Business models of vertical integration in the beauty industry in the United States: analysis of economic efficiency

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Abstract. The beauty industry in the United States is the global leader in aesthetic and cosmetic services. Traditionally, vertical integration of businesses in various segments of the beauty market has been little studied in terms of the advantages and disadvantages of business consolidation. After the coronavirus pandemic, major American operators in the beauty industry faced a number of operational problems that led to a decline in the operational profitability of their businesses. In these conditions, vertical consolidation became one of the ways to solve the existing problems of inefficient operations. The purpose of the article was to highlight the features of the vertical integration business model in the US beauty industry and to assess its economic effects. Vertical integration business models are not widespread in the US beauty industry, as this market has traditionally been dominated by business models in which the parent company enters into agreements with franchisees to standardize business processes and receive remuneration. However, the example of vertical integration of Regis Corporation and its franchisees demonstrates the economic effects of consolidating activities. The complete acquisition of the franchisee salon network by Regis Corporation in 2024 made it possible to maintain operating profitability and increase business profitability. The growth in operating income and reduction in costs following the acquisition of 314 franchisee salons was a strategic solution to the operational problems that existed at Regis Corporation due to the significant dominance of franchisee-operated salons. Vertical consolidation, as exemplified by Regis Corporation, indicates that strategic decisions to integrate the operations of the parent company and franchisees can promote short-term operational efficiency. However, the long-term effects of vertical integration and the new business model remain uncertain. The main advantages of the vertical integration business model in the beauty industry include: elimination of intermediary activities, optimization of business operations, full control over sales channels and direct access to the customer base of the combined beauty salons, and the consolidation of brands into a single network of beauty salons.

Keywords: vertical integration, US beauty market, beauty industry, business operations integration, process integration, business consolidation.

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Introduction

The beauty industry in the US depends on regulatory, economic, and technological factors, differing significantly in specific characteristics from the beauty industry in other countries. First, it is the largest market in terms of revenue in the world. Second, the developed regulatory environment for conducting this business is a barrier to foreign companies entering the US market. Third, technological capabilities in the US allow beauty industry companies to create competitive advantages by offering consumers higher value. The creation of unique vertical integration business models is one of the competitive advantages of companies in the US beauty industry.

Theoretical and practical studies consider vertical integration at the level of vertical links between manufacturers and suppliers of goods through the acquisition of a separate enterprise, merger, cross-ownership of shares, or the signing of permanent contracts for the purpose of development and obtaining economic advantages. At the level of economic activity of two or more companies, vertical links allow improving market positions, taking a leading position, and combining existing human, financial, and research potential. Vertical integration in the beauty industry remains understudied, as the relevant market segments are insignificant in terms of volume compared to other types of economic activity. For example, some publications study the practice of vertical integration in the cosmetic processing industry in Korea during the coronavirus pandemic, which is related to the beauty market and can be considered as a manufacturer and supplier of cosmetic products in demand among beauty service providers [8]. The main feature of vertical integration in the cosmetics industry is the management of all business processes by a single enterprise, from product processing to logistics, with the involvement of specialized suppliers [8]. In contrast to the cosmetics industry, in the beauty market, the provision of services requires the integration of various business processes, rather than individual functions, into a single holistic process, and various manufacturers of cosmetic products are considered as suppliers. Vertical integration in the beauty industry can also occur through the acquisition of one company by another, which allows for the pooling of material resources and technologies, as well as strengthening the existing knowledge base [13]. The absorption and recombination (combination) of knowledge in the beauty industry allows it to maintain its specialization [13].

Results

The beauty market is considered to be a set of cosmetic and aesthetic services provided by medical clinics, beauty studios, and beauty salons (makeup, manicures, hair care, injections, hardware care procedures, plastic surgery). At the same time, cosmetic services must be provided by persons with medical education, as they are classified as medical practice, which, according to the law, requires licensing and involves invasive procedures using medical equipment. Aesthetic services do not require medical intervention and are therefore performed by specialists without medical education [1].

Compared to the global beauty market, the US is the leader in terms of net revenue, estimated at $104.74 billion in 2025 ($304.84 per person). According to estimates, online sales will account for 56.0% of the total revenue of the beauty and hygiene market in 2025. One of the main trends is the growing demand for clean and environmentally friendly cosmetics [6]. At the same time, the professional beauty services market is estimated at $47.3 million in the US in 2024 (18.0% of the global market), led by the following companies: Regis Corporation, TONI&GUY Hairdressing, Franck Provost, Sally Beauty Holdings Inc, Coty Inc Class A, L'Oreal SA, Ulta Beauty Inc, Fantastic Sams [7].

In the US, the market for cosmetics and personal care products is trending toward minimal growth, which is significantly influenced by changing consumer preferences toward clean and environmentally friendly products. Consumer preferences in the US are increasingly shifting towards clean cosmetics, as shoppers become more aware of the importance of environmental sustainability in manufacturing. These shifts are most evident in the consumer behavior of young people, who prefer brands with transparent lists of cosmetic ingredients and environmentally friendly packaging. The growing influence of opinion leaders through social media has led to an increase in demand for environmentally friendly, authentic products. As a result, beauty salons offer their clients aesthetic and cosmetic services based on the use of environmentally friendly products with clear ingredients. Health and safety concerns have become one of the main trends in the beauty industry. The beauty market is characterized by increased competition due to the emergence of new brands and innovative methods of providing aesthetic and cosmetic services using environmentally friendly products. Economic factors influence the discretionary spending of companies in the beauty industry.

The beauty market in the US is characterized by local and regional characteristics, so companies in this field often diversify their activities by distributing investments among different brands. Climatic factors also affect care needs. The multicultural population of the US stimulates demand for inclusive products that meet the needs of different categories of buyers. Regulatory standards, such as FDA oversight under the new Cosmetics Modernization Act of 2022 [3] for the cosmetics market and products, further influence the beauty market and the supply of aesthetic and cosmetic services in this market. Beauty salons are increasingly favoring safe cosmetic products that are in demand among consumers.

In the beauty industry, the main motive for vertical integration is to strengthen intangible assets that generate operating income through imperfect market mechanisms in the use of rights to such types of assets (production, marketing, and management experience that allows for the generation of revenue and operating income). In the process of vertical integration, companies gain additional opportunities to increase efficiency through access to resources (new technologies and platforms, labor resources, products).

In the beauty industry, it is common practice to manage all business processes within the framework of a business model for creating value in aesthetic services through vertical integration, which consists of fully developing a business model and scaling it across different markets by selling franchises. Business processes for the supply of products for beauty services, business processes for customer service in the process of providing services, after-sales service, and other additional services are fully managed by one company and standardized. This ensures the quality of services regardless of the location of the beauty salon. Investors are mostly interested in investing in such projects because operating income in this case is predictable and foreseeable. At the same time, the business model assumes that the parent company may engage specialized equipment suppliers to ensure ongoing maintenance. Recruitment and retention of personnel, as well as marketing, and management activities are typically centralized at the parent company level, as the beauty industry – compared to other sectors of economic activity – represents a relatively smaller share of overall value creation.

Regis Corporation, an American hair salon operator headquartered in Minneapolis, Minnesota, had 3,647 franchise-based beauty salons and 294 company-owned beauty salons as of June 30, 2025. Regis Corporation is a global leader in the beauty industry in the field of cosmetology education and beauty salons, offering franchises, owning or having its own share of ownership, effectively operating in two key segments of the beauty market. Vertical integration of the business at Regis Corporation is achieved by consolidating the activities of subsidiaries, controlling their internal group operations completely [4]. The salons operate in leased premises located in shopping malls, retail centers, and the Walmart supermarkets. Regis Corporation manages a diversified portfolio of brands aimed at different customer segments, enabled the company to implement differentiated pricing strategies based on the socio-demographic characteristics of its clients. Within the Portfolio, the Supercuts brand is primarily targeted at men and holds a leading position in the U. S. beauty market by offering accessible, competitively priced hair care services. The SmartStyle brand, located within the Walmart supermarket chain, targets customers who need fast, convenient, affordable hair care services for the whole family. The distinctive concept of the First Choice Haircutters brand provides creative professional hair care services primarily in central areas within the US at an optimal price-quality ratio. The Roosters brand concept is to provide quality classic barber services to men based on an individual approach to each customer. The budget brand BoRics is positioned as a full-service barbershop with affordable prices and convenient appointments for customers [5].

A horizontal analysis of Regis Corporations assets indicates a substantial decrease of USD 397,426 thousand over the period 2021-2025. This decline was primarily driven by reductions in both current and non-current assets, a decrease in the corporation's market value, and a significant decline in fees associated with the use of property rights related to its assets. It should be noted that the market value of the corporation's business and the rights to use its assets accounted for the largest share in terms of volume in the asset structure in 2021-2025. The market value of the business is estimated at $183,257 thousand as of June 2021 and $183,456 thousand as of June 2025. The value of the rights to use the company's assets is estimated at $610,599 thousand as of June 2021 and $229,861 thousand as of June 2025 (Table 1).

Table 1

Dynamics of operating income, operating expenses, operating profit, and profitability of Regis Corporation in 2021-2025 (as of June 30), thousand US dollars

Indicator	2021	2022	2023	2024	2025	Absolute deviation (2025-2021), +/-
Assets, thousand USD	996,383	769,300	607,377	530,496	598,957	-397,426
Equity, thousand dollars	17,046	-30,953	-36,730	56,787	185,616	168,570
Operating income, thousand USD	411,651	275,967	233,326	202,982	210,134	-201,517
Operating expenses, thousand dollars	506,328	304,865	224,547	182,092	190,195	-316,133
Operating profit, thousand dollars	-94,677	-28,898	8,779	20,890	19,939	114,616
Operating profitability (EBITDA, operating margin), %	-22.999	-10.472	3,763	10.292	9.489	32,488
Net profit, thousand dollars	-113,331	-85,857	-7,385	91,060	123,536	236,867
Net profit margin, %	-27.531	-31.111	-3.165	44.861	58.789	86,320
Return on equity, %	-9.502	-3.756	1,445	3,938	3.329	12,831
Return on assets, %	-664,854	277,379	20,106	160,354	66,555	731,409

Source: calculated by the author based on data [9–12]

Regis Corporation's equity increased by $168,570 thousand in 2021-2025. The main reason for the decline was the accumulation of undistributed losses, which required the closure of beauty salons in various countries where the corporation operates. As a result, as of June 30, 2023, the number of franchise salons was 4,795, the number of company-owned salons was 68, as of June 2024 – 4,391 and 17, respectively, and as of June 30, 2025 – 3,647 and 294, respectively [12].

The company's operative income decreased by 201,517 thousand dollars over the period of 2021-2025, while operating expenses decreased by 316,133 thousand dollars in the same period. The operative profitability (margin) decline in 2021-2022. However, the company successfully restored profitability in 2024-2024 as a result of well-grounded management decisions. The primarily drivers of negative operating profitability were the Covid-19 pandemic, which resulted in a decline in customer visits to hair salons and the temporary closer of many franchises beauty salons. in the 2024, the acquisition of 100% ownership of the most well-known companies in the U. S. beauty industry played a key role in improving financial performance and restoring profitability. As a result, the company's net profit margin increased from 44,86% in June 2024 to 58,78% in June 2025.

In December 2024, Regis Corporation integrated its operations by acquiring 100% ownership of Alline Salon Group, which was owned by franchisee Super C Group, LLC [2]. Alline Salon Group owned 314 beauty salons in Pennsylvania, Ohio, Michigan, West Virginia, Maryland, New Jersey, and Delaware, combining three key brands in its operations: Supercuts, Cost Cutters, and Holiday Hair. The deal provided the corporation with a ready-made operational infrastructure, and the franchisee's portfolio of beauty salons provides opportunities for further development of operations and brands [12].

Vertical integration enabled Regis Corporation to increase operating income, reduce operating expenses, and support operating profitability as early as June 2025. The corporation's net profit increased from $91,060 thousand in June 2024 to $123,536 thousand in June 2025 [12], positively affecting the profitability of its activities. Under the terms of the agreement, the corporation paid a fee of approximately $19 million, a share-based payment of $3.0 million, made an additional adjustment to working capital, and paid additional transaction fees. The main advantages and disadvantages of vertical integration of Regis Corporation's business are shown in Table 2. The transfer of 314 beauty salons to the corporation's management made it possible to increase operating income while reducing operating expenses, resulting in increased operating profitability of the business.

Table 2

Advantages and disadvantages of vertical integration of the Regis Corporation business

Advantages	Disadvantages
Increase in operating income while reducing operating expenses in June 2025	Financial expenses, information and consulting services costs associated with vertical business integration
Elimination of intermediary activities and optimization of operations that led to an increase in operating expenses	Increased financial risks associated with the concentration of capital in a single business segment
Control over franchise beauty salons, their service sales channels, and direct access to the customer base	Complexity of management due to the acquisition of 314 beauty salons in various US states
Uniting brands into a single network of beauty salons	Need for additional strategic investments in brand development
Growth in net profitability of the business	Potential market risks and reduced operational flexibility in the event of negative market dynamics

Franchisees are not always competent in running a business in the beauty industry, while the parent company is interested in optimizing all business operations. Control over beauty salons by the head office and direct access to the customer base have improved management efficiency. As a result of consolidation and integration, business profitability increased by June 2025. At the same time, the vertical integration of brands required financial costs, and financial risks increased, as further support for the acquired beauty salons requires investment.

Conclusions

The vertical integration business model in the US beauty industry demonstrates the economic effects of consolidating Regis Corporation and franchisees by fully acquiring the franchisee salon network. The growth in operating income and reduction in expenses after the franchisee buyout made it possible to maintain the operating profitability of the vertically integrated business and contribute to an increase in the net profit margin of the business. Vertical consolidation, as exemplified by Regis Corporation, indicates that strategic decisions to combine the operations of the parent company and franchisees can contribute to short-term operational efficiency. The main advantages of the vertical integration business model in the beauty industry include the elimination of intermediary activities, optimization of business operations, complete control over sales channels and direct access to the customer base of the combined beauty salons, and the consolidation of brands into a single network of beauty salons.

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