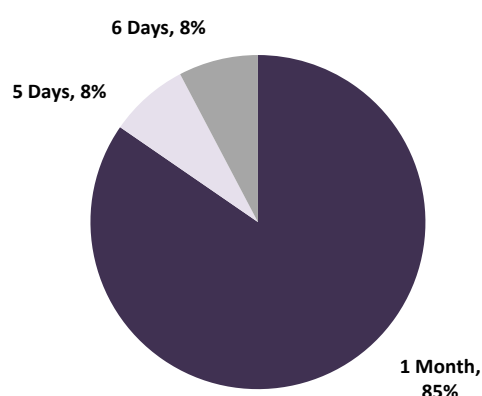
Working capital is dependent upon payment terms offered to customers and received from suppliers. Business of beauty parlours and spas has fast revenue turnover as discussed before and therefore have a better working capital position compared to other sectors with longer turnaround time.

This segment largely deals on cash basis with very few establishments buying on credit from suppliers and being paid through cheques or bank credit card from customers.

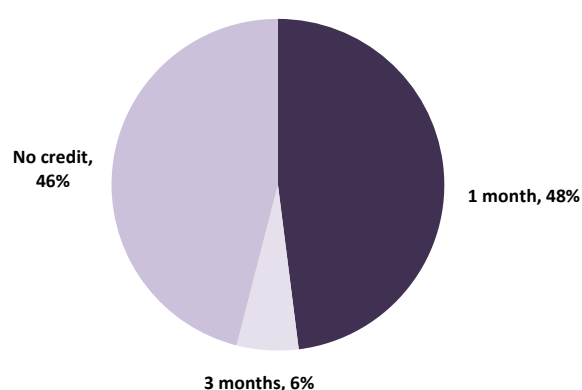
For those who buy products on credit (**Figure 5.4-b**), 85% of those businesses receive credit term from their suppliers for a month, while the rest are given a credit period of 5 to 6 days. 46% of the businesses provide no credit to their customers in this segment (**Figure 5.4-c**) while the payment terms given to the customers by the remaining businesses is mostly one month. 6% of the businesses however do extend credit of three months to their loyal long term customers only.

The credit terms from suppliers are more or less consistent with the repayment period given to customers, which is mostly one month credit. This helps the business owners in managing their payments with their suppliers and their working capital for the operation of their business.

**Figure 5.4-b: Repayment terms by Suppliers**



**Figure 5.4-c: Repayment terms to customers**



Source: Survey Findings

## 5.5 Financial Assessment and Profile

In our survey, all the businesses in this segment claim to prepare Financial Statements; however, only 35% of the business owners stated that they have their Financial Statements audited.

More than half of the business owners/managers keep track of accounts themselves while rest of the businesses keep an accountant or an assistant to manage their accounts. The nature of Financial Statements is basic entries of their revenue and expenses incurred, including their inventory management to ensure that they have sufficient stock of skin and beauty products available at all time.

From primary research and interviews conducted from the businesses in this sector, it has been identified that a fixed percentage of profit retention does not prevail in the market but is rather dependant on the owner and the surrounding competitors' rates. Therefore, a strong reliance is placed on high customer turn out and customer retention.

As per research findings, none of the business owners in the sector were willing to disclose their financial data with regards to capital invested. A rough estimate was given by the business owners regarding business assets employed, annual revenue, income and expenses.

Business owners' reluctance for sharing financial information presents an issue for calculation of segment's accurate benchmark financial ratios. The following table (**Table G**) provides key financial ratios of this sector which have been calculated on the average value of the financial range provided by the businesses covered in the survey.

*Table G: Sector Financials Snapshot*

Financial Information	PKR
Average Business Assets	17,340,000
Total Revenue	20,000,000
Annual Expense	7,000,000
Total Income	8,620,000
<b>Key Financial Ratios</b>	
Profit Margin	43%
Operating Expenses/ Revenue	35%
Asset turnover	1.15 times
ROA	49.7%

Conclusively, it can be said that low capital investment is required to start a business for a good revenue generating setup. As this sector is quality service oriented, a higher asset

turnover is expected. Major expenses occur on imported raw materials, staff salaries and one time expense on updated equipment.

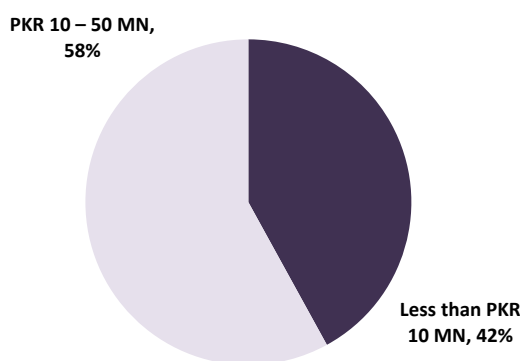
## 5.6 Financial Information

Primary survey findings reflect the Revenue, Expenses, Income and Capital Expenditure under the selected sample for the sector.

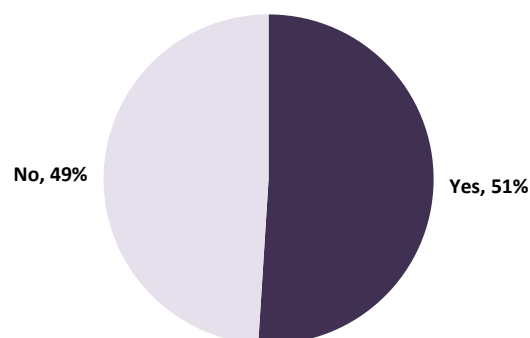
According to the survey (**Figure 5.6-a**), 58% of the businesses operate with total assets between PKR 10-50 million, while 42% operate with less than PKR 10 million assets. Total assets comprise of parlor equipments, land and building, and stock/inventory. Liabilities constitute trade payables and borrowing for equipment.

Business related assets constitute mostly of hair styling chairs, specialized skin care equipment and machines and carts and trolleys. 51% of the business owners interviewed in the 'Beauty Parlor and Spas' sectors incurred capital expenditure in the past five years (**Figure 5.6-b**).

**Figure 5.6-a: Business Assets**



**Figure 5.6-b: Capital Expenditure**

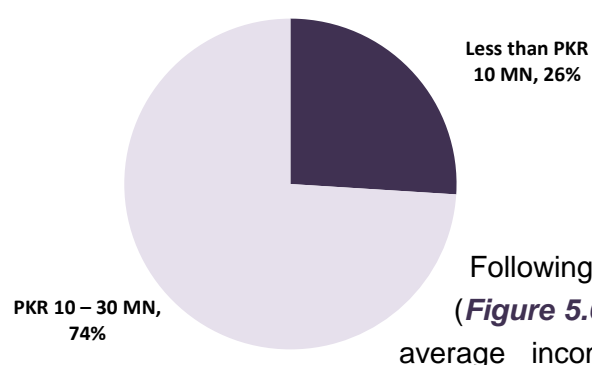


Source: Survey Findings

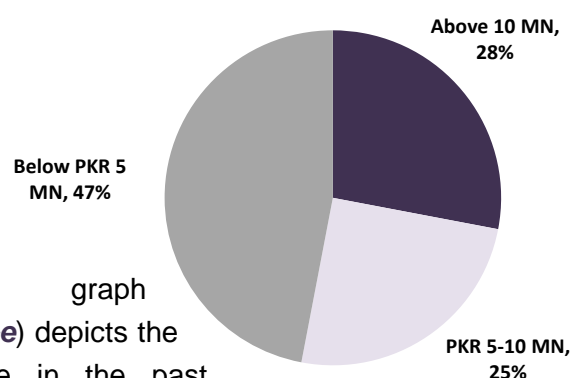
74% of the businesses in the segment have an annual average revenue between of PKR 10-30 million, while 26% of the businesses claimed to have revenue less than PKR 10 million (**Figure 5.6-c**).

Expenses primarily represent inventory and employee costs. In many cases, the owners themselves are involved in providing services which saves employment cost to some extent. Therefore, the average annual expenses are comparatively lower (**Figure 5.6-d**), as 47% of the businesses have annual expenses below PKR 5 million. Comparitively, larger setups have their annual expenses between the range of PKR 5-10 million or above PKR 10 million, by 25% and 28% of the businesses respectively.

**Figure 5.6-c: Total Revenue**

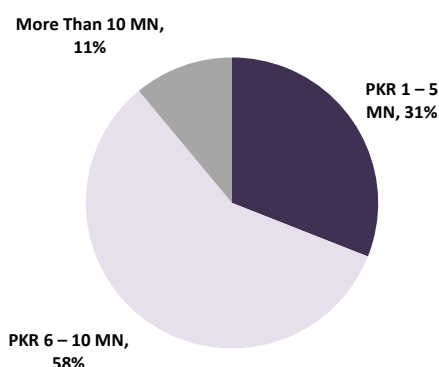


**Figure 5.6-d: Annual Expense**



Following graph (**Figure 5.6-e**) depicts the average income in the past three years of the businesses in this sector. 58% of the businesses interviewed had an average last three years net income between PKR 6 – 10 million, while 31% earn on an average between PKR 1 – 5 million. 11% of the businesses stated to have average net income in the past three years above PKR 10 million.

**Figure 5.6-e: Total Income**

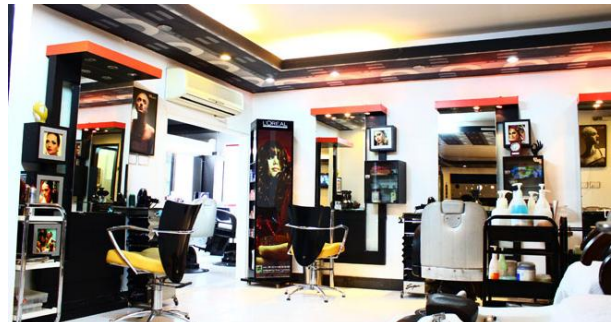


Source: Survey Findings

## 5.7 Indicative Business Requirements

The following table (**Table H**) lists the general business equipment and furniture required by the businesses in the beauty parlors and spa sector. The values provided below are susceptible to volatility in market prices. In addition, individual business owners will have distinctive requirements as per their business needs and how large their setup is. The table below is neither comprehensive nor specific and provides only an indication as to the typical requirement for set up or the expansion needs of a small sized business within this segment.

Table H: Indicative Equipment Requirement	Cost PKR
Hair Styling Chairs	25,000 - 50,000 per unit
Hair Styling Station (mirrors and drawers)	20,000 - 40,000 per unit
Carts and Trolleys	5,000 - 10,000 per unit
Reception Desk	15,000 - 25,000
Waiting Area Chairs	10,000 - 20,000
Hair Steamers/Hair Processors	15,000 - 25,000 per unit
Hood Dryers	10,000 - 20,000 per unit
Hair Brushes and Combs	10,000 - 25,000
Hair Styling Tools (with Scissors and Hair Clippers)	25,000 - 50,000
Other Supplies (towels, aprons, gloves and hair products and kit)	25,000 - 50,000
Electric facial unit	50,000 to 500,000 per unit
Laser Skin Rejuvenation and Hair Removing	400,000 - 900,000
Facial Spa Steamer	30,000
Facial and massage bed	100,000
Hair wash chairs	70,000
Advance Product Supplies(approx. 100 facials)	100,000 – 200,000





## 5.8 Financial Need Analysis

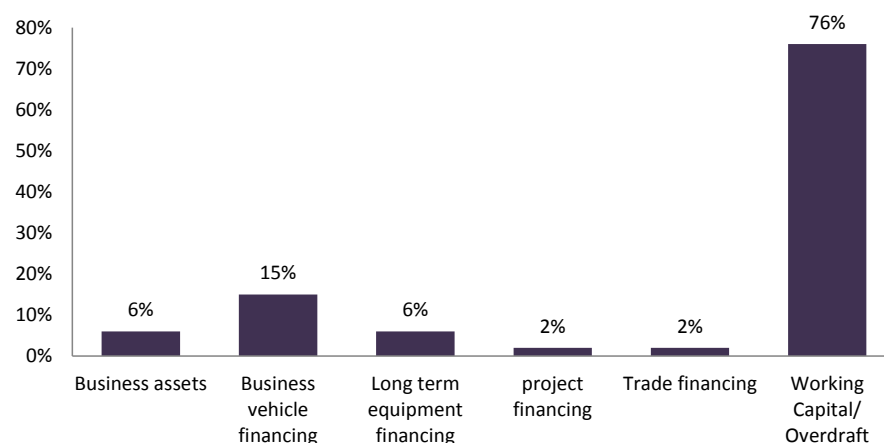
Funds required by the businesses in this sector are mainly for working capital needs, which according to the survey (**Figure 5.8-a**), is by 76% of the businesses. 15% of the businesses, however, also require funds for business vehicles mostly used for staff pick an drop as well as business usage.

Very few business owners suggest business assets as their primary funding requirement but amongst fixed assets, finance requirement mainly centered around furniture and fittings, machinery & equipment and office and business equipment for almost all the businesses (**Figure 5.8-b**).

This segment shows reliance on banks for their funding needs, with almost of the businesses in the survey depending on them. Mostly businesses use cashflows from their business to fulfill their funding requirements, while few borrow from their family and friends.

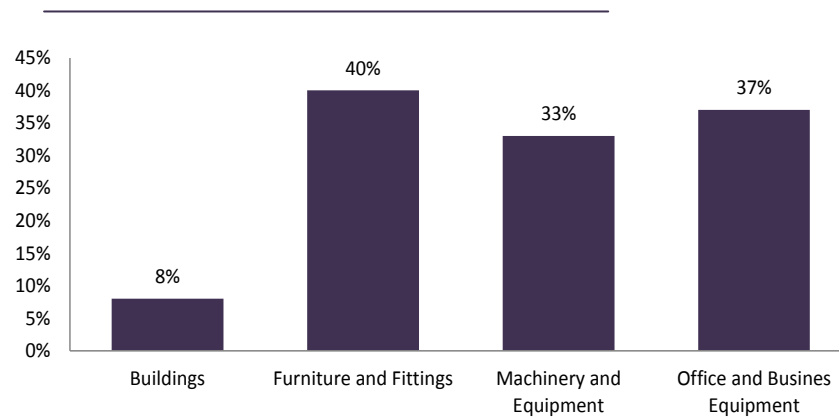
Therefore, businesses in this sector are dependent on banks and family/friends for borrowing. Working capital financing can be provided to SMEs in this segment to assist them in further growth to their business.

**Figure 5.8-a: Business Funding Needs**



Source: Survey Findings

**Figure 5.8-b: Fixed Assets Financing Requirements**



Source: Survey Findings

## 5.9 Usage of Banking Products

Very few owners are aware of SME segment specific efforts made by the Government of Pakistan; however, businesses in this sector have shown interest in potential loan products offered by banks and have also availed the facility of loan products, primarily personal loans, for business funding needs.

Majority of the business owners listed the key driver in choosing a certain bank being family bank followed by privacy/confidentiality/ trust to business. Most of the owners are not keen to propose any feature or product to be offered by the bank. Very few suggested loan with lesser mark up and support in finance would be favourable for them.

Majority of the business owners, who have never used bank to fund their business cited having enough personal funds to fulfill business needs as the main reason for not using bank. For those few who have used bank loan products, predominantly business loan and equipment purchase financing/ equipment was used. 30% of businesses also used business credit cards while 40% took personal loan/overdraft.

In addition to that it was also observed that other services such as cash management and money transfer facility were also used by the segment, with percentages resting at 69% and 79% respectively.

37% of respondents do not use any insurance products; the remaining have insurance of office equipment (17%) and motor vehicle (17%), while 13% also have their property insured. None of the business owners are interested in availing any insurance product from the banks as they prefer to avail such products directly from insurance companies.

The sector consists of only 21% of the businesses who avail advisory services with almost none of them paying for it, majority availing from their family members. Many felt that banks are well reputed for such services with better experience in finance but none are willing to pay for such services if provided by the banks.

Banking Product	Usage Percentage
Deposit (Checking) Account	71%
Term Deposits	43%
Loan Product	14%

### 5.10 Segment Risk Considerations

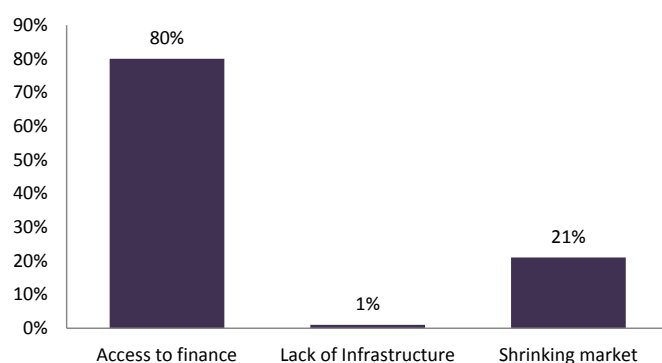
The sector is moderately less risky as compared to some of the other SME sectors. The underlying reason is low capital investment and rising demand for beauty parlor and spa services. However, some risks that pertain to the segment are discussed below:

Businesses in this segment are largely individual proprietorships, having this business as the only source of income. 58% of the businesses felt they face the risk of not being able to repay the loans borrowed from banks, followed by 30% feeling inflation as another major risk that their business faces. Inflation results in increasing cost of their raw material purchases while, on the other hand, recovering such costs through increase in service charges cannot be done on the same pattern and beyond a certain limit, without running the risk of losing some of their clients. 74% of the businesses address these risks through more capital investment followed by manpower training by 19% of the businesses (*Figure 5.10-b*).

All businesses in the sector prepare Financial Statements but few businesses stated that they have an audit of their financial statements. The analysis also demonstrates that the segment operates in a relatively competitive market with a businesses stating having more than ten competitors in close vicinity. Few businesses are also facing problems with their suppliers and identified need for new suppliers to meet their raw material needs

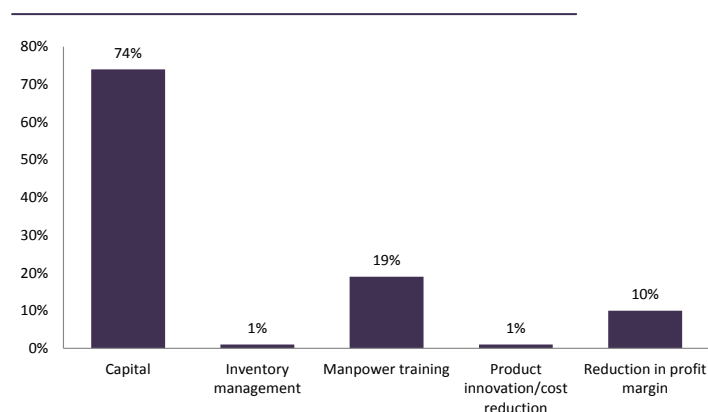
80% of the businesses mentioned that the major restraint in their business growth is the lack of access to finance (*Figure 5.10-a*). 21% of the businesses, ironically, felt that shrinking market was the major reason for the lack of their business growth. These pertain to really small private home setups which cater to lower income housewives. Due to rising prices affecting the lower income level, such beauty parlors are facing decline in their customers. Further, with competition from well established and popular salons, some with international affiliations and expertise, these small setups need new investment to grow and sustain against such competitions.

**Figure 5.10-a: Business Expansion  
Restraints**



Source: Survey Findings

**Figure 5.10-b: How Business Risk is addressed**



Source: Survey Findings

Following are the strengths and weaknesses inherent in this sector:

#### *Strengths*

- Low capital investment
- Well trained work force
- Continuous training of staff
- Rising demand by customers including both men and women
- Personalized Customer service

#### *Weaknesses*

- Expensive raw material
- Fragile business and customer relationship
- High fixed costs for operations
- Strong investment requirements in advertising and brand building

Further, the risks inherent to the segment include:

- Uneven cash flows
- Inconsistent quality of service
- Unaudited financial statements of many businesses

Possible Mitigating Factors:

- Lending only to those businesses which have been operating for more than five years
- Proposing products to businesses with a verifiable banking history of more than two years
- Review of accounts and register of invoices

## **6 Proposed Banking Product Suite**

### **6.1 Product Features**

Based on our primary and secondary research, we propose the following for growth of '*Beauty Parlors and Spas*' sector:

#### *Asset Products:*

- Working capital/Advance for Product supplies
- Equipment financing

#### *Liability Products:*

- Business Bank Account

#### *Other products*

- Banc assurance
- Branchless Banking (Mobile)
- Utility Bills Payment

<b>Table I: Working Capital / Advance Product Supplies</b>	
<b>Particular</b>	<b>Details</b>
<b>Initial deposit</b>	Minimum initial deposit of PKR 10,000
<b>Tenure</b>	3 years with no requirement of Annual Cleanup for principle amount. However, regular payment of markup is must for renewal of limit.
<b>Loan Limit</b>	<ul style="list-style-type: none"> <li>• Minimum Limit - PKR 1,000,000</li> <li>• Maximum Limit - PKR 5,000,000</li> <li>• Minimum and maximum loan limits are reviewed annually</li> </ul> <p>Total loan limit offered will not exceed an average six months of usage determined over a period of the last three years.</p> <p><i>(Maximum limit is set based on 50% mark-up of average revenue estimated for this sector)</i></p>
<b>Documentation</b>	One time documentation (as required by banks) for a period of three years
<b>Repayments &amp; Withdrawals</b>	<ul style="list-style-type: none"> <li>• Flexible repayment conditions: lump sum payment on the due date or partial repayments</li> <li>• Multiple withdrawals are allowed during the tenure of loan</li> </ul>
<b>Cleanup</b>	Borrower is liable to clear the entire loan markup on quarterly basis, mutually agreed by the bank and the borrower.
<b>Markup</b>	As per prevailing KIBOR and spread
<b>Markup charges</b>	Mark up will be charged only on the amount utilized by the borrower
<b>Renewal</b>	Renewal will be on the basis of fresh application, subject to clearing of entire loan amount including markup and satisfactory credit history
<b>Penalty</b>	No early repayment penalty may be imposed on the borrower (subject to banks discretion)
<b>Insurance</b>	Mandatory insurance as per SBP guidelines
<b>Security</b>	Raw material stock. Mortgage of business premises for those who operate from owned premises.

<b>Table J: Equipment Financing</b>	
<b>Particular</b>	<b>Details</b>
<b>Down Payment</b>	Minimum down payment of 20%
<b>Salient Features</b>	<ul style="list-style-type: none"> <li>• Equipment &amp; machinery leasing will be provided for expansion purposes only to businesses who have been operating for 3 or more years</li> <li>• A list of pre-approved equipment and machinery manufacturers will be developed based on information received from trade association and market reputation</li> <li>• Credit facility will be offered directly through pre-approved equipment and machinery vendors</li> </ul>
<b>Tenure</b>	3 - 5 years
<b>Loan Limit</b>	<ul style="list-style-type: none"> <li>• Minimum Limit - PKR 500,000</li> <li>• Maximum Limit - PKR 1,000,000</li> </ul>
<b>Documentation</b>	<ul style="list-style-type: none"> <li>• One time documentation required for a period of three years</li> <li>• Financial Statements</li> </ul>
<b>Repayments &amp; Withdrawals</b>	Repayments will be based upon preset Equal Monthly Installments
<b>Markup</b>	As per prevailing KIBOR and spread
<b>Penalty</b>	As per existing bank policies and cost of charges
<b>Insurance</b>	Mandatory insurance as per SBP guidelines
<b>Security/Collateral</b>	5% of invoice as security deposit. Additional security/collateral as per requirement and satisfaction of banks



<b>Table K: SME Business Bank Account</b>	
<b>Particular</b>	<b>Details</b>
<b>Account Type</b>	Non- remunerative Current Account
<b>Documentation</b>	CNIC/smart NIC, completion of KYC requirements as per SBP Regulations
<b>Facilities</b>	<ul style="list-style-type: none"> <li>• Cheque Book</li> <li>• Upgraded ATM facilities</li> <li>• Business Visa Debit Card</li> <li>• Phone Banking</li> <li>• Mobile Banking</li> <li>• Internet Banking</li> <li>• Monthly account statement</li> </ul>

<b>Table L: Other Products</b>	
<b>Particular</b>	<b>Details</b>
<b>Banc-assurance</b>	Bancassurance products such as Business Premises Insurance, Personal Injury Insurance, Equipment and Vehicle insurance can be proposed by banks through its channels offering reasonable rates and servicing through banking channels such as direct debit
<b>Branchless Banking (Mobile)</b>	Mobile banking services for instance balance check, bill payment and funds transfer
<b>Utility Bill Payment</b>	Service for easy payment of electricity, gas, telephone and cell phone bills

## 6.2 Eligibility Criteria for Asset Products

Table M: Asset Products Criteria

Indicators	Description
<b>Borrower Eligibility Analysis</b>	Assessment of type of customers to take into account the total indebtedness of the borrower and his disposable income and should ensure that the total financing to a borrower does not exceed the reasonable limits as laid down in approved policies of the bank. Borrower should be in business of ' <i>Beauty Parlors and Spas</i> ' for the past three years and hold a valid CNIC/smart NIC
<b>Business Analysis</b>	To assess the Borrower's position their invoices will be verified and checked against banking history, business premises ownership documents should be reviewed and be in name of the owner.
<b>Credit worthiness</b>	Credit worthiness of the borrower will be ascertained by collecting information from e-CIB and other banks operating in the region.
<b>Financial parameters</b>	To assess average expenses, income generated and repayment capacity of the borrower.
<b>Adherence to Lending Standards</b>	To assess that Customer/ Borrower requirements are in compliance with standards set for revolving finance scheme by the Bank and/ or Regulatory Authorities.
<b>Banking History</b>	Verifiable banking history of more than one year with active accounts
<b>Business Operations</b>	Business should be in operation for more than three years
<b>Trade body membership</b>	Business should be a member of the sector's trade body.

## **7 Distribution and Communication Considerations**

SMEs in 'Beauty Parlors and Spas' are spread out in rural areas as well as in urban cities of the country; therefore they can be reached and targeted in major clusters to promote banking products.

### **7.1 Marketing Objectives of Banks**

Marketing objectives for building and promoting the brand image of SME Products for beauty parlor and spas are as follows:

The banks may:

- Work with the beauty parlor associations for events, generate better understanding of the sector and create awareness
- Work with major brands that provide branded products to renowned beauty parlors such as L'Oréal in hair care or Guinot/ others in skin care
- Educate the beauty parlor service providers, create awareness for financial needs and banking products in the identified market regions
- Develop strategies to attract a large number of beauty parlor service providers to avail bank lending/financial products
- Increase direct interaction of bank's Relationship Managers with beauty parlor service providers to promote more direct and close interaction with the business owners to assist them in assist small businesses in navigating difficult economic and business conditions
- Provide sponsorships for trade fair and exhibitions which links the promotion of bank's brand image with SME businesses product exposure locally and worldwide

### **7.2 Promotional Activities by Banks**

To create awareness of SME specific products in the target market, the bank may aggressively advertise its products through various promotional programs and events:

- Organize promotional events in cluster locations or near businesses to build strong image of the bank among the target audiences.
- Conduct workshops to provide more interaction to business owners with trade associations to enhance communication between them regarding industry specific issues.

Banks can service these SMEs through the following proposed channels: *(Please note that this list is not exhaustive):*

- Direct Sales Agents
- Tele Sales

- Trade association backed seminars
- Branches in cluster locations
- Identify opportunities for expansion through market sources
- Involvement in trade fairs and exhibitions

### 7.3 Distribution Strategy for Banks

As the primary means of customer service and sales interaction, distribution channels play a central role in the customer relationship process, which further improves growth. Banks' challenge is to improve and integrate their multiple distribution channels to consistently deliver an enhanced experience and foster better customer relationships. Top priority is placed in attracting and retaining customers within and across these channels.

To reach maximum percentage of target market, Banks need to have a comprehensive distribution strategy. Banks should aim to cater banking needs of '*Beauty Parlor and Spa*' sector through its products on national basis in major cities of the country where beauty parlor and spas are mostly located. Initially the banks may provide financing facility in main cities of the country and later penetrate into other small business markets after establishing strong presence in major cities.

Banks may adopt following conventional channels for distribution:

- **Direct Sales Agent:** This activity may be outsourced and trained marketing team should periodically visit identified areas within the cities, to educate potential customers and create awareness of the products and services being offered under SME Products Suite.
- **F2F interactions:** A deeper level of interaction may provide an integrated customer focus, by relationship managers involved in face to face interaction, which will become critical in helping better communication for product awareness and in addressing hesitations faced by the business owners.
- **Internet Banking:** With technology up gradation mobile phones have become sophisticated and capable of handling advanced applications and services, banking via mobile phones appeal to consumers on multiple fronts.

Following Technology based alternate delivery channel can also be adopted for distribution

- **Short Message Service (SMS):** Marketing team can send out mass messages in Urdu or English to '*Beauty Parlor and Spa*' segment for advertising bank's products.