Human Capital Challenges at Fashion Trends

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Abstract
Indian beauty industry is estimated to grow in the range of 15 to 20 percent annually. The beauty market in Indian sub continent consists of saloons, cosmetic treatment centers and cosmetic products which constitutes the personal wellness industry. The rising consciousness on personal wellness is pushing the beauty industries to a new height. Branded salon chains both Indian and Global (Indian - Jawed Habib, Lakme, VLCC; Global – Jean-Claude Biguine, Saks, Toni & Guy) are speeding to establish their presence in the country. To sustain the growth, there are challenges that players in this industry need to address. This case study on “Fashion Trends” highlights a few such challenges for discussions as part of strategic human resource management learning.

Keywords: Human Capital Management (HCM), fashion industry, challenges, strategic human resource management

Teaching Objectives:

To help students:
1. Understand the importance of human capital management
2. Get a strategic perspective of human resource management
3. Appreciate the importance of employee engagement and the consequences of employee dissatisfaction at workplace
4. Appreciate the importance of training and development and design and execute business relevant employee development programs
5. Appreciate how employee engagement contributes to customer satisfaction in service industries

The Hair and Beauty Salon Industry

The Indian salon industry is estimated at $1.5 billion and is only getting bigger. With rising affluence beauty consciousness has dawned among consumers in India. Rising spend on a consumption lifestyle has led to an accelerated growth in the Indian beauty industry. Branded salons have emerged as the key constituent of this growth.

Branded salons chains both Indian and Global (Indian - Jawed Habib, Lakme, VLCC; Global – Jean-Claude Biguine, Saks, Toni & Guy) are speeding to establish their presence in the country. The mushrooming of branded chains is expected to completely change the landscape of the beauty and hair salon business in the coming years, ushering in a era of trained salon personnel, offering services based on global insights and professional products with the latest international trends and technologies.

Currently the industry is largely unorganized with only 25 percentage being part of the organized segment. But this segment is expected to grow at a much faster rate of 30 percentage compared to the less than 20 percentage growth rate of the unorganized segment.

What’s driving growth in the salon industry? Growing purchasing power of the Indian middle class, increased spending on lifestyle needs, favorable demographic age profile, swelling urban population, increasing awareness of grooming among men and availability of world class product brands are the factors fuelling this growth. Some of the challenges to this growth are lack of skilled salon professionals (hair stylists, beauticians), high attrition rates of staff, lack of financing and bank funding and difficulty in scaling and standardizing a non-mechanizable service.
The branded salons are making efforts to attract clientele through, strong brand USP, product and service range which provide an experience rather than just a ‘haircut’. Some are also setting up back-end training academy to tackle shortage of skilled and trained talent.

**Business Overview of Fashion Trend**

Fashion Trend was founded in 2011 by Ruth Nanda, a well know beautician who made her name catering to top film stars in India. The company is in the hair and beauty care business. It currently has 25 hair and beauty salon outlets across 13 major cities in India, including Delhi, Mumbai, Kolkata, Chennai, Bangalore and Hyderabad. 25 more outlets are at various stages of setting up, which will take the total outlets to 50 and cities covered to 18.

Fashion Trend currently employs staff strength of over 600 service professionals (nearly 350 of them are recent joiners - have been with the company for 6 months or less) that includes hair designers, beauticians and salon managers. It serves over 30,000 customers (including repeat consumers). The company has leveraged its insight into beauty needs to build and grow a diversified product portfolio for hair and beauty care.

Over the years, the company has won many awards and recognitions. It is one of the first in the salon industry to be awarded the ISO 9001:2000 certification. The company has received several Excellence awards for smart innovation, people practices and care & service standards. The company’s mission since inception has been to transform lives by making India’s hair and beauty care regimes accessible to women and men everywhere.

The company aims to be a category leader through (1) gaining a leading market share of customers and (2) setting up of company owned outlets in the Indian hair and beauty care services market. To achieve this goal, Fashion Trend is planning to expand aggressively both in India and globally - mainly in South Asia, South East Asia, GCC Region and East Africa.

As per current plans, by 2018, the company aims to manage 300 outlets (company owned or franchisee), deploying around 4000 people. Fashion Trend has received venture capital funding of $15 million from Everstone Capital and $7.5 million from Helion Venture for financing its expansion plans. The company aims to use this kitty to grow both organically and through acquisitions.

**Growth pangs at Fashion Trend**

The company has an HR team that currently takes care of basic HR services - hiring, induction, and compensation. But clearly more effective HR leadership is needed to support the aggressive growth plans. Internal effectiveness of its HR practices is an area for improvement.

Of late, Fashion Trend has been losing service personnel to competition or entrepreneurism – many of whom are licensed and have won awards in hair dressing or beauty care competitions. Salon managers often complain that the job satisfaction and organizational commitment is declining rapidly compared to early years. Employee attrition, which has been 8-10 percentage during the initial years, is now galloping towards 20-25 percentage.

The company’s focus has been to provide excellent service to its customers. The initial years were easy, as the company hired the best professionals to service its clients. It was a close knit team hired personally and coached by Ruth Nanda. However in recent times Nanda’s focus on expanding the business operations has left her with little time for hiring personnel. The frequent complaint from managers is the fast paced expansion of the company is resulting in lower quality hiring.

In terms of salon operations, the company primarily has the following major roles – Trainees, Hair Designers, Beauticians and Salon Managers. Trainees are for groomed into hair designers or beauticians after coaching / mentoring under a Senior Hair Designer or Senior Beautician. Hair Designers handle the core hair designer service process. Beauticians handle the skin care and cosmetic service process. Managers are in charge of the daily operations of the salons.

The training for ‘new’ trainees is reasonably structured. Each senior hair design / beauty service professional is assigned an apprentice, who he or she is expected to coach and mentor for a year, before the trainees start to get some independent service responsibilities.
While the roles are clearly defined and employees are given added responsibilities based on experience, the organizational hierarchy of how additional responsibilities are allocated and the career growth path is not clearly defined, which is adding to the retention problem. A key challenge has been that the effectiveness of training is hugely dependent on the personal compatibility between the senior employee and the trainee. Thus the absence of a standardized training approach is proving to be a challenge to Fashion Trends’ growth plans.

Customer service and experience has been a huge plus for the company till recently. The quality of its personnel ensured this. But with growth came the problem of non-standardized services – and in some cases shortfall in customer service levels. The company has been attempting to standardize its services, but has a long way to go. Standardizing the services is proving to be a challenge as different customers have different expectations for each service and the time for the same service for different customers varies widely depending on the customer and the service personnel.

The company has been making attempts at attracting personnel from some of the other international chains who seem to have been successful at standardizing their service delivery while not compromising on customer satisfaction. This is work in progress. The results of not having a standardized approach is becoming obvious – increase turnaround time per customer, lower productivity, increasing wait period for customers, shortfall in service quality, higher attrition and the higher cost of attracting new talent.

One of the stated aims of Fashion Trends is to offer a strong growth path to its employees. While that has been put in practice, the system has challenges in ensuring a fair and clear evaluation. There have been murmurs that those hired externally get a ‘better deal’ than those who have been loyal to the company from its initial days.

For internal promotion within the company, employees are required to undergo several periodic tests - practical tests, oral tests, written examinations. Promotion or hiring into manager level comes with additional responsibility of targets for meeting sales quota, in addition having the necessary technical qualification and skills.

The common refrain is that while opportunities for promotions exist in the company, it is not clear as to what is the benchmark skills and service orientation for being promoted to the next level. Employees complain that some of the new hires especially the senior hair designers, beauticians and salon managers don’t seem to have the same skill and experience level as the early hair designer or beautician still working with the company. This issue has led to some of the more experienced personnel joining the competition or setting up their own salon business which is in direct completion with the company’s outlets in the respective areas.

To address the problem of attrition, in a few recent cases, employees have been allowed to set up a franchisee under the company’s brand. But it’s not clear what prompted this franchisee approach – Was it (1) Employees willingness to invest their own money or (2) Fashion Trend intention to retain good talent within its fold or (3) The company’s reluctance to set up its own outlet in ‘low business potential’ locations. Some of those who joined the competition claim that if they had known franchisee option existed, they would have gone for it rather than join a competitor as an employee. A few of these people are now trying to initiate discussions with the company on this.

The company is yet to have a clear policy or approach around welcoming back its alumni or allowing them to take the franchisee option. Also no clear infrastructure exists to provide technical or managerial support to the franchisees. The franchisees are allowed to borrow the company brand for a fee depending on the area and location of the salon.

The company does focus on providing training to its employees. Teaching materials are available on different topics, but though they are in need of standardization. Promotion within company is dependent on successful completion of internal tests. Clearing the tests is mandatory, but not a guarantee for promotion. The company has some ongoing corporate training activities, primarily at the headquarters. This involves talks or workshops by senior personnel. Also, employees get a chance to interact with Ruth Nanda during such occasions. Usually, it’s the well performing employees who get nominated to these programs. It works more as a perk or an indicator of who is in management’s ‘favor’ rather than a training program.
The company has invested well in simulation training tools, but those are yet to be utilized well. There have been some well intended programs using these tools, but not too many of such programs have been conducted. The focus on catering to clients had discouraged salon managers from asking for or nominating their teams to these programs. While there focus is on technical training, customer service attitude training is sorely missing. Moving to managerial level seems to be more a function of attaining sales targets than any assessment of service attitude.

As the company seeks to expand its footprint in this fast growing space, the management realizes that the key to success would be the knowledge, skills and ability of its service personnel. It also requires a focus on organization system level design that ensures customer satisfaction and delight and that will keep the existing customer coming back to its outlets and attract new ones.

In her pitch to gain venture capital funding Ruth Nanda made this statement – “The key to succeed in this business, is scale up nationally and have international footprint either through organic growth or making acquisitions, focus on training both technical and managerial personnel and build the brand USP.”

Questions for discussions:

1. What are the needs for human capital in the current beauty market?
2. How would you address the attrition problem at Fashion Trend?
3. How would you see the role of employee satisfaction in ensuring consumer satisfaction at Fashion Trends?
4. How can training and development initiatives help Fashion Trend’s business growth plans?
5. What are the strategic challenges that Ruth Nanda is experiencing in expanding Fashion Trend?

References


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