



Economic Report

Economic Impact Analysis
of the Hairdressing
Industry



higher education
& training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

PLUS 94



RESEARCH

Foreword

This report forms part of the larger study that is being undertaken by Plus 94 Research for the Services SETA in collaboration with the Department of Higher Education and Training (DHET), which seeks to conduct a rapid appraisal of the hairdressing industry in South Africa. At present, very little formal literature and statistics are available for this industry. As such, credible research is required in order to provide crucial information which will enable key decisions to be made. The need for investment in research is highlighted within the Services SETA's Sector Skills Plan (2014), and is reiterated here. The economic analysis undertaken as part of this study has been conducted based on the information that is currently available from credible sources; it must be noted however, that the statistics available are very limited.

As such, it must be highlighted that a larger scale, national survey is recommended in order to gather credible data that is robust enough to conduct rigorous economic analyses for the hairdressing industry in South Africa – for both formal as well as informal sectors. Currently, while limited information is available for the formal hairdressing industry, credible statistics for the informal hairdressing industry are largely absent from the literature.

This report provides a useful starting point to understanding the hairdressing industry in South Africa from an economic perspective. It is hoped that future studies on this industry may be able to use this report as a comparative source, or as a starting point to accessing economic data on the hairdressing industry in South Africa.

Contents

Foreword	1
List of Tables	4
List of Figures	4
Abbreviations and Acronyms	5
Key Concepts & Definitions	6
Chapter 1: Introduction	9
1.1. Background	9
1.2. Purpose, Aim and Objectives.....	9
1.3. Methodology.....	10
Chapter 2: Economic Character of the Hairdressing Industry	18
2.1. Brief Introduction	18
2.2. Employers in the Hairdressing Industry.....	19
2.3. Wage Analysis.....	22
2.4. The hairdressing industry and migrant labourers.....	25
2.5. Size of the hairdressing industry	28
Chapter 3: Contribution of the Hairdressing Industry to the Economy	31
3.1 Contribution to Economic Growth	32
3.2 Contribution towards Employment.....	32
3.3 Contribution towards Capital Utilisation	35
3.4 Impact on Households.....	35
3.5 Fiscal Impact.....	36
3.6 Impact on Balance of Payments	37
3.7 Sectoral Impact.....	38
Chapter 4: Conclusions	41
Reference List	44

List of Tables

Table 1: Services SETA haircare sub-sector	18
Table 2: Total Employers by Size, Levy Paying and Non-Levy Paying.....	19
Table 3: Number of employers per sub sector	20
Table 4: Remuneration/Basic Salary/Wage Schedule (Hairdressing).....	22
Table 5: Remuneration/Basic Salary/Wage Schedule Comparison (Beauty & Cosmetics vs. Hairdressing)	24
Table 6: Nationality of Hairdressers	25
Table 7: Market size estimates from desktop research.....	28
Table 8: Top 5 domestic retail trade categories	29
Table 9: Overall National Macro-Economic Impact for the Total Hairdressing Industry 2015	31
Table 10: Impact on the Balance of Payments of the National Economy [Rand millions; 2015 prices].	37
Table 11: Destination countries for exports	38

List of Figures

Figure 1: Schematic Representation of Direct, Indirect and Induced Impacts (author's own diagram)	12
Figure 2: Framework for evaluating the Economic Impact of the Hairdressing Industry	15
Figure 3: Employment Impact, Direct, Indirect and Induced.....	34
Figure 4: Employment According to Skill Level.....	34
Figure 5: Sectors benefiting from the Hairdressing Industry in terms of GDP growth (percentages) ...	39
Figure 6: Sectors benefiting from the Hairdressing Industry in terms of Employment (percentages) ..	40

Abbreviations and Acronyms

BMR	Bureau of Market Research
CAGR	Compound Annual Growth Rate
CISCO	Computer Information System Company
DHET	Department of Higher Education and Training
EOHCB	Employers Organisation for Hairdressing, Cosmetology and Beauty
GDP	Gross Domestic Product
GEM	General Equilibrium Model
GOS	Gross Operating Surplus
ICT	Information and Communication Technology
ILO	International Labour Organisation
I-O	Input-Output Modelling
MEIA	Macro-economic Impact Assessment
NC	National Certificate
OECD	Organisation for Economic Co-operation and Development
PWC	Price Waterhouse Coopers
SAM	Social Accounting Matrix
SADC	Southern African Development Community
SLA	Service Level Agreement
SARS	South African Revenue Services
SETA	Sector Education Training Authority
SIC	Standard Industrial Classification
SME	Small Medium Enterprise
SMME	Small Medium and Micro-Sized Enterprises
STATSSA	Statistics South Africa
TVET	Technical and Vocational Education and Training

VAT

Value Added Tax

Key Concepts & Definitions

Balance of Payment	Balance of payment accounts are an accounting record of all monetary transactions between a country and the rest of the world. These transactions include payments for the country's exports and imports of goods, services, financial capital, and financial transfers.
Barbering	When hairdressing relates specifically to men and includes the grooming of beards and moustaches, it is known as barbering.
Beauty Therapy	Treatments to enhance appearance, well-being, relaxation or uplift. Treatments include manicure, pedicure, make up, waxing, massage, electrotherapies, electrolysis. Paramedical treatments, e.g. laser hair removal, injectables to reduce wrinkles, and holistic therapies are offered through beauty salons by specialist practitioners
Capital Investment	Funds invested in a firm or enterprise for the purposes of furthering its business objectives.
Capital Utilisation	The amount of capital required to sustain the on-going operational phase of a business.
Current Prices	Represent valuations in Rand values of the price year under consideration, usually in today's Rand values. In this report, all prices reflect 2015 prices.
Direct Employment	Direct and indirect employment varies in that direct employment involves employees who physically manufacture or produce goods. Common examples of direct labour include equipment operators and employees who work on assembly lines.
Direct Tax	A tax that is paid directly by an individual or organisation to the imposing entity. A taxpayer pays a direct tax to a government for different purposes, including real property tax, personal property tax, income tax or taxes on assets.
Direct Economic Impact	The Direct Economic Impact is a measure of the total amount of additional expenditure within a defined geographical area, which can be directly attributed to an economic activity.
Economic Evaluation	Economic Evaluation is a method of evaluation that uses a money measure and assesses the real value of goods and services to individuals based on economic principles. The term is sometimes used synonymously with cost-benefit analysis but may also include cost-effectiveness analysis.
Economic Index	In economics and finance, an index is a statistical measure of changes in a representative group of individual data points. This data may be derived from any number of sources, including company performance, prices, productivity, and employment.
Economic Indicators	A piece of economic data, usually of macroeconomic scale, that is used by investors to interpret current or future investment possibilities and judge the overall health of an economy. Economic indicators can potentially be anything the investor chooses, but specific pieces of data released by government and non-profit organisations have become widely followed - these include: GDP, CPI etc.
Economic Multiplier	A multiplier attempts to quantify the additional effects of an economic activity beyond those that are immediately measurable or directly

	attributable to that activity.
Evaluation Period	The timeframe over which the costs and benefits of a project are compared. It can also be referred to as the project life.
Financial Evaluation	An assessment of the financial effects of a project or policy from the perspective of some defined agency, which may include the whole of government; gains and losses accruing elsewhere in the economy are not included.
Fiscal Impact	Fiscal impact analysis is a tool that compares the local government costs against local government revenues associated with development policies and projects. The analysis should indicate if and when a community could face budget deficits.
Gross Domestic Product – GDP	A key measure of the final value of economic production in the economy. GDP is determined in one of three ways: the value of goods and services produced less the cost of production; the sum of incomes generated by production; the sum of final expenditure on goods and services produced plus exports minus imports. An average of the three approaches may be used and is then referred to as GDP. Another way of considering GDP is as a measurement in Rand terms of aggregate goods and services produced within a particular economy over a year excluding income earned outside the country. GDP is considered as one of the main yardsticks of the health and vitality of an economy, representing the total 'income' of the economy and its local participants.
Gross Operating Surplus – GOS	GOS differs from profits shown in company accounts for several reasons. Only a subset of total costs is subtracted from gross output to calculate the GOS. Essentially, GOS is gross output less the cost of intermediate goods and services to give gross value added, and less compensation of employees. It is gross because it makes no allowance for Consumption of Fixed Capital (CFC). By deducting CFC from GOS, one calculates Net Operating Surplus (NOS).
Gross Value Added	Value Added measures the value created by production and may be calculated either before or after deducting the consumption of fixed capital on the fixed assets used. Gross Value Added is defined as the value of output less the value of intermediate consumption. Value Added is the balancing item in the production account for an institutional unit or sector, or establishment or industry.
Hairdressing	The process of cutting, cleaning, colouring, styling, and arranging hair.
Home-based/domestic hairdressers	Self-employed hairdressers who have set up a salon in their home. They may operate their business from one of the rooms in their house.
Indirect Employment	Indirect employment involves individuals who support those processes. Examples of indirect employment include those who participate in quality control or are part of a support staff.
Indirect Multiplier Impact	Indirect impacts result from the suppliers purchasing goods and services, as well as hiring workers to meet demand. The ripple effects would not occur but for operations in a specific sector or industry.
Indirect Tax	Indirect taxes are where the tax is levied on one entity, such as a seller, and paid by another; such as sales tax paid by the buyer in a retail setting. An example of an Indirect Tax is Value Added Tax or Sales Tax.
Induced Multiplier Impact	Induced impacts result from the employees of the enterprises purchasing goods and services at a household level.

Industry	A group of establishments engaged in the same or similar kinds of activity.
Industrial Classification System	The International Standard Industrial Classification of All Economic Activities is a United Nations system for classifying economic data.
Inflation	A sustained rise in the general price level i.e. the proportionate rate of increase in the general price level per unit of time. The Consumer Price Index (CPI) is a standard measure of the general level of inflation in the economy. StatsSA also publishes a number of industry/sector-specific measures.
Informal Sector	The informal sector is comprised of informal business activities which are not recorded in the national accounts, and not subject to formal rules of contract, licensing, labour inspection, reporting and taxation. In many parts of South Africa, the informal sector is a significant contributor to the economic welfare of individuals, communities and society.
Input-Output Model	In economics, an input–output model is a quantitative economic technique that represents the interdependencies between different branches of a national economy or different regional economies.
Leontief Matrix Multiplier	The Leontief coefficient identifies the direct and indirect (inter-industry) effects on the demand for the output of industry as a result of changes in the demand (and thereby the input requirements) of industry.
Mobile Hairdresser	A hairdresser who does not operate from a fixed hair salon; instead, they visit clients in their homes or place of work, or another agreed upon location such as a care facility or elderly peoples' home, fashion show, wedding venue, etc. Many mobile hairdressers are self-employed, though there are also mobile hairdressers who work as employees for larger companies.
Personal Service Sector	Typically understood as the sector covering hair and beauty services, though it can also include services such as laundries and spas.
Social Accounting Matrix – SAM	An economic accounting system. Because of its mathematical structure, it can form a basis of a macroeconomic model.
Supply and Use Table	Supply, use and input-output tables are constructed and used in the European Union (EU). Measuring production in an economy is essential in order to calculate GDP. A vast amount of information is needed to capture this process where input of labour, capital, goods and services result in produced outputs of goods and services. Statisticians and economists use a statistical and analytical framework called supply, use and input-output tables to organise this information.
The System of National Accounts – SNA	The internationally agreed standard set of recommendations on how to compile measures of economic activity. The SNA describes a coherent, consistent and integrated set of macroeconomic accounts in the context of a set of internationally agreed concepts, definitions, classifications and accounting rules.
Turnover	The total amount received for goods sold and services rendered for the financial year.
Value Added	Value-added is calculated in this report as output (turnover) minus inputs (all costs except labour and capital). StatsSA defines it as the difference between the value of goods and services produced and the value of the intermediate goods and services consumed in the course of production
Value Chain	A value chain is a chain of activities that a firm operating in a specific industry performs in order to deliver a valuable product or service for the market.

Chapter 1: Introduction

1.1. Background

This report is part of a broader study commissioned by Services SETA, in collaboration with the Department of Higher Education (DHET), to undertake a rapid appraisal of hairdressing programmes offered at Technical and Vocational Education and Training (TVET) colleges. The report provides an economic analysis of the hairdressing industry, focusing on the size and shape of the hairdressing, and the contribution of the hairdressing industry to the general South African economy. The report draws on data provided by Services SETA, as well as information and reports from other sources, including Career Junction, Computer Information System Company (CISCO), Statistics South Africa (StatsSA), and the Department of Labour.

In assessing, the economic impact of the hairdressing industry on the South African economy, the study considers both the contribution of the hairdressing industry within the wider economy through its role as a sector in its own right, as well as through its linkage effect on a variety of related industries, including that of personal care.

1.2. Purpose, Aim and Objectives

The purpose of this economic impact analysis is to measure the broader economic benefits accrued to the South African economy as a result of those business activities conducted within the hairdressing industry. Achieving such insight can go a long way in building stakeholder support, which is critical to the successful ongoing operations and optimal functioning of the sector.

In fulfilling this purpose, this economic report examines the size and nature of the hairdressing industry, as well as its contribution to the South African economy. More specifically, the following key objectives are addressed:

- The monetary contribution of the hairdressing industry towards the South African Gross Domestic Product (GDP).
- The nature, size and shape of the formal and informal hairdressing industries in South Africa.

This includes:

- Examining the national and provincial state of the hairdressing industry including trends over the past decade.
- Highlighting critical skills needs in the industry.
- Providing an overview of occupations in the hairdressing industry, including where there are shortages/oversupply.

- Providing an estimate of the number of salons, types of salons, hairdressers and general employees within the South African hairdressing industry.
- Highlighting wage trends within the hairdressing industry.
- Examining the status of hairdressing as a profession in South Africa.

To address the objectives, desk research was undertaken to identify the economic indicators that currently exist in published data. The second phase involved a detailed economic analysis of this information, to project and estimate key economic indicators for the hairdressing industry in South Africa. The section which follows provides more detail on the methodology that was used to conduct the economic analysis.

1.3. Methodology

This section of the report details the methodology used in conducting the economic analysis of the hairdressing industry in South Africa.

1.3.1 Economic Model Used: Rationale

The economic contribution of the hairdressing industry to the South African economy was measured using the 2015 Social Accounting Matrix (SAM)/ Input-Output Model for the South African economy, which is based on StatsSA data and includes industry input-output relationships at a national level.

The Standard Input-Output Analysis, based on the Input-Output Table, is generally considered to be a suitable analytical tool to measure economy-wide effects of autonomous disturbances in the economic system. The usefulness of the Input-Output Model can generally be ascribed to its mathematical structure; i.e. its underlying build-up of matrices. These matrices, which can be derived from the Input-Output Model, are used as instruments for economic analysis.

A modern Input-Output Table is an economic tool by which a system of national accounts is extended, classified and depicted in a tabular format. The basic structure of an Input-Output Table is based on the same framework as Leontief's (1936) original statistical Input-Output Table. The Input-Output Table serves as the basis for a broad and rapidly developing economic practice called Input-Output Analysis. Currently, different structural variations of the table are applicable to different situations. In most instances, an official authority compiles a standard Input-Output Table for a particular country. In the case of South Africa, this is undertaken by Statistics South Africa (StatsSA). Researchers usually remodel the official Input-Output Table for a specific purpose, as is the case with the SAM. It is important to note that a variety of "economic models" are available for application for economic

impact analysis. Input–Output Models find wide application in conducting economic impact assessment due to their relative ease of use (Excel spreadsheet based). Input–Output modelling finds wide application in economic impact analyses. A number of economic impact studies have been conducted in South Africa and worldwide making use of an Input-Output Table as an economic instrument. The most useful application of Input-Output Analysis is the ability to see how the change in demand for one industry effects the entire economy. There are numerous examples of studies that have been analysed making use of the Input-Output Model on a range of global studies – including analyses of the personal care sector in the USA (see, for example: Personal Care Products Council, 2016; Oxford Economics, 2010; Perrot, Mosaka, Nokaneng & Sikhondze, 2013).

1.3.2 Levels of Economic Impact: Direct, Indirect and Induced

Economists distinguish between direct, indirect and induced economic effects when analysing the impact of a particular industry on the economy. Indirect and induced effects are sometimes collectively called secondary effects. The total economic impact is the sum of direct, indirect and induced effects within a region. Any of these impacts may be measured in terms of gross output or sales, income, employment or value added.

Direct Impacts

Direct impact refers to the economic activity (i.e. income and expenditure) directly attributable to the industry, and includes the everyday operations and/or production of haircare services.

Indirect Impacts

Indirect impacts include all of the impacts that the operations of the haircare industry will have on all of the other industries that contribute to the different parts of the haircare industry value chain.

Indirect impacts result from the suppliers of the hairdressing industry purchasing goods and services and hiring workers to meet demand – these ripple effects would not occur but for the operation of the hairdressing industry.

As part of the production process, manufacturers purchase inputs from their suppliers; and those suppliers purchase inputs from other parts of the economy. Similarly, service providers purchase inputs as a part of their operations, such as marketing services, electricity, and office supplies. These upstream activities, whether they involve the production of raw materials for manufacturers or advertising by hair salons, are connected to the hairdressing industry.

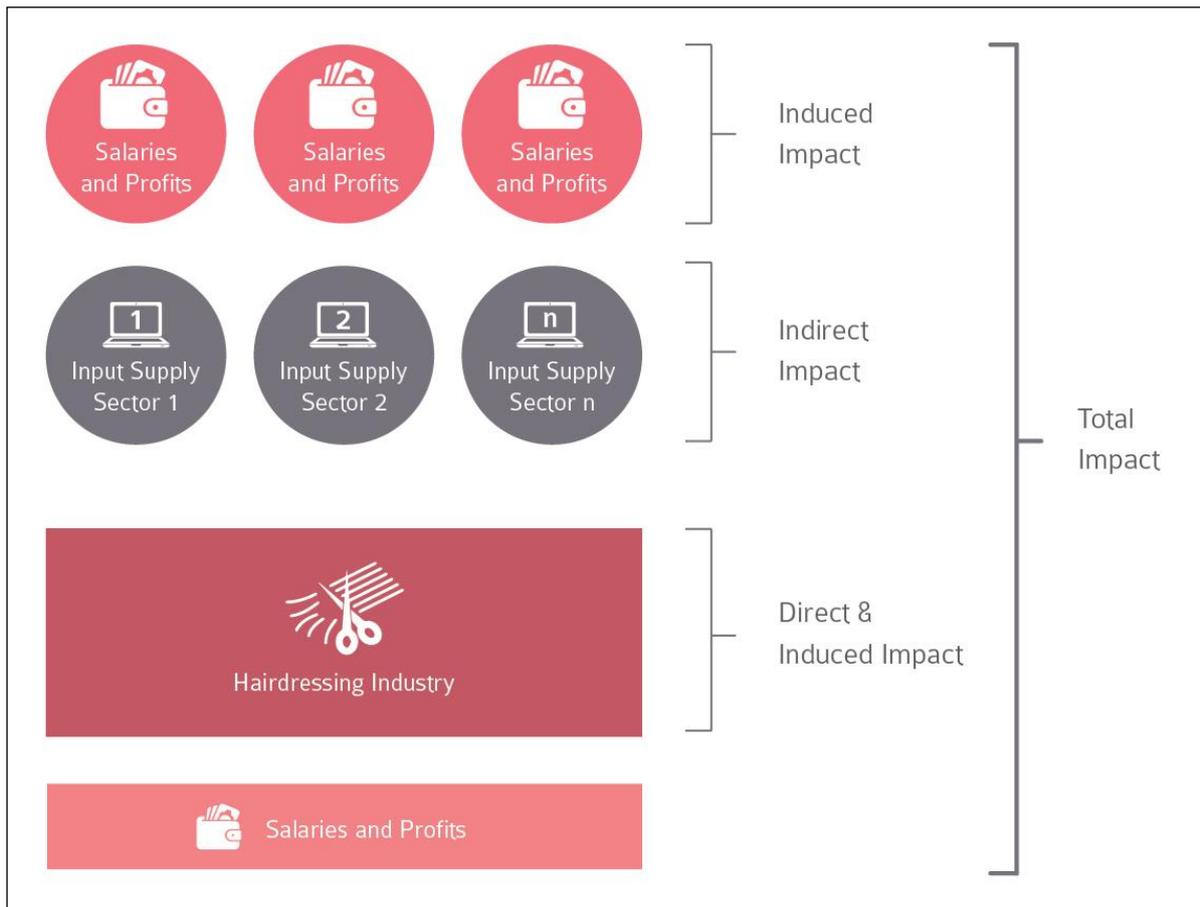
For example, haircare products and hair related chemicals are key inputs in the haircare industry and activities of a variety of sectors, such as personal care, electronics, etc. Without these backward linkages, activity in these user-sectors would be severely disrupted and would not function as efficiently (higher costs), or possibly not be able to continue at all. The Input-Output Model calculates indirect economic effects for each industry based on purchases made from suppliers, and the suppliers' suppliers, and so on; cumulating upstream activity throughout the entire value chain.

Induced/Multiplier Impacts

Induced impacts refer, inter alia, to the economic impacts that result from the payment of salaries and wages to people who are (directly) employed at the various consecutive stages of the haircare industry. In addition, the induced impact also includes the salaries and wages paid by businesses operating in the sectors indirectly linked to the haircare industry through the supply of inputs. These additional salaries and wages lead to an increased demand for various consumable goods that need to be supplied by other sectors of the economy that then have to raise their productions in tandem with the demand for their products and services. These induced impacts can then be expressed in terms of their contributions to GDP, employment creation and investment, or other useful macro-economic variables.

Induced effects are estimated based on consumer expenditures made of the payroll generated from this chain of economic activity. Induced effects reflect the impact of the spending by the employees of the industry and its supply chain. An industry has a wider impact on the economy than simply the activity and jobs in the companies belonging to the industry. Companies in the industry source goods and services from other companies and industries and thereby generate activity in the rest of the economy. These industries themselves will in turn source goods and services from suppliers and so on. This multiplier effect is known as the “indirect effect” (or Type I multiplier) of the industry, and is calculated using input-output data from official sources. Economic contributions are measured using the Input-Output Model which is based on industry input-output relationships. Taken together, the direct, indirect and induced impacts provide the total impact that the haircare industry will have on the national economy as depicted in the figure below.

Figure 1: Schematic Representation of Direct, Indirect and Induced Impacts (author's own diagram)



The direct activities of the hairdressing industry in the South African economy generate indirect and induced economic effects as well as "spill-over" economic activity in the South African economy.

1.3.3 Modelling Approach

The economic modelling approach as well as the techniques used for this study are explained in a simplified format in order for them to be easily understood by the intended audience of this study, which includes a multitude of stakeholders from different backgrounds. The economic impacts of the hairdressing industry on the South African economy were measured in terms of contributions to the following macro-economic aggregates:

- Gross Domestic Product (value added in the national economy);
- Employment Creation (creation of new job opportunities for skilled, semi-skilled and unskilled workers);
- Additional Capital Investments (use of equipment, buildings, and other social and economic infrastructure);
- Income generated for the benefit of low-income households (incremental income available to low-income households) as a specific measure of poverty alleviation;

- Fiscal Impact (Government revenue/expenditure); and
- Balance of Payments (imports and exports).

The Input-Output Model is built around an Input-Output Table that relates the purchases that each industry has made from other industries to the value of the output of each industry. To meet the demand for goods and services from an industry, purchases are made in other industries according to the patterns recorded in the Input-Output Table. These purchases in turn spark still more purchases by the industry's suppliers, and so on. Meanwhile, employees and business owners make personal purchases out of the additional income that is generated by this process, further increasing demand that ripples through the economy.

Multipliers describe these iterations. The Type I multiplier measures the direct and indirect effects of a change in economic activity. It captures the inter-industry effects only, i.e. industries buying from local industries. The Type II (Social Accounting Matrix or SAM) multiplier captures the direct and indirect effects. In addition, it also reflects induced effects (i.e. changes in spending from households as income increases or decreases due to the changes in production).

As mentioned earlier, the analysis was done by making use of a general equilibrium user-friendly economic impact model, with the Social Accounting Matrix (SAM) as a basis. The National SAM was converted into a user-friendly macro-economic impact model by the research team and was then used to calculate the macro-economic impacts of the hairdressing industry on the South African economy. General Equilibrium Modelling (GEM) enables the calculation of the so-called direct, indirect and induced effects of the hairdressing industry.

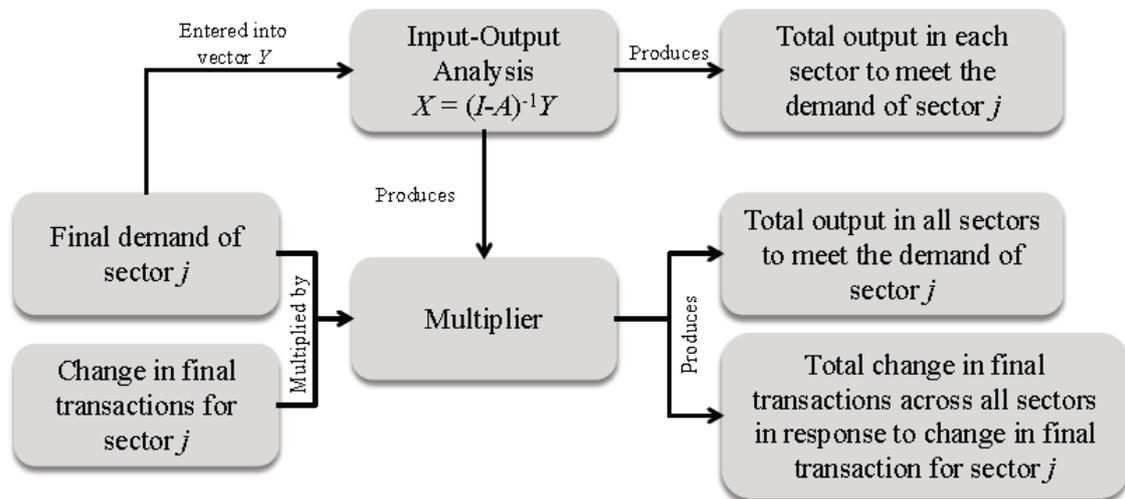
The model makes use of Excel spreadsheets and is driven by a set of "Macros". The model is set up to calculate the magnitude of a number of macro-economic impacts. These impact values are then also used to calculate key macro-economic performance (or efficiency) indicators. To get the model started, the hairdressing industry and its value chain components are regarded as "outside agents"/ "exogenous stimuli" affecting the model through an increase in its final demand components. The implication of this is that a vector (column) had to be compiled for every relevant final demand component such as consumption expenditure, investment, imports, exports of the model, on a commodity basis. Each of these final demand components had to be disaggregated on a detailed basis, such as turnover and investment as well as intermediate demand, salaries and wages, Gross Operating Surplus (GOS), number of workers per skill level and the percentage of turnover split into local sales and/or exported sales etc. The model structure is based on the Standard Industrial

Classification (SIC) of sectors. To attain this detailed analysis, the data supplied by the Services SETA as well as other secondary data was heavily relied upon.

It is also important to note that to ensure compatibility over the programming period, the macro-economic impact of this study is expressed in constant prices (base year 2015). The distorting effect of inflation on the average turnover in the various years was therefore eliminated.

The following diagram indicates the framework of the Macro-Economic Impact Assessment Model (MEIA) applied for evaluating the economic impacts of the hairdressing industry on the South African economy in terms of key macro-economic impact indicators such as sustainable job creation and GDP.

Figure 2: Framework for evaluating the Economic Impact of the Hairdressing Industry



Source: Robinson (1972): Input Output Model.

To apply the macro-economic model based on the SAM (described earlier), the so-called model base i.e. $(I-A)^{-1}$ was divided into endogenous and exogenous portions. This implies that some variables are determined outside the model (e.g. turnover generated by the hairdressing industry) whereas some are determined inside the model (e.g. linkage effects). The model, $(I-A)$, is based on the Input-Output theory known as the Leontief Inverse. This is determined by developing a coefficient matrix (A) by the endogenous portion, which is then subtracted from a unity matrix (I) . This $(I-A)$ matrix is then inverted to form the model $(I-A)^{-1}$. The coefficients matrix inter alia represents the intermediate input structure of the production of the various sectors as well as the consumption expenditure structures of the different household groups defined in the SAM. By multiplying the inverse matrix, $(I-A)^{-1}$, with

the exogenous stimulus the total impact can be calculated. The following formula provides a brief explanation of this process:

$$(I - A)^{-1} \times \textit{Exogenous Stimulus} = \textit{Economic Impact}$$

The exogenous stimuli putting the model in motion are attributed monetary values to quantify the macro-economic impact of the operational component of the hairdressing industry. These values are then further disaggregated into the following three components to facilitate “activating” the model into motion (also referred to as exogenous inputs):

- Firstly, the demand for goods and services as inputs into the production processes in the hairdressing industry. This is divided between:
 - Sales/turnover destined for domestic South African consumption.
 - Export sales.
- The second component refers to the production/operating costs. This includes intermediate input costs i.e. all materials and services necessary for the hairdressing process, broken down by industries from which inputs are sourced, (classified according to the Standard Industrial Classification (SIC) code system), as well as remuneration of staff, broken down by skill levels (i.e. unskilled, semi-skilled and skilled workers).
- The third component is the Gross Operating Surplus (GOS) generated by business enterprises. GOS consists of depreciation, interest paid and net profit, the latter comprising the cost/return of capital.

In practical terms, it was necessary to determine the monetary values (for 2015) of each of the three exogenous stimuli referred to above. The main data source that was used by the research team for inputs into the model was mostly derived from secondary data sourced from policy documents as well as publications and articles produced by private institutions, statistics agencies and government departments.

Data on jobs created by the hairdressing industry has been estimated based on secondary data and the literature review conducted as part of this study. This data forms the basis of the model activation process (exogenous stimuli). The impact assessment model is activated by turnover of the haircare industry. A separate modelling sub-system has been formulated that automatically produces figures by making use of average output job ratios and average investment job ratios for purposes of estimating missing and inconsistent data such as turnover and direct employment creation.

Chapter 2: Economic Character of the Hairdressing Industry

2.1. Brief Introduction

The South African cosmetic and personal care industry is multi-faceted, encompassing a range of hair and beauty sub-sectors. This study focuses on the hairdressing sub-sector, covering those employees and self-employed individuals engaged in hairdressing and barbering services. As mentioned in the literature review, haircare is one of the largest sub-sectors falling under the Services SETA. The Services SETA (2014) defines the haircare sub-sector as follows:

Table 1: Services SETA haircare sub-sector

Chamber 5: Personal care services		
Sub-sector title	SIC Code	Gazetted Industry Descriptor
Haircare	99022	Ladies hairdressing
	99023	Men's and ladies' hairdressing

Source: Services SETA (2014:14)

According to the Services SETA (2014), the haircare sub-sector is comprised of hairdressers, hairstylists and cosmetologists who offer services such as shampooing, cutting, colouring and styling hair. According to Entrepreneur Media (2016) South Africa has a thriving hair salon and hairdressing industry, which is said to be divided into two main streams i.e. a very large Afro sector, and a much smaller Caucasian sector. In an article published by Entrepreneur Media (2016), Mr Pieterse (president of the Employers Organisation for Hairdressing, Cosmetology and Beauty -- EOHCB) is quoted as saying that the hairdressing sector split between Afro and Caucasian is likely to be in proportion to the general demographics of our country being 85% African to 15% Caucasian. He further alluded to the industry estimation of there being about 3,000 Caucasian hairdressing salons in comparison to more than 34,000 Afro salons. He added, however, that statistics are not available as South Africa has a very large informal sector, especially in the Afro sector. The Services SETA (2014) mentions that Afro hairdressers are among the top five scarce skills in the Service Sector.

Hairdressing in South Africa has developed and become recognisable as a profession and trade. Delport (2006) also indicates that the barber sector has also experienced growth in the country. UASA and the EOHCB are currently engaged in talks to include this industry in the respective bargaining council agreements. At present this is an area that is not specifically catered for, but through the

participation of training providers throughout the country, specific training programmes to enable barbers to obtain the relevant qualifications are being proposed.

At present, very little research and literature exists on the hairdressing industry in South Africa. With an industry that is continuously growing, this study serves as a gateway to further research into the hairdressing and hair salon industry.

2.2. Employers in the Hairdressing Industry

The hairdressing and beauty industries are predominantly made up of small enterprises, where the owner/manager fulfils many roles in an increasingly competitive market. According to the Services SETA (2014), an estimated 73% of all businesses in the hairdressing sub-sector are Small-Medium Enterprises (SMEs). Moreover, the hairdressing and beauty industries are characterised by low barriers to entry and high levels of competition, which also has the effect of driving down profit margins. As a result, the industry is also characterised by a high level of entries and exits (Services SETA, 2014).

The size and shape of the hairdressing labour market, as well as the exact number of salons operating in the hairdressing industry in the country is not readily available and is difficult to ascertain for a number of reasons. Firstly, there are a significant number of individuals currently operating in the informal sector. Secondly, a large number of employees in the formal sector may be unrecorded. Lastly, employers may not be registered to pay skills levies either because they are exempt from doing so, or because they do not pay (Services SETA, 2014).

According to the Services SETA's employer database (see the table below), the hair and beauty sectors together constitute 7370 employers:

Table 2: Total Employers by Size, Levy Paying and Non-Levy Paying

Category	Levy Paying	Non-Levy Paying	Total
Beauty Treatments	214	819	1,033
Haircare	1,924	4,413	6,337
Total	2,138	5,232	7,370

Source: Services SETA employer database 2013¹

¹ Please note that we were not able to obtain trended data for the number of employers in the hairdressing industry.

In order to contextualise the size of the hairdressing sub-sector, a comparison table has been provided below which indicates the number of employers in other services sub-sectors. Looking at this table, the haircare sub-sector is the second highest contributor to employment creation.

Table 3: Number of employers per sub sector

Sub-Sector	No. Employers (2013)	% of Total Sector
Business Services	126,193	87.64%
Haircare	6,337	4.40%
Marketing and Communication	2,667	1.85%
Labour Recruitment Services	2,621	1.82%
Hiring Services	2,041	1.42%
Cleaning	1,490	1.03%
Beauty Treatment	1,033	0.72%
Collective Services	580	0.40%
Funeral Services	494	0.34%
Postal Services	273	0.19%
Household Services	110	0.08%
Project Management	101	0.07%
Contact Centres	34	0.02%
Domestic Services	13	0.01%
TOTAL	143,987	100.00%

Source: Services SETA (2014)

As seen in the above table, Business Services represents the largest sub-sector, with 126,193 employers (87.64%) – this sub-sector is by far the largest in terms of the number of registered employers. The haircare sub-sector follows at a distance, with 6,337 registered employers (4.40%). It is important to note, though, that these figures only provide information about formal, registered employers. It is, however, estimated that the actual number of employers in the industry far exceeds the figures depicted in the table above.

There is very limited information about the actual number of hair salons in South Africa, and with a growing informal sector, it remains difficult to keep track of an accurate figure. According to the Professional Haircare Market Report (2010), the number of salons catering for ethnic hair in South Africa was estimated to be as many as 40,000 – and this excludes those which may be operating from households. By comparison, the number of Caucasian salons was estimated to be 3,000 – indicating that as an estimate, the Caucasian hair industry is roughly 13 times smaller than that of the Afro hair industry. It is also likely that the haircare industry in South Africa and Africa will continue to grow, given the ever-increasing number of people needing to get their hair relaxed, braided, cut, washed, conditioned and dreadlocked. This is primarily as a result of a rapidly urbanising society. The Services

SETA (2014) mirrors this assertion, arguing that growth in the black middle class, as well as an increasing appreciation for ethnic aesthetics, are some of the factors that are influencing labour supply and demand within the South African haircare sub-sector. Moreover, given that there are few barriers to entering the haircare market, it makes it easier for individuals to operate informally in this sub-sector.

While statistics regarding the number of hairdressers in South Africa are not available, it is possible to offer estimates, as based upon the number of employers provided by the Services SETA i.e. 6,337. According to a study done by Cosmetics Europe (2016), the European hairdressing industry is dominated by SMMEs which employ, on average, 5 hairdressers. This is very similar to the South African hairdressing sector, which is also dominated by SMEs and micro-enterprises (Services SETA, 2014). Thus, it is reasonable to assume a similar number of hairdressers are employed by formal salons in South Africa – using this, one could estimate the number of qualified hairdressers working in the formal hairdressing industry in South Africa to be approximately 31,685. In addition, it could be assumed that another 4 or 5 individuals may be employed by the salon – such as a receptionist, a cleaner, and two to three assistants who would wash the customers' hair and assist the hairdressers with other related tasks. Using these assumptions, one could estimate that formal salons employ between 9 and 10 individuals. It has therefore been estimated that the formal hairdressing industry in South Africa directly employs approximately 57,715 individuals. In lieu of any formal research on this sector, the estimates provided are currently the best that this study has been able to provide.

There is concern in the industry about the apparent size and scope of informal employers and employees within the haircare sub-sector. Skills development has been highlighted as a crucial focus area, with Afro haircare being singled out as a key skill that is needed in the industry (Services SETA, 2014). In addition to this, a study conducted by Gobile (2015) found that management qualifications among salon owners and managers are also lacking. In this study, technical skills (such as creating hairstyles, applying colour, cutting, perming and styling) were found to be prioritised over actual management of the business or even business growth. Because hairdressers are passionate about what they do, they rely on their technical skills to make their businesses succeed. The salon owners also rely on staff with similar technical skills and will often ask suppliers for advice on managing their businesses or increasing their turnover. Consequently, it seems that hair salon owners may neglect the management side of the business, and instead tend to place more focus on their technical, creative side (Gobile, 2015).

While it would be ideal to have an indication of the number of employers by province in the hairdressing industry, these figures are not available. However, it may be prudent to assume that the proportionate distribution of hairdressing salons is similar to that of the population distribution in the country. More rigorous and extensive mapping studies are required to further our knowledge about the provincial distribution of employers – as well as the number of hairdressers in South Africa. Future studies should also look at the split between hairdressers who are specialised in Caucasian versus Afro hair, so that a more comprehensive understanding of the industry is obtained. In order to try and obtain trended data for the number of employers in the hairdressing industry, various sources were examined including the Labour Force Survey, South African Employer Survey, as well as numerous visits to StatsSA for assistance. However, no data exists for the hairdressing industry. This emphasises the importance of rigorous research to be undertaken on a regular basis, so that decision makers are kept abreast with industry changes and patterns.

2.3. Wage Analysis

According to the Hairdressing & Cosmetology Services Bargaining Council (2014), the following tabulated data on wage and salary scales, average wage earned, and wage ranges, is a benchmark in the hairdressing industry. Important to note is that the original figures presented in Table 3 and Table 4 respectively were 2014 prices; they have, however been adjusted with a Producer Price Index (PPI) to convert them to 2015 prices – this is for consistency throughout the report².

Table 4: Remuneration/Basic Salary/Wage Schedule (Hairdressing)

Employee Category	Basic Salary per month from 01/01/2015 to 31/12/2015	After 5 Completed Years of Service + 5%	After 10 Completed Years of Service + 5%
MANAGERS			
Manager - only (Hairdressing)	R5 258	R5 521	R5 785
Manager – Hairdresser	R6 967	R7 315	R7 665
BARBERS			
Barber - Trainee	R1 922	N/A	N/A
Barber - Junior	R2 471	N/A	N/A
Barber - Senior	R4 118	N/A	N/A
QUALIFIED HAIRDRESSERS			
Hairdresser - after 1st year qualified	R4 906	N/A	N/A
Hairdresser - Qualified	R7 001	R7 351	R7 701
AFRO HAIRDRESSER / STYLIST			

² The PPI Inflation adjustment factor of 1.035 (from 2014 – 2015) was calculated from producer prices on page S-144 of the South African Reserve Bank Bulletin (September 2016).

Employee Category	Basic Salary per month from 01/01/2015 to 31/12/2015	After 5 Completed Years of Service + 5%	After 10 Completed Years of Service + 5%
Afro Hairdresser - formal training	R4 000	R4 201	R4 401
Afro Hairdresser - informal training	R2 777	R2 916	R3 056
UNSKILLED AFRO HAIRDRESSER			
Afro Hairdresser - doing braiding, plaiting, & cutting	R2 039	R2 141	R2 242
LEARNER MODULES			
LEARNER - MODULES - Before Module 1	R2 173	N/A	N/A
LEARNER - MODULES - Module 1	R2 246	N/A	N/A
LEARNER - MODULES - Module 2	R2 368	N/A	N/A
LEARNER - MODULES - Module 3	R2 484	N/A	N/A
LEARNER - MODULES - Module 4	R2 607	N/A	N/A
LEARNER - MODULES - Module 5	R ³ 2 729	N/A	N/A
LEARNER - MODULES - Module 6	R2 850	N/A	N/A
LEARNER UNIT STANDARDS			
LEARNER - UNIT STANDARDS - Entry Level	R1 957	N/A	N/A
LEARNER - UNIT STANDARDS - NQF 2	R2 260	N/A	N/A
LEARNER - UNIT STANDARDS - NQF 3	R2 551	N/A	N/A
LEARNER - UNIT STANDARDS - NQF 4	R2 790	N/A	N/A
RECEPTIONIST			
Receptionist - Hairdressing Salon	R4 884	R5 129	R5 372
OPERATOR			
Operator - Trainee	R2 938	N/A	N/A
Operator - after 1-year training	R4 459	R4 682	R4 905
Operator – Multi-skilled	R4 933	R5 180	R5 426
GENERAL ASSISTANT			
Operator - Trainee	R2 763	R2 901	R3 039

Source: *Hairdressing & Cosmetology Bargaining Council (2014)*

In the wage analysis tables above, the individual income levels are provided in terms of occupational categories within the hairdressing industry, given that income levels of different occupational groups are sensitive to different sets of variables - especially as this pertains to education levels and training received. From the tables above it is evident that there will be a probable increase in income of employees in the hairdressing industry if they are further trained. It is evident that the remuneration levels of employees in the hairdressing industry are influenced by a number of factors, most notably experience, education, training and occupation.

In order to contextualise the wage analysis within the hairdressing industry, a similar analysis has been included for the beauty and cosmetics industries, this is shown in the table below. Employee

categories from each sub-sector (that are as similar as possible to that of professions in the hairdressing sub-sector) have been tabulated alongside each other, for easy comparison:

Table 5: Remuneration/Basic Salary/Wage Schedule Comparison (Beauty & Cosmetics vs. Hairdressing)

Employee Category	Basic Salary per month from 01/01/2015 to 31/12/2015 ⁴	Comparative Hairdressing Employee Category	Basic Salary per month from 01/01/2015 to 31/12/2015
BEAUTY SECTOR			
Manicurist/Pedicurist / Wax Technician (NQF3)	R2 218	Hairdresser - NQF 3	R2 551
Nail Technician (NQF4)	R2 690	Hairdresser - NQF 4	R2 790
Nail Technician - Unqualified	R2 306	Unskilled Afro Hairdresser - doing braiding, plaiting, & cutting	R2 039
Manager - only (Beauty Salon)	R5 008	Manager - only (Hairdressing)	R5 258
Manger - Beautician	R6 631	Manager – Hairdresser	R6 967
Receptionist - Beauty Salon	R4 652	Receptionist - Hairdressing Salon	R4 884

Source: Hairdressing & Cosmetology Bargaining Council (2014)

When a comparative analysis of monthly salaries earned in the hairdressing industry relative to beauty and cosmetics is conducted, it is evident that while salaries are similar in both sub-sectors, the average salaries in the hairdressing sub-sector are slightly higher than those in the beauty sub-sector; particularly when comparing employees who are qualified and at a higher occupational level (e.g. managers in the beauty industry earn approximately R6,631 while those in hairdressing earn R6,967). It must be noted that these figures may represent Threshold Wages. This means that, while these are likely to be the minimum wages earned in the formal industry, it is likely that many hairdressers are earning more. The primary data collection phases will provide more detail into the wages, and a comparative analysis will be presented in the final research report. Although comprehensive searches were done to try and find historical and projected information on wages in the sector, it appears that no such data currently exists. As such, the trended wage analysis could not be conducted.

While there are no statistics which provide details on the monthly salaries earned in the informal hairdressing industry, one study found that the minimum average weekly wage of the informal hairdressers is between R500 and R2000, amounting to between R2000 and R6000 per month (Gobile. 2015). A large number of informal hairdressers (on average 26% of the sample) were earning

⁴ The PPI Inflation adjustment factor of 1.035 (from 2014 – 2015) was calculated from producer prices on page S-144 of the South African Reserve Bank Bulletin (September 2016).

just R500 a week, while only 13.3% of informal hairdressers in the study were earning an average wage of R1200 – R2000 a week. Moreover, a quarter of the sample (24%) were earning less than R500 a week on average. The primary data collection phases of the current survey will seek to expand on our knowledge of wages/salaries earned in the informal hairdressing industry.

2.4. The hairdressing industry and migrant labourers

While the topic of migrant labour is not the focus of this study, this information is a matter of interest in the haircare sub-sector and has been included as one of the questions in the primary data collection phase of this study, a portion of which is being undertaken among informal hairdressers.

The International Labour Organisation (ILO, 2015), defines migrant workers as persons who have been working outside their country of origin for 12 months or more. While there is not much formal literature that quantifies the migrant population within the hairdressing industry in South Africa, a small study done in the Western Cape by Gobile (2015) provides some indicative figures. As indicated in the table below, the study found that most migrant hairdressers operating in the informal hairdressing industry of the Western Cape seem to originate from the Democratic Republic of Congo (DRC).

Table 6: Nationality of Hairdressers

Country	Frequency	Percentage
Democratic Republic of Congo	28	52.8%
Congo Brazzaville	11	20.8%
Cameroon	5	9.4%
Zimbabwe	4	7.5%
Nigeria	2	3.8%
Burundi	1	1.9%
Malawi	1	1.9%
Swaziland	1	1.9%
Total	53	100.0%

Source: Gobile 2015.

It will be interesting to see how these results compare to what we find in the current study being undertaken among informal hairdressers in Gauteng.

When it comes to immigrant entrepreneurs, Rogerson (1999) maintains that foreign-owned Small, Medium and Micro-Sized Enterprises (SMMEs) are now a particularly significant element of the changing economy and landscape of inner-city living in most South African cities. Immigrant entrepreneurs create employment opportunities for both other immigrants as well as South Africans, although it is believed that many favour hiring locals as South Africans know the local languages, making communication with clients much easier. Nonetheless, foreign-owned SMMEs can be thought of as providing viable prospects for both immigrants and South Africans who lack education and technical skills to escape poverty (Kalitanyi & Viser, 2010). Apart from creating jobs and up-skilling employees through their businesses, the presence of immigrants also helps the production sectors of the country as they increase the demand for local goods and services (Maharaj, 2002).

The contribution of migrant workers to the economic growth and development can be calculated in two lines of approach. The gross impact of migrant skilled workers (including entrepreneurs and the self-employed), is used to determine their contribution to the South African economy. In terms of semi-skilled and unskilled workers, only their marginal productivity can be used to determine their contribution. In the latter case, the migrant workers' marginal productivity is defined in terms of the extent to which their productivity is higher relative to their South African counterparts in the hairdressing industry.

The impact of immigration on aggregate productivity is an interesting topic. Productivity means doing things more efficiently and is measured as the output per unit of input; it is also a measure of human creativity and the primary source of economic well-being. According to the Organisation for Economic Cooperation and Development (OECD, 2015), "Productivity is commonly defined as a ratio between the output volume and the volume of inputs". In other words, it measures how efficiently production inputs, such as labour and capital, are being used in an economy to produce a given level of output. Productivity is considered a key source of economic growth and competitiveness and, as such, is basic statistical information for many international comparisons and country performance assessments.

International immigrants to South Africa increase the labour supply, thus increasing economic output as measured by the Gross Domestic Product (GDP). This is particularly true in sectors and industries with labour-intensive production such as the hairdressing industry. There are definite economic benefits to employing migrant workers in any industry, including the hairdressing industry. Chief among these are that jobs perceived as "low-skilled" are often shunned by local workers. In this way, migrant labour increases a county's overall output (GDP) and profit rate, particularly in labour-intensive sectors, by stabilising the labour supply to prevent uncertainties in production by filling

vacancies as needed. In addition, immigration benefits South African and foreign producers by presenting opportunities to enjoy lower wage costs to maintain price competitiveness.

While domestic hair salons in South Africa can save wage costs by employing low-skilled immigrants from neighbouring countries, the availability of cheap immigrant labour has been viewed as a factor reducing opportunities for the employment of local workers, as well as reducing their wages. Thus, it is important to note that it is not a given that an inflow of migrants will automatically increase productivity in the hairdressing industry. especially, in the case of unskilled labour where part of the economic gains due to immigration may be lost as a result of substituting potential local staff with foreign labour (ILO, 2015).

2.5. Size of the hairdressing industry

Although the size of the hairdressing industry is calculated in the results chapter of this report, it is worth summarising other estimates that have been put forward, which were found during the desk research phase of the project. The table below provides a summary of the figures discussed in this section of the report:

Table 7: Market size estimates from desktop research

	Original Source Value	Adjusted 2015 Rand Values	Shown as Percentages	Source of Information
Estimated cosmetics and personal care products market size (South Africa)	R25.3 billion	R26.2 billion	0.34% of National Output of Total RSA economy	Department of Trade & Industry, 2015
Estimated haircare market size (South Africa)	R9.7 billion	R12.92 billion	49.3% of the cosmetics and personal care products market	City Press, 2014
Estimated cosmetics and personal care products market size (Globally)	€180 billion	R2.77 trillion	RSA market size is 0.68% of global cosmetics and personal care market size	Statistica, 2016
Projected cosmetics and personal care products market size (Globally for 2017)	\$265 billion	R3.83 trillion	RSA market size will be 0.95% of global cosmetics and personal care market size	Lucintel, 2012
Overall expenditure of households in South Africa (2011)	R1.9 trillion	R2.31 trillion		Bureau of Market Research, 2011
Household expenditure on personal care in South Africa (2011)	R47.5 billion	R57.79 billion	2.5% of total household spend	Bureau of Market Research, 2011
Estimated spend on informal hairdressing in South Africa (2011)	R4.5 billion	R4.66 billion	0.2% of total household expenditure	Frika, 2015

According to the Department of Trade and Industry (the dti) website, the South African cosmetic and personal care industry is vibrant and dynamic, comprising an interesting mix of multinational giants, entrepreneurial companies, and small, medium and large local brands. The total size of the South African cosmetics and personal care products market for 2015 was estimated at R26.2 billion at retail level in terms of turnover.

In 2010 prices, South Africa's haircare market is valued at R9.7 billion a year in terms of annual turnover / sales, which translates to R12.92 billion a year in 2015 prices (after adjusting the 2010 figure for inflation) (City Press, 2014). With such figures, it is considered the largest haircare market in Africa; as reported by the *Professional Haircare Market Report* (Diagonal Reports, 2010).

According to Statistica (2016), an international statistics portal and database, the current global cosmetic and personal care products market is worth €180 billion (R2.77 trillion in adjusted 2015 Rand values). Lucintel, a leading global management consulting and market research firm (2012), estimates that the world market will grow by a compound annual growth rate (CAGR) of 3.4% per year over the next five years, meaning that the cosmetics market will be worth \$265 billion (R3.83 trillion) by 2017.

According to the Bureau of Market Research (2011), households in South Africa spent R2.31 trillion. In percentage terms, 2.5% of this was spent on personal care, which translates to about R57.98 billion. According to Frika, 2015 ("Africa's Quality Hair Company"), as a large part of the haircare market is traded in the informal sector; reliable statistics as to the size of the market are hard to come by. As such, a conservative estimate of the South African informal hairdressing market spend is R3 billion (65%) on dry hair (i.e. weaves, wigs and extensions) and R1.5 billion (35%) on wet hair (i.e. shampoos, conditioners, relaxers) within the haircare industry.

The following have been identified as the top five trade categories in terms of domestic retail trade in 2010 in South Africa: (a) fragrances; (b) haircare; (c) skin care; (d) deodorants; and (e) bath and shower products. This, accounting for nearly two-thirds of the total South African cosmetics and personal care products market. According to the dti website, the major export categories for 2011 were as follows:

Table 8: Top 5 domestic retail trade categories

HS Code	Categories	Percentage
330499:	Other - creams, sunscreens	28,2%
330590:	Haircare	11,6%
340111:	Toilet soap	11,1%
330510:	Haircare - Other	8,5%

Source: Department of Trade and Industry (2011)

By comparison, the international market is broken down into the following segments according to sales (dti, 2011):

- Facial Skin Care – 27%
- Personal Care – 23%
- Haircare – 20%
- Make-Up – 20%
- Fragrance – 10%

Currently, key players in the haircare products market in South Africa are L'Oréal (with more than a quarter of the market share), followed by Proctor & Gamble and Unilever South Africa (PWC., 2012). According to the South African retail and consumer products outlook 2012-2016, compiled by PWC in 2012, strategic marketing increasingly positions these brands and their successful labels as natural, organic and “beneficial”; according to the report, it is these benefits that have driven these brands to dominate the South African market.

Social media marketing, through beauty blogs that review and warn against harmful products containing sulphates, parabens and other damaging chemicals are increasingly popular, further impacting the sales of products. Consumers' increased awareness means they are now looking for styling products that last longer but are also free from harmful chemicals, resulting in a number of products being phased out. The PWC report (2012) notes how E-commerce is flourishing due to increased online availability of desirable products with all the desired properties.. However, on the other end of the scale, a saturated haircare market in South Africa has led to lower revenues in the haircare market in comparison to its other African peers. A highly segmented population with vast income differences has led to difficulties in product development and marketing, while increased consumer knowledge has affected the market's wants and needs (PWC, 2012).

Chapter 3: Contribution of the Hairdressing Industry to the Economy

It is important to highlight that the tables reflected in this section represent the outcome of a modelling exercise, charting the economic impact of the hairdressing industry. By implication, this means that these tables need not be referenced as they are not derived nor adapted from any other source or publication. To estimate the economic contribution of the hairdressing industry to the South African economy, the SAM / Input-Output Model for South Africa (which contains industry input-output relationships at the national economy) was applied. In the table, below, the total macro-economic impact of the hairdressing industry is presented⁵.

Table 9: Overall National Macro-Economic Impact for the Total Hairdressing Industry 2015 (Source: Authors' own calculations generated from using Input Output Models)

	Direct Impact	Indirect Impact	Induced Impact	Total Impact	As a percentage of National Aggregates
Impact on Gross Domestic Product (GDP) [R millions]	R410	R15 071	R9 371	R24 852	0.62% of National RSA GDP
Impact on Capital Formation [R millions]	R15 614	R32 020	R21 380	R69 014	8.35% of National RSA Capital Formation
Impact on Employment [Numbers]:	57 715	76 660	51 040	185 415	2.02% of National Labour Absorption
<i>Skilled Impact on Employment</i>	22 396	21 776	14 046	58 218	0.64%
<i>Semi-skilled Impact on Employment</i>	29 467	40 196	26 184	95 847	1.05%
<i>Unskilled Impact on Employment</i>	5 852	14 688	10 810	31 350	0.34%
Impact on Households [R millions]:				R15 991	0.67% of National Disposable Income
<i>Low Income Households</i>				R2 509	0.10% National Disposable Income
<i>Medium Income Households</i>				R3 182	0.13% National Disposable Income
<i>High Income Households</i>				R10 300	0.43% National Disposable Income
Fiscal Impact [R millions]:				R8 757	8.9% of National RSA tax revenue of Non-Financial Enterprises
<i>National Government</i>				R7 924	8.05% of National RSA tax revenue of Non-Financial Enterprises
<i>Provincial Government</i>				R115.60	0.12% of National RSA tax

⁵ The only two exogenous variables entered to activate the model were direct employment (which was calculated based on employee estimates that have been discussed earlier see discussion below) as well as the estimated Production/ Turnover value for the industry, of R12.92 Billion (City Press, 2014). All other values presented were determined endogenously by the model. **Important to note is that the Provincial and Local Government under the Fiscal Impact does not relate to a specific Province but to the Total Impact of Tax Revenue in Monetary Values Generated at the Total Provincial Sphere as well as the Total Local Government Spheres**

					revenue of Non-Financial Enterprises
<i>Local Government</i>				R717.10	0.73% of National RSA tax revenue of Non-Financial Enterprises
Impact on the Balance of Payments [R millions]				R12 562	

To a large extent, the results presented in the table above represent the impact of the formal hairdressing industry. The table suggests that the hairdressing industry significantly contributes to the creation of employment opportunities, as well as to economic growth (contribution to GDP). It is important to note that data on the informal hairdressing industry remains unreliable and inefficient due to a lack of proper surveys and statistics to allow for sound impact modelling.

3.1 Contribution to Economic Growth

GDP is a good indicator of economic growth and welfare as it represents, among other criteria, remuneration of employees and gross operating surplus (profits) as components of value added at all levels of the economy. The impact on GDP reflects the magnitude of the value added to the South African economy resulting from the haircare industry. Value added is made up of three elements, namely:

- Remuneration of employees;
- Gross operating surplus (which includes profit and depreciation); and
- Net indirect taxes.

According to table 7 above, the total impact of the hairdressing industry on South Africa's GDP is estimated to amount to approximately **R24.85 billion which amounts to 0.62% of South Africa's Total GDP**, of which the direct impact is estimated at **R410 million**, the indirect impact at **R15.07 billion** and the induced impact at **R9.37 billion**. The nature and magnitude of the indirect and induced impacts emphasise the importance of the so-called multiplier effects which the hairdressing industry will have on the South African economy.

Relative to the South African GDP, the hairdressing sub-sector contributes 0.62% of GDP. This estimated figure is not unlike the contribution realised by the personal care sector in the United States (US) (1.4%), or the hair and beauty industries in the United Kingdom (UK), which is also estimated to be less than 1% (PWC. 2010; Habia. 2011/2012).

3.2 Contribution towards Employment

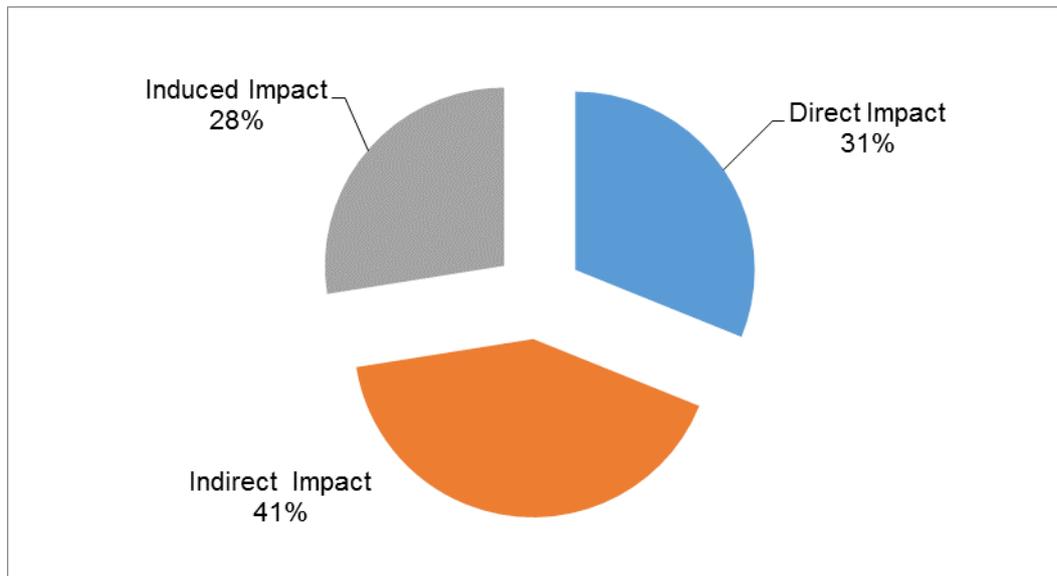
Labour is a key element of the production process. It is one of the main production factors in any economy and also serves as an indicator of the extent to which labour is actually absorbed in the economy. This study could determine the number of employment opportunities that will be created and sustained through the operation of the hairdressing industry on an annual basis. These opportunities have been broken down into those created directly in the sector, those created indirectly, as well as those induced throughout the broader economy.

Employment refers to the number of payroll and self-employed jobs (including part-time jobs), averaged over the year. In most African countries, including South Africa, there is vast unemployment and poverty. As such, the creation of employment is of paramount importance. The importance of job opportunities created through the contribution of the hairdressing industry should be valued against the background of an economy which is getting less labour intensive and more capital intensive.

The total number of employment opportunities generated by the hairdressing industry through the multiplier effect is **185 415**, as depicted in table 7 above and represents 2.02% of the total labour absorption in the country. **Direct employment** for the hairdressing industry was estimated to be **57 715** in 2015. This was estimated by the number of hairdressing businesses and the number of average employees, as discussed earlier.

The figure below presents a proportional breakdown of the hairdressing industry's direct, indirect and induced impacts on employment.

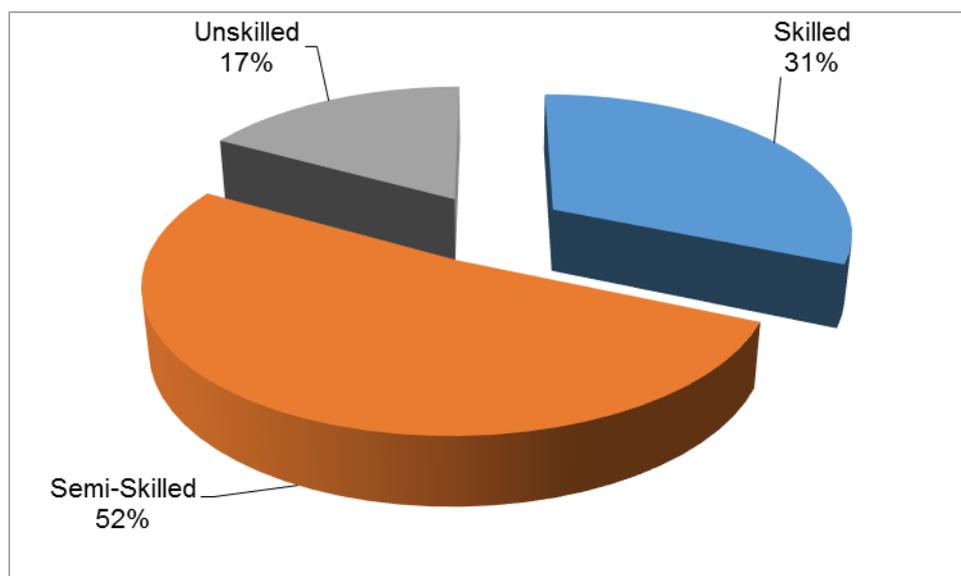
Figure 3: Employment Impact, Direct, Indirect and Induced



Source: Authors' own calculations

In the figure above it is evident that the indirect and induced impacts on the hairdressing industry have a noteworthy combined effect in terms of employment. The figure below denotes the employment impact of the hairdressing industry per skill level. From this figure, it is evident that the impact is more significant at the semi-skilled (52%) and skilled (31%) levels. This is not surprising, given that the results pertain to the formal hairdressing industry.

Figure 4: Employment According to Skill Level



Source: Authors' own calculations

It is interesting to compare the contribution of the hairdressing industry to employment in South Africa with that of other countries. In the US, the personal care products sector as a whole represents 1.6% of total employment in the country, while in the UK, the hair and beauty industry is estimated to represent 0.87% of the total UK workforce (PWC, 2010; Habia, 2011). Comparatively, the hairdressing industry in South Africa seems to be making a significant contribution to labour absorption, with an estimated 2.02% of the country's labour force being employed by the industry.

3.3 Contribution towards Capital Utilisation

For an economy to operate at a specific level of activity, investment in capital assets (i.e. buildings, machinery, equipment, etc.) is needed. Capital, together with labour and entrepreneurship, are the basic factors needed for production in an economy.

The effectiveness and efficiency with which these factors are combined influence the overall level of productivity/profitability processes, bearing in mind that productivity is affected by an array of factors of which appropriate technology and skill level of the labour force are two important elements.

As shown in Table 7, in order to support the economic activity related to the hairdressing industry, an estimated amount of **R15.61 billion** in capital is employed in the South African economy. The total capital formation of the hairdressing industry amounts to R69 013, which translates to 8.35% of total Gross Fixed Capital formation of the South African economy. This capital relates to total capital formation triggered by the hairdressing industry through the multiplier and linkage effect of the hairdressing industry.

3.4 Impact on Households

One of the elements of the additional value added (i.e. GDP) which will result from the services provided by the hairdressing industry is remuneration of employees, which, in turn, affects household income. The SAM measures the magnitude of changes that will occur to household income and spending/savings patterns.

One of the crucial aspects of any macro-economic assessment is determining the income distribution characteristics thereof, especially with regards to how low-income households⁶ will benefit. The extent to which income distribution is affected by an economic intervention of any sort is measured

⁶ According to the Bureau of Market Research, *Household Income and Expenditure Patterns in South Africa (2015)*, low-income households earn on average between R0 – R54 344 per annum.

by the impact on household income. In this instance the extent to which low-income households will be positively affected by the spin-offs created by the hairdressing industry is under scrutiny. The impact on low-income households is important, as it may be used as an indicator of the extent to which this project contributes to poverty alleviation throughout the economy.

Reduction of poverty and inequality is a central concern for developing countries. Income directly benefiting low-income households is used as a criterion to depict the extent to which poverty has been impacted on by the hairdressing industry's contribution.

On average, of the total household income of R15.99 billion, R2.51 billion is destined for low-income households. This implies that almost 16% of the total additional household income generated by the hairdressing sub-sector will impact positively on the lower-earning households in the economy (this translates to 0.10% relative to total national disposable income). This implies that, while it is by no means the largest sector contributing to low-income households, it is still playing an important role as a sector in contributing to income for the low-income groups in South Africa.

3.5 Fiscal Impact

The government is affected by large projects via additional expenditure or subsidies, as well as the collection of direct and indirect tax revenue. Therefore, it is important to calculate the impact that the hairdressing industry has on government accounts, which is referred to as the fiscal impact.

In the case of the hairdressing industry, the national government will not be directly involved in the form of additional government expenditure or subsidies to the project. However, the national fiscus will receive additional income in the form of:

- Property income (in the form of interest, dividends and rent receipts and the surplus or deficits of government business enterprises);
- Direct tax (mainly personal tax and company tax);
- Indirect tax (including VAT that will result from additional household spending and customs and excise tax); and
- Transfers.

The hairdressing industry has an indirect social impact through additional government spending. It is important to realise that the fiscus in South Africa will receive additional revenue as a result of the hairdressing industry's business activities. Government taxes and other income are accrued at various levels of the economy. The main taxes are direct tax and indirect tax, where direct tax consists mainly

of personal tax and company tax. Examples of indirect taxes are value added tax (VAT) and customs and excise tax. VAT results from additional household spending and the resultant tax on that spending. The increase in state revenue as a result is likely to lead to an increase in government expenditure on social services such as education, health, social security and welfare, as well as housing and community services.

As can be seen in Table 7, this analysis indicates that the fiscus can expect to receive **R8.75 billion** per annum as a result of the business economy generated by the hairdressing industry. This translates to 8.9% of tax revenue generated by non-financial enterprises of which industries such as the hairdressing industry are categorised in.

3.6 Impact on Balance of Payments

The hairdressing industry will have direct, indirect and induced impacts on the exports and imports of goods and services that will take place across all of the various economic sectors that are affected by the hairdressing industry. Imports consist of direct and indirect material imports, as well as goods consumed by households that are imported as a result of the induced impact.

It is estimated that the positive impact of the hairdressing industry on South Africa's balance of payments amounts to approximately **R12.56 billion**. The methodology used for these calculations indicates whether a positive or negative impact on the balance of payments can be reasonably expected. It is important to note that in this context, imports and exports are considered at a national level, and comprise of all transactions across the boundaries of South Africa.

The table below gives a summary of the impact on the balance of payments of the national economy.

Table 10: Impact on the Balance of Payments of the National Economy [Rand millions; 2015 prices]

Import substitution	R10 568
Exports	R9 432
Minus: Direct Imports	-R129
Minus: Indirect Imports	-R7 309
Balance of Payments	R12 562

Source: Authors' own calculations

The total exports attributed to the hairdressing industry amounts to R9 432 million which translates to 0.9% relative to total South African exports. The import substitution effect reflects the magnitude

of additional imports that would have to take place to satisfy the demand that is currently fulfilled by local production.

The major destination countries for exports of cosmetics and personal care products are as follows:

Table 11: Destination countries for exports

HS Code	Countries	Export Percentage
330499:	Zimbabwe, United Kingdom, USA, Holland, Zambia	(42% of total exports)
330590:	Ghana, Angola, France, Zimbabwe, Mozambique	(59% of total exports)
5340111:	Zimbabwe, Mozambique, Angola, Zambia, Malawi	(81% of total exports)
330510:	Zimbabwe, Zambia, Angola, Belgium, Mozambique	(57% of total imports)

Source: Department of Trade and Industry, 2015

Generally, the bulk of cosmetic and personal care product exports are to the Southern African Development Community (SADC) countries such as Zimbabwe, Zambia, Mozambique and Angola.

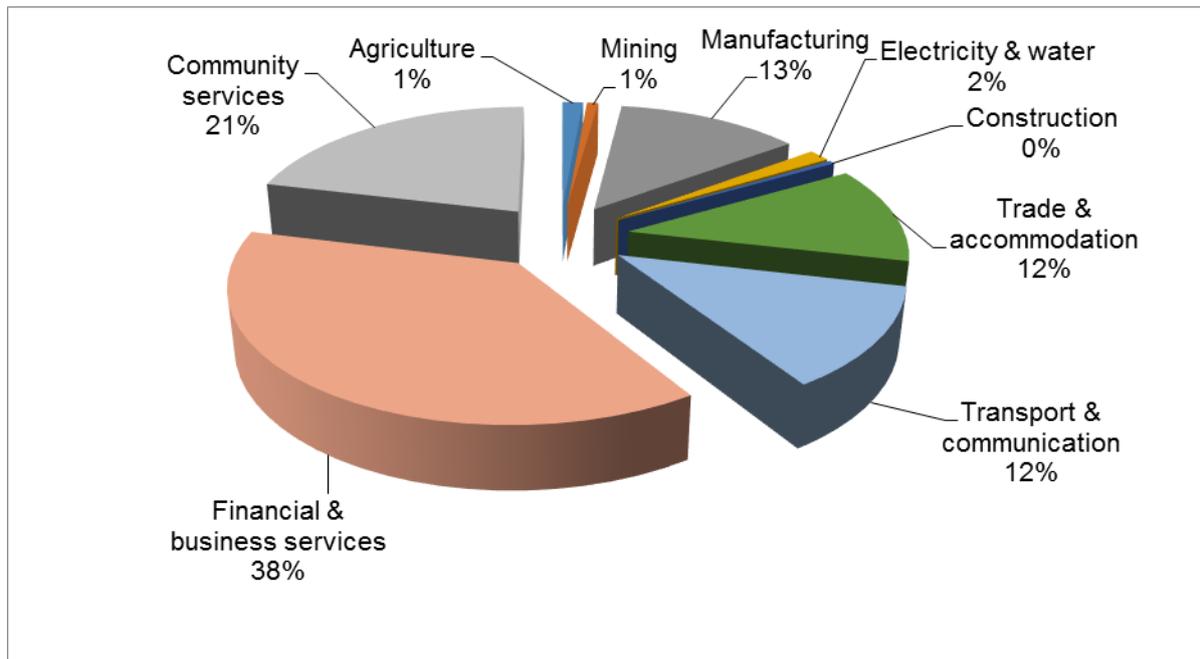
3.7 Sectoral Impact

It is also important to note that the ripple effect of the hairdressing industry takes place across a wide spectrum of sectors and not only in those that are directly impacted.

3.7.1 Sectoral Impact on Gross Domestic Product (Economic Growth)

In the figure below, the effect of the hairdressing industry's contribution is provided in terms of GDP according to the nine main sectors. From this chart it can be seen that the total effect is more profound in the Financial & Business Services, Community Services, Manufacturing, Trade & Accommodation and the Transport and Communication sectors.

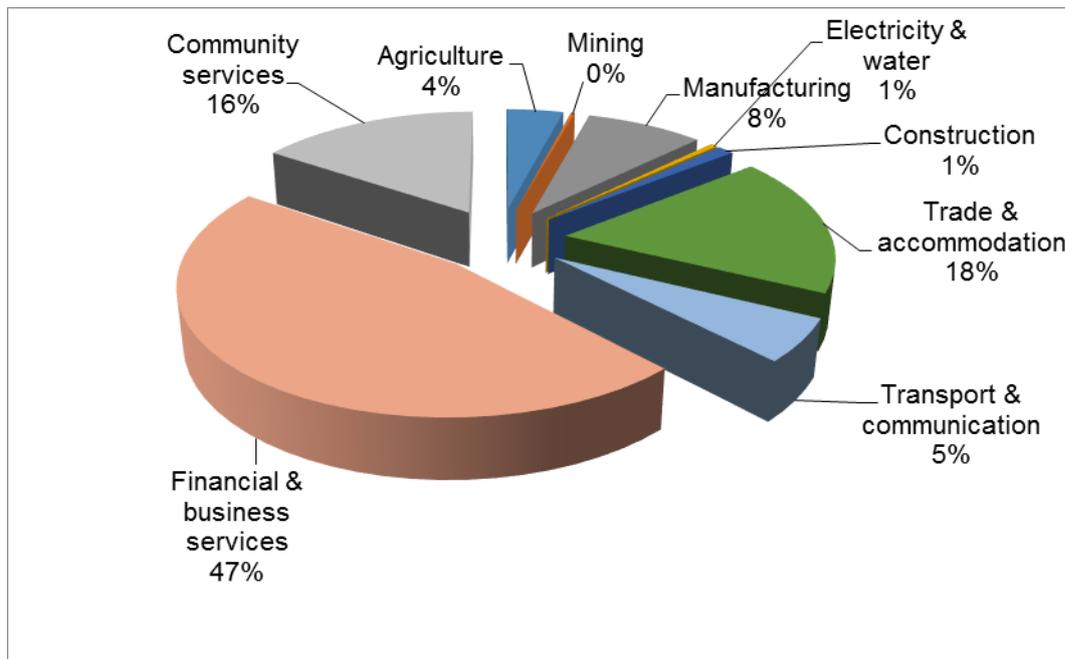
Figure 5: Sectors benefiting from the Hairdressing Industry in terms of GDP growth (percentages)



Source: Authors' own calculations

In the figure below, the total effect of the hairdressing industry is provided according to the nine main sectors of the economy in terms of employment. From this chart it can be seen that the total effect is more profound in the Financial & Business Services, Trade and Accommodation and the Community Services sectors.

Figure 6: Sectors benefiting from the Hairdressing Industry in terms of Employment (percentages)



Source: Authors' own calculations

The fact that the Financial and Business Services sector is largely affected by the direct effects should be attributed to the fact that the hairdressing industry is defined by businesses in the Financial and Business Services sector. On the other hand, the Community Services, Trade and Accommodation related sectors as well as the Manufacturing sector, are also stimulated through the indirect effects.

Chapter 4: Conclusions

The purpose of this economic impact analysis was to measure the broader economic benefits accrued to the South African economy as a result of those business activities conducted within the hairdressing industry. While the macro-economic impacts emanating from this industry may seem small at first glance, they are not dissimilar to the contributions of similar sectors in other countries, such as the US and the UK. The results have shown that the economic impact of the hairdressing industry in South Africa is quite significant. The macro-economic impact assessment was measured for the formal hairdressing industry, within the national South African economy. While a similar assessment for the informal hairdressing industry is desirable, it proved to be impossible due to the lack of data. It is thus recommended that a larger survey be undertaken in order to gather credible data on the informal hairdressing industry, to make such an analysis possible.

The key findings from the macro-economic impact can be summarised as follows:

- The hairdressing industry strengthens the South African economy. In 2015, it is estimated that the hairdressing industry added R24.8 billion to the South African GDP (translating to 0.62% of national GDP), and supported 185 415 domestic jobs that earned R15.99 billion in wages and income through its direct, indirect, and induced contributions.
- The impact on capital formation associated with the investment and operation of the hairdressing industry was estimated to be R69.01 billion per annum. This implies that R69.01 billion worth of capital (productive capacity) is required to sustain the hairdressing industry on an annual basis. However, it should be noted that this is not an additional R69.01 billion each year, but rather the magnitude of productive capital stock that needs to be available on an annual basis for the relevant business enterprises related to the hairdressing industry to be up and running. The capital is dedicated and can be used for no other purposes during the lifespan of the hairdressing industry.
- On an annual basis, the hairdressing industry sustains 185 415 job opportunities (direct, indirect and induced). The 185 415 jobs form a significant number that impacts positively on the South African economy. Of the total number of job opportunities sustained, almost 52% are for semi-skilled labourers, indicating that the hairdressing industry provides employment opportunities for individuals who have not achieved a high level of education. This suggests that the sub-sector may be an important contributor to poverty alleviation for many, and may also make a notable impact on the eradication of

- unemployment among previously disadvantaged communities; though these assertions would need to be confirmed by a larger scale survey.
- The total impact on household income amounts to R15.99 billion of which 16% impacts lower-income households. Thus, of the total household income generated directly and indirectly through the hairdressing industry, a notable percentage is likely to reach the poor communities in South Africa. The impact on low-income households comes through the linkages that the hairdressing industry has with other sectors of the economy i.e. trade, manufacturing, financial and business services etc. through the buying of materials and the payment of salaries in the system as a whole.
 - The annual fiscal impact of the hairdressing industry amounts to approximately R8.75 billion per annum through direct and indirect taxes. All of these additional taxes provide the government with revenue that can be used to improve the quality of life of the average citizen in South Africa, especially with regards to education and health.
 - The hairdressing industry contributes to a strong export economy. It is estimated that the hairdressing industry exported R9.4 billion in 2015, contributing positively to our nation's balance of payments. The impact on the balance of payments is a positive R12.56 billion per annum.
 - The hairdressing industry is one in which small business owners thrive. A significant amount of employment of the total employment in the industry is in small businesses and is thus likely to be driving economic growth in our communities.
 - Due to the fact that South Africa experiences an influx of migrant labourers, especially from the African continent, this industry seems to be serving as a major source of employment, income and entrepreneurial activity for them.

This macro-economic impact assessment of the hairdressing industry and the model outcomes have provided sufficient information upon which important evaluative conclusions can be based concerning the economic contribution of the hairdressing industry. The subject matter is complex, particularly in light of having to quantify the economic contribution of the hairdressing industry, which has a sophisticated value chain but a lack of sufficient data pertaining to most of the value chain components. Furthermore, the business of the hairdressing industry is, to a large extent, driven by SMMEs, especially in the informal sector of the economy. Despite that, this economic impact analysis provides credible answers to the most pressing questions.

An important realisation stemming from the research is that the analysis produced some secondary information that can be used fruitfully even though sufficient data on the subject matter is not readily available. In particular, data from mainstream surveys conducted by, for instance, StatsSA is not sufficient. The most important aspect that can be singled out is that the study will require further research and development, especially with regards to the collection of data through surveys on this industry. It requires periodic and systematic satellite national accounts with regards to the main components of the value chain. Looking ahead, a certain degree of vigilance needs to be maintained by key role-players in this industry, in constantly working towards improving the quality and quantity of data needed for the kind of economic analyses that are required for sound policy planning and strategic management in this field. This point is well illustrated by the exercises undertaken in this study. In order to move forward in this regard, it is recommended that a later second round of this study be conducted, in the event that more reliable data is obtained through industry surveys focusing on both its formal and informal components.

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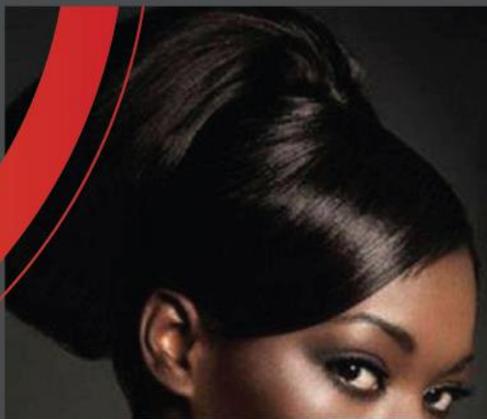
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