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The Digital Transformation of Beauty and Wellness Services

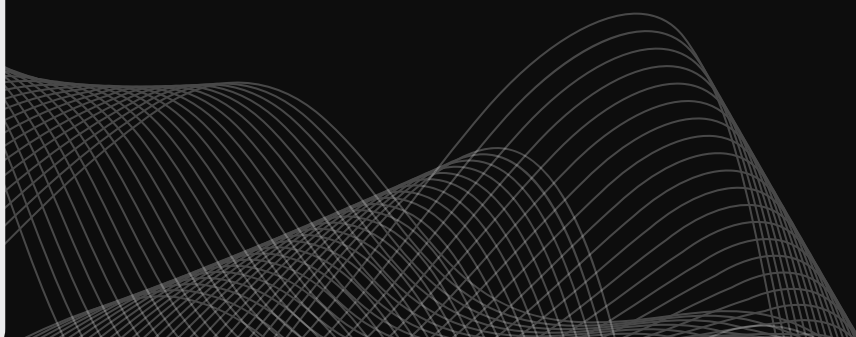
B2B and Digital Payments Tracker® Series

■ Read the previous edition



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Acknowledgment

The B2B and Digital Payments Tracker® Series is produced in collaboration with American Express, and PYMNTS is grateful for the company’s support and insight. PYMNTS retains full editorial control over the following findings, methodology and data analysis.

Need to Know

Beauty Services Rebounding From Pandemic Disruptions

Although the global health crisis impacted nearly all industries, beauty services were among the worst hit, with an estimated [20% of salons shut down permanently](#) due to COVID-19, according to a recent report.

The industry's growth was strong going into the pandemic, and as the worst of the crisis has receded, the beauty service market has begun to rebound. Sales in the United States reached almost 70% of their pre-pandemic levels in 2021, with a market value eclipsing \$57 billion. This comeback has extended globally, with the [worldwide market](#) for salon services valued at an estimated \$233.8 billion in 2023. Nevertheless, emerging shifts are creating new challenges as well as opportunities for the industry.

Beauty services have been making a strong comeback since the height of the pandemic.



\$57.1B

Value of the total U.S. beauty services market in 2021



\$233.8B

Value of the worldwide salon services market in 2023

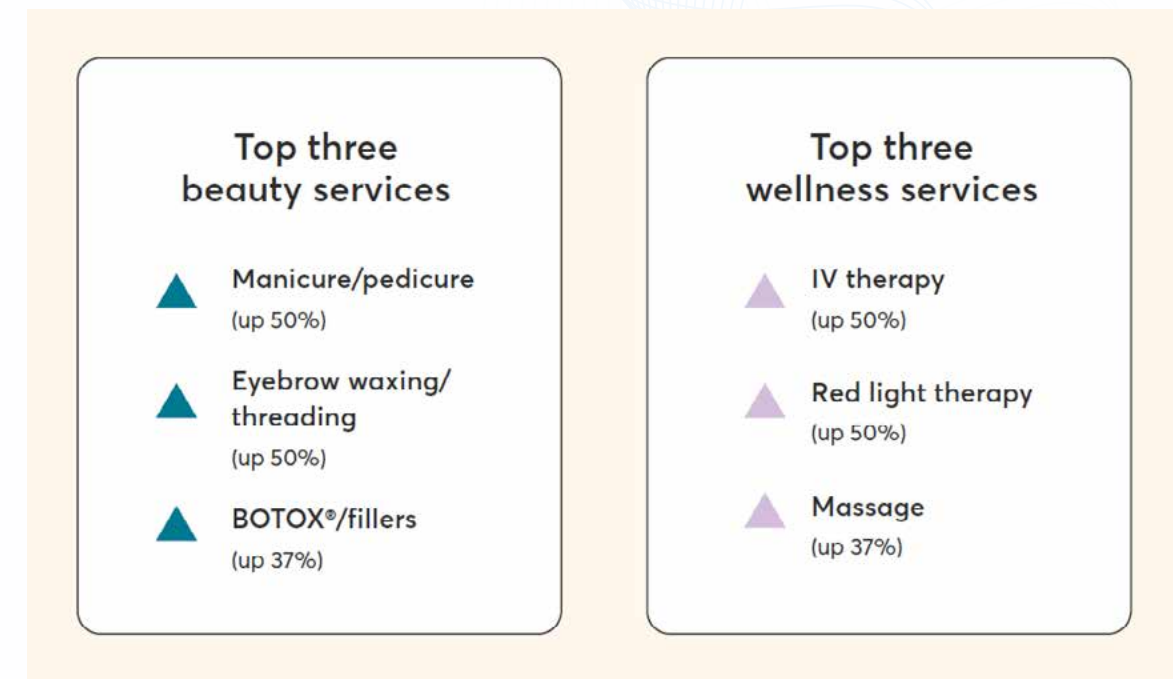
Need to Know

Consumers' definition of beauty is merging with that of wellness, with demand for services on the rise in both sectors.

Beauty services generally fall into three major market categories — hair, skin and nail services — with a smaller category comprising sales of in-salon merchandise. Haircutting and styling services [generated](#) nearly \$22 billion in 2021, while hair coloring, tinting and other hair care services accounted for \$11 billion. Skin services made up the second-largest segment, at nearly \$12.5 billion, followed by nail services, at \$8 billion. Core services in hair care were [up anywhere from 23% to 100%](#) between 2021 and 2022.

One recent report also found that the definition of [wellness is expanding](#) to include beauty services, with 65% of Americans in 2022 believing that beauty and grooming are a part of wellness. Moreover, although women generally [spend](#) more on

Several specific beauty and wellness services were [on the rise between 2021 and 2022](#), according to a recent report.



Source: Mindbody. 2022 Mindbody Wellness Index: Beauty Report. <https://www.mindbodyonline.com/business/education/research-report/2022-beauty-and-wellness-trends-report>. Accessed April 2023.

beauty services than men, millennial men offer an unusual growth opportunity: Men ages 25 to 40 have greater purchasing power and are tapping certain services, including barber services and advanced skin care, more than any other demographic.

Need to Know

Technology is blurring the line between services and products in the beauty industry.

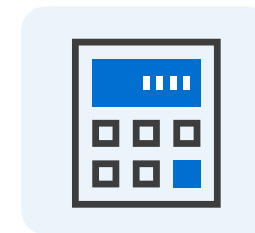
Despite the market's recent rebound, the pandemic's disruption of the beauty services industry is expected to [continue](#), with experts predicting that sales will not return to pre-pandemic levels until 2027. Some of the important challenges service providers will wrestle with in the meantime are [labor shortages](#) and the rising costs of doing business. As with other verticals, personalization is coming to the fore, with strong growth anticipated for [specialized services](#) in luxury spas and salons.

Technological innovations are playing a powerful role as well, and these are beginning to [blur](#) the line between service and product offerings. As retailers experiment with [experiential in-store offerings](#) using augmented reality (AR) and virtual reality (VR), salons and spas are finding new revenue streams through software that allows them to expand their services into digital product offerings and e-commerce. Given these trends, partnerships with retail brands could hold particular promise for service providers.

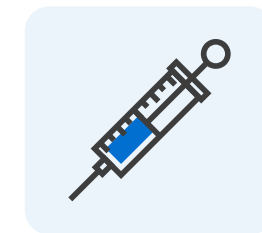
A report predicts several [top trends](#) affecting the beauty services industry:



Growth in players offering both products and services



Growth in specialized rather than generic services



Growth in advanced procedures

News and Trends

Digital Makeover Continues for Beauty Services Industry

CIBC Innovation Banking recently announced its provision of [\\$12 million in growth financing](#) for Dublin-based Phorest Salon Software, a top provider of online booking and management software for salon entrepreneurs. The company will leverage the financing to accelerate the launch of next-generation platform and machine learning initiatives.

Phorest boasts more than 155,000 hair, beauty and clinic service customers worldwide that use the software to facilitate every point of the salon experience, from online bookings and stock control to eCommerce and payments. The company says the software is intended to allow salons to focus on success by reducing their administrative burdens.

Avere Beauty rolls out ‘treat now, pay later’ program for its customers

Pittsburgh-based Avere Beauty has launched a “[treat now, pay later](#)” option to make its services more affordable. Customers will be able to use the option to cover med-spa services, laser treatment and other services from Avere Beauty. Using a state ID and mobile phone number, eligible customers can choose from a variety of monthly payment plans.

News and Trends

Beauty retailers lean into in-store ‘salon experiences’ to drive sales

A number of beauty retailers are experimenting with immersive store experiences to invite shoppers back to brick-and-mortar in the pandemic’s wake. Retailer Sally Beauty, for example, is utilizing technology to create “memorable and personalized” interactions at Studio by Sally, a [do-it-yourself-centric concept store](#), which opened in March. The store is the culmination of the company’s modernization efforts since the pandemic’s onset, which spurred it to update legacy point-of-sale systems in-store and implement a new solution to support real-time inventory visibility.

“This is a new way to engage, educate and empower consumers using interactive experiences to showcase Sally Beauty’s on-trend color and care expertise and drive product sales.”

DONNA ARNOLD
Senior director of retail

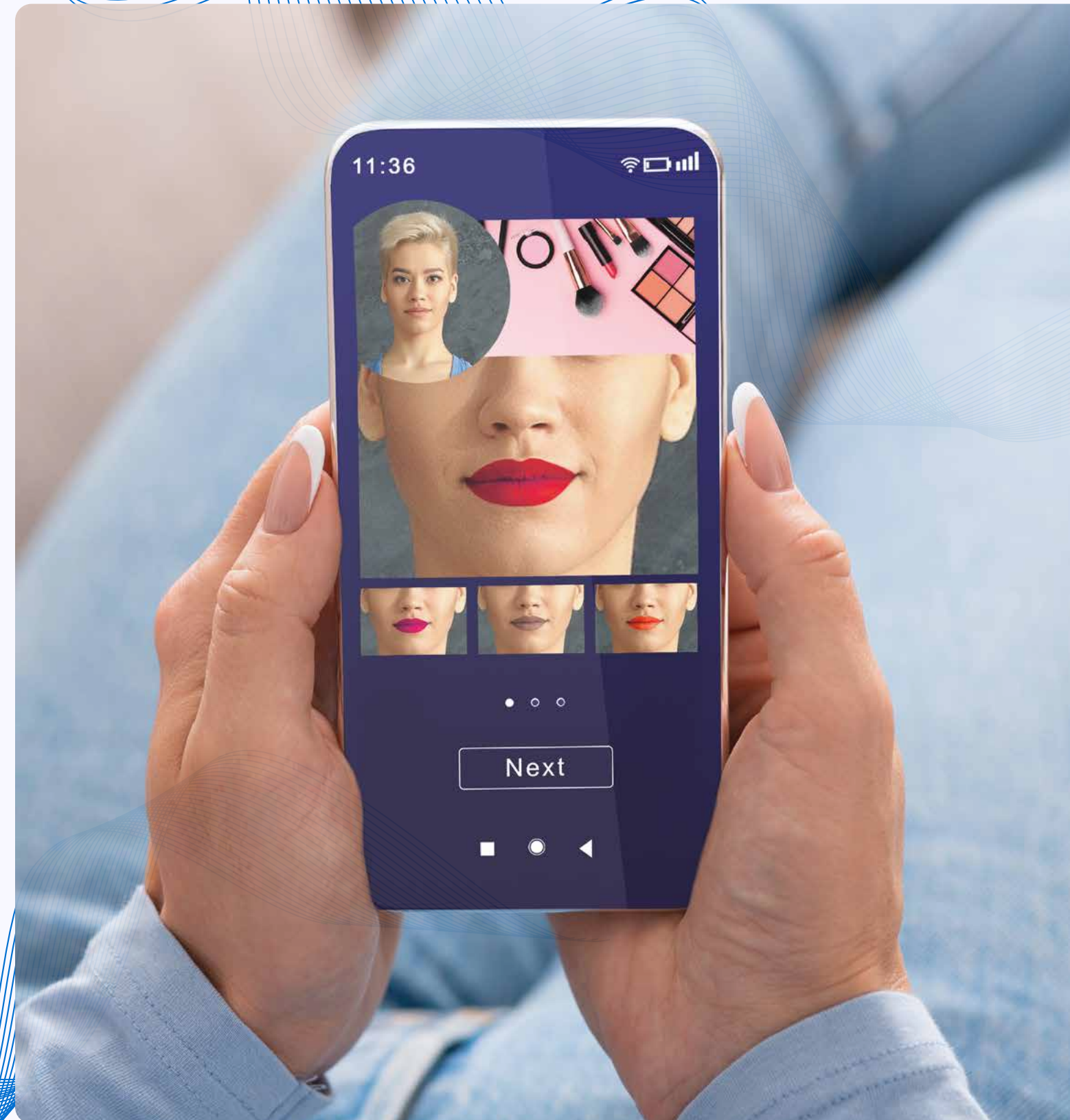
SALLY.

Sales associates at the concept stores will consist of trained cosmetologists who will work with customers in a “salon-style consultation” to help them achieve at-home professional results using the stores’ products. The focus will be digital-first, from virtual check-in and digital education to streaming demos and take-home videos from the individual sessions.

News and Trends

Ulta Beauty seeking to accelerate innovation with new funding program

Ulta Beauty [launched](#) a digital innovation fund, Prisma Ventures, which will invest \$20 million in technology startups. The investments will be allocated to companies working on emerging technologies, including AR, VR and the metaverse, custom beauty products and more. Moreover, recipients of the funding will have access to Ulta Beauty's consumer insights and market testing capabilities.

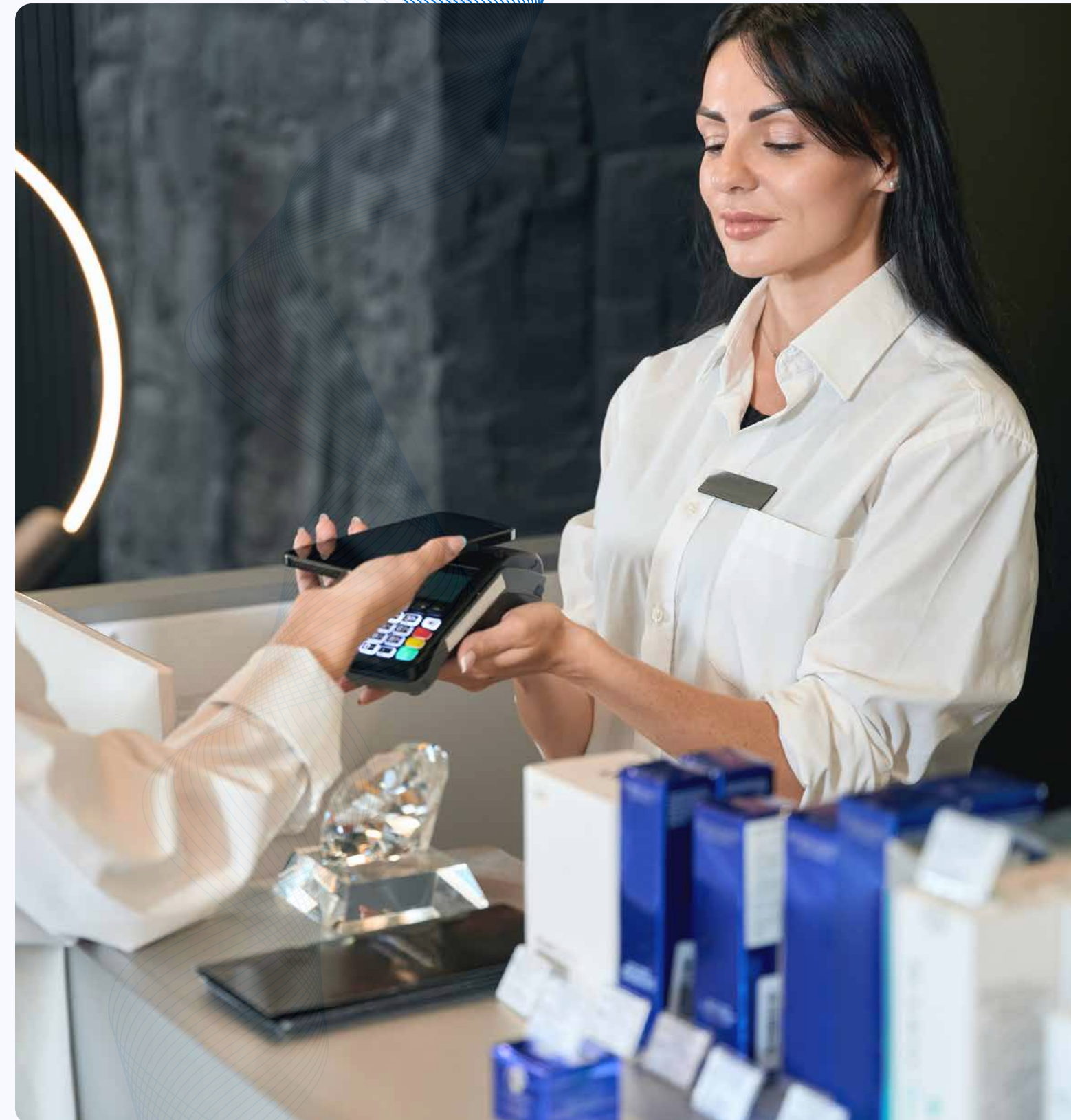


PYMNTS Intelligence

Convergence of Beauty Services and Products Puts Spotlight on Partnerships

The pandemic's closures of in-person businesses forced a hard digital pivot on beauty services providers — one that allowed many to survive. With increasing consumer demand for convenient and contactless payment options, however, the industry is finding value in digital transformation long after most pandemic strictures have eased. Nearly 90% of Americans used some form of [digital payments](#) in 2022, 62% used two or more forms — up from 51% the year before — and the use of [mobile wallets](#) has surged.

The beauty industry is on the road to wellness, but as pandemic-fueled trends evolve, it is seeing new shifts in how consumers purchase and interact with both service and product offerings, creating challenges and opportunities for both.



PYMNTS Intelligence

Digital shift becoming permanent

Whether spas or salons, providers of beauty services are expanding their digital presence, from booking and payment capabilities to customer outreach and advertising. Online booking, in particular, is now a must. Nearly half of beauty and hair salon customers [book](#) their appointments outside of a salon's operating hours, and a larger percentage of customers, after using online booking functionality, keep [booking appointments online](#). Without offering customers a convenient way to book and pay for appointments, beauty services providers can no longer compete with more technologically advanced establishments.

Online booking is now a must in the beauty services industry.

70%

Share of salon and spa customers who prefer online booking over calling in

58%

Share of salon and spa customers who continue to use only online booking for future bookings upon trying it

Digital payments can also help beauty services providers lower costs. Traditional payment methods, such as cash and checks, require manual handling and processing, which can be labor-intensive and costly. [Receiving](#) paper checks, for example, has a median cost of \$1 to \$2, compared with a cost of 26 cents to 50 cents for an automated clearing house payment.

PYMNTS Intelligence

Responding to the growing convergence of services and products

Although the beauty services industry is on its way to well-being, a recent report identifies a number of [new challenges](#) that have grown out of the pandemic's market disruption. While researchers forecast strong growth for specialized offerings, such as luxury spas and salons and nonsurgical skin services, they predict a slower recovery for traditional salons and spas due to both an increase in labor costs and consumers having become accustomed to do-it-yourself solutions during the pandemic.

According to the report, the number one beauty industry trend is a blurring of the line between brands that offer products and those that offer services, which is being driven by both groups. Retailers are seeking to grow foot traffic with

Beauty services providers can add new, lucrative revenue streams by [diversifying into product sales](#).



55%-80%

Average profit margin for beauty products



5%-20%

Average profit margin for beauty services

technology-fueled “experiential” offerings that mimic salon or spa services. Meanwhile, sales of products from within spas and salons are expected to outpace the overall services market. For this reason, the report recommends that service providers leverage their stronger relationships with customers to expand into product sales as a way of diversifying their revenue streams. In particular, partnerships with beauty product brands can benefit service providers by offering marketing and other sales support.

Chart of the Month

Hair Services Dominate the Beauty Market

According to recent research, hair-related services comprise [more than half](#) the overall beauty services market. Hair services accounted for \$32.9 billion of the \$57.1 billion U.S. market for beauty services in 2021, with haircutting and styling the largest segment, at \$21.9 billion. In comparison, skin care generated a total of \$12.5 billion — including injectables and waxing services — and nail services accounted for \$8 billion.

Source: McKinsey & Company. The Beauty Battleground: The Sprint to Win on Services, July 2022. <https://www.mckinsey.com/industries/retail/our-insights/the-beauty-battleground-the-sprint-to-win-on-services>. Accessed April 2023.

The Beauty Services Market Is Dominated by Hair Services

2021 US beauty services market, \$ billions



Insider POV

How Digital Platforms Are Easing Spas' and Salons' Top Pain Points



JASON FOODMAN
President



“Enhancing payment and digital processes enables the business to save time and effort and maximize profit. Cutting-edge payment processes allow salons to check clients in and out faster and even make tipping easier, providing convenience and a seamless experience for the salon guest.”

As salons and spas across the country recover from the pandemic's impact, an industry insider explains how digital systems are improving the customer experience and helping to attract and retain customers.

Although the beauty services industry is rebounding from the pandemic, spas and salons still face significant pain points. Fortunately, some of the biggest challenges — from staffing shortages to scheduling issues — can be addressed with a straightforward solution, according to Jason Foodman, CEO and president at [Rosy Salon Software](#), the first cloud-based salon software offered as a subscription.

In an interview with PYMNTS, Foodman explained that integrated digital payment and scheduling platforms can help beauty service companies improve the customer experience and business efficiency in a variety of ways.

Insider POV

At a high level, bundling payments and scheduling into a single digital platform helps spas and salons focus more on what matters — their customers. One of the top pain points service providers currently face is a lack of adequate staff to handle their customer needs — with a report finding that more than half of hair and beauty service companies have [unfilled vacancies](#) — leading many providers to look for ways to save time and become more efficient with fewer personnel.

“By moving scheduling, payments, confirmations, etc., into an integrated digital process, it takes less time to complete tasks,” said Foodman.

He explained that digital platforms make it easy for customers to book appointments online and receive automated confirmation and reminders about upcoming services. Then, when customers do arrive for their appointments, these platforms can support deskless check-in and checkout at the establishment. These capabilities reduce the need for staff to handle such tasks while also increasing the likelihood of clients showing up.

Digital platforms’ payment capabilities also play an important role in promoting efficiency. For example, these platforms can come with optional card-on-file features, which speed up the payment process while also supporting deskless check-in and checkout.

At the same time, these platforms can support digital tipping, from a dedicated iPad, for instance, which makes tipping service providers fast and easy, he said. Further, companies can leverage digital payment platforms to limit the negative impact of no-shows.

“No-shows are an ever-present problem that can result in significant losses for the business. ... [Integrated payments solutions with] features such as card-on-file and deposits can help salons curb the problem and reclaim costs, therefore directly and positively affecting the business’s bottom line,” Foodman said.

Companies can also use solutions like the one Rosy offers its clients to tamp down on walkouts.

Insider POV

“To keep clients from skipping out without paying for services, the business should consider holding a credit card on file, even taking deposits, before scheduling an appointment. There’s also the option of running a pre-authorization before starting the service to confirm the card’s validity.”

If it seems as if digital platforms with all this functionality are specifically tailored to address the unique needs of spas and salons, that is because — at least in the case of Rosy — they are. The company’s founder, Foodman explained, was a former salon and spa owner dissatisfied with the available software at the time. He thus set out to design his own solution that better met the industry’s needs — and this process remains ongoing.

“The software will continue to evolve, driven by industry trends, along with our customers’ input and feedback,” Foodman concluded.

Digital payment and scheduling platforms can help spas and salons streamline their operations by:

- **Enabling online appointment booking and reminders**
- **Supporting fast and easy tipping options**
- **Offering deskless check-in and checkout capabilities**

What's Next

Beauty and Wellness Outlook Remains Robust

In the coming months, the market for beauty services is expected to keep expanding. Consumer interest in haircuts, nail care and other services will not disappear. In fact, it looks as if it may actually increase, with one study finding that 26% of consumers [plan to spend more](#) money in 2023 on their appearance than they did last year. Moreover, the global professional beauty services market is [expected to expand](#) at a compound annual growth rate of 4.7% through 2032. Service providers can make the most of this opportunity by ensuring they have the digital systems needed to keep up with customer expectations.



“As the beauty and wellness industry continues to expand and demand grows, service providers can benefit from upleveling their payment technology. Digital payment solutions, including those provided by American Express, can help manage increasing transaction volume and make for a secure and seamless customer experience. These solutions can also give merchants important insight into spending trends to help prepare for the future, including what types of beauty products and treatments are popular and where customers are spending their money.”

TESSA DOOLEY
Vice president

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About

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