

## CRISIS AT A LOCAL BARBERSHOP

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### Introduction

It was April and the azaleas were blooming everywhere in Longview, TX, but Tim Peterson was not enjoying the beauty around him on his day off. He was looking at sales at his one-person barbershop and was very frustrated. He simply did not know what to do – he had bills to pay and little in his checking account. He had built a successful business enabling a comfortable lifestyle and been in the same location for ten years with as much business as he could handle for pretty much the entire ten years. Revenues had fallen off by 50% in only three weeks and he knew his business was in dire trouble. This had never happened before – sales had not fallen that far and that rapidly in his years at the same location. The customers were just not coming through the front door now that a new barbershop had opened up only a couple of blocks away. They also offered an introductory price of \$12, which was \$2 lower than what he charged. This was serious!

### Background

The new barbershop appeared to be siphoning off a tremendous amount of his business and things simply could not continue on the same trajectory. Thinking back, Peterson knew that his waiting room of six chairs was often full and that many customers had to wait 45 minutes, or even up to 2 hours, for haircuts. One customer even suggested he sell t-shirts marked with “I Survived the Wait at Tim’s.” He had to assume that the long wait times were at least part, if not most, of the reason that many of his customers had left. However, Peterson also believed that he gave the best haircuts in town for the price. Would the customers that had left come back to him when they needed their next haircut in 3 to 5 weeks? What could he do about the wait times IF business did pick up to the levels they were at three weeks earlier? One option was to remodel the space and bring in a second barber, which might reduce the average wait times. However, he thought that this might not be easy to do since it was very difficult to get the right person and he would have to remodel the shop. There may also be additional issues in hiring and training another barber that he had not yet thought of. Peterson noticed his jaw ached and then realized he was clenching his teeth.

Tim Peterson had a bachelor’s degree in accounting from a nearby university. He then worked as an accountant in the health care field for ten years, even working his way up to comptroller. However, he had hated working as an accountant. When he was laid off as a result of a merger, Peterson decided to go to barber school to learn to cut hair. He thought he would work

temporarily as a barber, working only until he figured out what he was going to do with his career and his life. However, he found that he enjoyed cutting hair and building relationships with customers, some of whom became friends. Looking back, he realized that he had now cut hair for over twenty years.

Ten years ago, he opened up his own barber shop and found a small space in a retail center at the intersection of a four lane highway with fairly heavy traffic and a side road that also had heavy traffic. The space had long been a barber shop and the current barber was retiring. It was an ideal location. The rent was modest, some of the existing barber's customers would likely come to his new shop since they had been coming there for years, and the location had excellent visibility due to the heavy traffic on both the highway and the side road. He stated:

*Since I opened the shop ten years ago, I've been very busy cutting hair. In fact, for most of that time, I've really had about all the work I can handle. Even three weeks ago, before the new barbershop opened up a couple of blocks away, I was busy cutting hair about 85% of the time every day. I think the reason I've been so busy over the years is because I work really hard to give very good quality haircuts and I only charge \$14, or \$13 for anyone 65 or older. That is about the same as some other barbers in the area charge, however it is less than a haircut would cost at the Wal-Mart across town where they charge \$18 and they don't do a very good job at that!*

*My ego is tied up with the quality of my work. I pride myself on giving the best quality haircuts in the area and for the last two or three years I've even been listed as one of the best barbers in the city on a local internet site. I define quality as a haircut that looks good to me, but more importantly that the customer believes looks good. I have many repeat customers some of whom have become friends. It is important to me that people in the community believe that I give great haircuts at an affordable price. That is darned difficult to do for a one-person barbershop and I'm the only single barber barbershop around here. To do this requires dedication to taking my time with each and every customer even when I'm tired, and also talking with everyone. It is particularly difficult for a one-person barbershop to do all of these things, but that is what is important to me.*

### **The Barbershop**

Tim's Barbershop consisted of one barber chair, a store room, and a small waiting room with six chairs. Peterson kept a collection of magazines and maintained a television with dozens of channels for customers who waited, but he found that most of the customers entertained themselves using their smart phones either playing games, texting, or browsing the internet. The space was comfortable, but he had not updated it in several years, so it needed to be painted and the floor tile needed to be replaced. He consoled himself with the idea that people came to him for the quality of the haircuts, the friendliness of customers in the shop, and the moderate prices rather than the decor. He was also widely read, so he was able to talk to his customers about a

wide range of topics from quantum physics to politics to cattle and farming – he knew that people like to talk when they go to a barber. Parking was never a problem and access onto the property was easy.

People often did not realize the different niche's in the hair market. Certainly, some shops focused on women, whereas Peterson focused almost exclusively on men although he did have a few women customers who were not willing to pay the high price of going to a hair salon. His business was adjacent to a hair stylist who did upper end haircuts mostly on women, but also on a few men. The two businesses were not in competition with one another and the owners were friends, even referring customers to one another. There was a barbershop down the road a few blocks further into the city of Longview that had been in business for several years. Peterson did not consider this barbershop much in the way of competition since several of his customers had told him that the two women in that shop did not give good quality haircuts. Other barbershops were located further away, on different roads, or in other sections of city and did not present much of a problem in terms of direct competition.

The small retail center where Tim's Barbershop was located also had a donut shop which helped business since people who bought donuts sometimes came in for a haircut. However, many of Peterson's customers were repeat customers. Peterson had this to say about his customers:

*My typical customer is over 50, drives a pickup truck, and lives in the rural areas or the small cities near Longview. They often come by for a haircut on their way into Longview, or as they are leaving Longview, where they go to shop, eat out, go to the doctor, work, etc. However, I really have a wide range of clients from all walks of life. I also cut the hair of some of my customers' kids as well.*

*The average income of the families of my customers is probably typical for those in the U.S.; however I do have several customers worth over a million dollars. A funny thing – one of my wealthiest customers gives the smallest tip – exactly \$1 each time. Maybe that is why he is wealthy. Ha!*

Peterson kept the doors of his barbershop open 36 hours a week or from 8:30 to 5:30 on Tuesday through Friday and from 8:30 to 12:00 on Saturday. He had long ago found that the only way he was able to get lunch was if he closed the shop for an hour at noon and went elsewhere to eat. If he stayed at the shop to eat, even if the doors were locked, customers would knock on the door to get in for a haircut. Although the doors of the shop were open 36 hours a week, Peterson worked longer hours. This occurred since there were almost always customers waiting for cuts at closing time. He would lock the door at closing time and not let anyone else enter the shop, and then he would work for one to two hours cutting the hair of the customers that were in the waiting room at closing. If all six chairs in the waiting room were busy at the end of the day, it would take Peterson roughly two hours to finish his existing customer and cut the hair of the six waiting customers. As a result, Peterson usually left the shop for home about one to two hours after closing time, meaning that he often worked over 40 hours per week at the shop not counting time spent working at home on the books. Besides, standing on his feet and cutting hair for 40 hours a week was about all he could do physically – he was tired at the end of the day.

It was difficult for Peterson to wash hair since his shop really was not set up for that. To wash someone's hair, he had to physically move the 200 pound barber chair. But since most people did not want their hair washed, he was only washing the hair of 3 to 4 people every month so very little revenue came from this source. Peterson did trim one or two beards a day for \$8 each. Once the HIV virus became more common, the state of Texas had sent a letter to all barbers in the state asking them to no longer shave people due to the possibility of HIV transmission. Although the state had not mandated that barbers stop shaving people, Peterson complied and no longer shaved anyone. He was glad he had stopped shaving people after a customer told him that he had AIDS.

As a result, almost all of Peterson's revenue came from haircuts. He divided the types of haircuts that he gave into the four categories listed in Table 1. The haircuts in the table were listed from simplest at the top (the burr cut) to the most complicated type at the bottom. The column labeled Average Time represented an estimate of how long an average haircut required for a person receiving that type of haircut. The time given in this column included the time required between customers to clean off the chair, sometimes sweep, talk with customers, and put the cutting tools in a machine that quickly sterilized them. Peterson also washed his hands with soap between every customer. He was careful to follow guidelines for cutting hair put out by the state of Texas since he did not want to transmit a disease.

The more difficult haircuts (flat tops or high and tight cuts for the military) on people with hard-to-cut hair sometimes took 40 or even 45 minutes. Those customers paid the standard fees listed in Table 1. Over time, Peterson found that customers with hair that was more difficult to cut continued to come back to him. He was proud of his small business even if it was not making him rich, but he wondered about how he might get paid more to handle the more difficult haircuts.

**Table 1 Data by Type of Haircut for Tim's Barbershop**

<b>Type of Haircut</b>	<b>Average Time *</b>	<b>Price</b>	<b>Percent of Total Business</b>
Burr cut	<i>10 minutes</i>	\$10 \$9 if over 65	10%
Regular	<i>20 minutes</i>	\$14 \$13 if over 65	55%
Women or Men with long hair	<i>30 minutes</i>	\$14 \$13 if over 65	15%
Flat top, Fade or High and tight (military cut)	<i>30 minutes</i>	\$14 \$13 if over 65	20%

\* The Average Time shown included the cleanup time after each cut, the time required to sterilize the hair cutting tools, the time for Peterson to wash his hands between each customer, talk to customers, the time to wipe off the chair, and the time to sweep up between customers when needed.

Peterson enjoyed his independence as an entrepreneur. He did not have to work to get along with another barber and he was his own boss. He enjoyed the work and strived to give the best possible haircut to everyone who entered the shop. His wife worked for the U.S. Postal Service and their medical and other benefits came through her job. The couple made enough that they were happy and they often spent their Sunday afternoons with one or more of their grown children and their families or with friends. It had been a good life before his business fell off by almost 50% within three weeks of the opening of the new barbershop two blocks away threatening Peterson's ability to stay in business. At least his kids had finished college and he did not have to worry about those costs anymore!

### **Long Wait Times**

Peterson had long worried about one big problem related to his business – many of his customers had to wait too long before he could get to them to cut their hair. It bothered him greatly and he had thought about what he might do to alleviate the wait times. A few years ago, he decided to set aside 2½ hours of every day for people who made appointments. His appointment slots usually filled up by Wednesday morning of every week, so that system worked well for those making appointments. However, he sometimes ended up with nothing to do for a few minutes while he waited on the next customer. A further problem was that drop-ins during that time who were told “I can't work on you now because I have appointments and can't get to you for some time” sometimes became angry and left the shop. Peterson did not have enough customers who would set appointments to allow him to convert fully to an appointment system – he depended on the drop-ins and needed them to stay in business. So the appointment system helped, but it did not solve the problem of long wait times for many customers.

In the past, he had thought about remodeling the space, hiring a second barber, and then advertising to bring in more business so that both barbers would have enough work. He intuitively thought that the average wait time would decrease with a second barber in the shop since a customer who had to wait too long for Peterson might go ahead and get a cut from the other barber and vice versa with customers who came for the second barber. It would also allow Peterson to keep the shop open during lunch hour, since the two barbers could take different times for lunch. The second barber might also allow for offering extended hours beyond what are currently offered, for example evenings and/ or weekends. But he was also worried about the fact that he would have to spend \$5000 to set up the shop for a second barber – would he get his money back and make a profit? He was also very worried about hiring the right person as a

second barber. On the other hand, the \$5000 would also cover needed upkeep such as new tiling and a fresh coat of paint. These upgrades would likely be useful in improving the atmosphere, but Tim did not feel they were immediately needed and could delay them longer if the larger renovation was not undertaken to facilitate the second barber.

There was enough space for a second barber since he could convert the store room to a second barber area and install a barber chair and a sink. However, Peterson valued his independence and the fact that he did not have to worry about being a manager or getting along with the same person every day while at work. He mulled over his thoughts related to what would be required of anyone working as a barber in his shop.

*I strongly believe in giving quality haircuts. Anyone working here would have to give a very good haircut, not just once in a while but all day every day, and day after day. It is easier to give great haircuts in the morning when you are not tired, but how about after working 8 hours and after giving say 22 to 23 haircuts in a day which is the average number of haircuts I give in a workday? It takes a special person to still focus on giving a quality haircut at that point.*

*Anyone working in this shop must also be able to relate well to clients and I would expect him/her to bring some clients when they come to this shop. The barber must be easy going, but he/she must be honest and reliable as well as dependable. I've worked in barbershops owned by others in the past and I know that it isn't easy to get along with the same person every day, all day. We would have to be compatible. Further, I've seen many a barber leave after learning the demands of the job. I do not want the hassle of spending the \$5000, setting up everything, and hiring a second barber just to see them leave to go elsewhere in a few months forcing me to find someone new.*

Peterson had been in the business long enough that he knew how the financial relationship would work with a second barber- essentially this was pretty standard in the industry. Peterson would furnish the space and barber chair as well as pay for utilities and the rent and other associated expenses. The second barber would be responsible for his/her own tools and they would split the revenues from the second barber's work with 75% going to the second barber and 25% going to Peterson. So, Peterson would receive only 25% of the revenue the second barber would generate. This of course did not include tips. The second barber would keep his/her own tips.

### Summary

Looking again at sales, Peterson was shocked at how quickly sales had fallen off. He still debated the cause(s), but it was a fact that the new barbershop had opened up charging \$1 or \$2 less than Peterson for each haircut shortly before his sales began to dramatically fall. Would the customers he had lost come back when it was time for their next cut? How long would the new business continue their introductory pricing? He had been successful in the same location for 10 years and he had many repeat customers. He strongly believed that the quality of the cuts he gave was consistently excellent, better than most barbers in the area. Yet he was worried about the fact that so many of his customers had experienced long wait lines.



Would these customers come back to him knowing that they might have to wait again? Was it time to change the business and pull in a second barber? Was it worth the risk of spending the \$5000 and trying to hire a second barber? What if he spent the \$5000 and his customers did not come back – that would be a big mistake.

Peterson believed that if he brought in a second barber, he would anticipate bringing in someone with experience who would bring in many of their own clientele. He had tried advertising in the local papers and using coupons before but found that did not generate much business for him in the past, so he believed in word-of-mouth and not advertising. Peterson was really confused about whether to bring in a second barber or if there was another way to alleviate the wait situation, but he knew that his one-person barbershop was in trouble if he could not quickly reverse the trend of declining sales and get his old customers to come back. Of course, he could also rebuild the business by attracting new customers, but that could take a long time using his primary method of promotion: word of mouth. And he would still have the long wait issue.