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CASE STUDIES
MANAGEMENT AND
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Hairstrong Inc.: Closing The Loop On Production Constraints

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INTRODUCTION

Khushdeep Kaur was scanning the pile of loan requests on her desk and let out a sigh. It was late on a Friday evening in January 2023, and she had to review the applications before she returned to her office on Monday. Her eyes stopped on one application in particular: Hairstrong Inc. (Hairstrong). Hairstrong designed and sold the world's first customizable hair band, specifically designed for female athletes with long hair. Their scrunchies were crafted to be tightened or loosened, allowing the wearer to adapt the band to any hairstyle, movement, or activity, revolutionizing how athletes put up their hair.

With her interest piqued, Kaur sat back and remembered meeting Nicole Baranowski, the founder of Hairstrong, a few weeks earlier. Kaur had been impressed by the young entrepreneur's energy and enthusiasm for her scrunchie business. Baranowski had achieved considerable success running Hairstrong while attending university as a full-time student. Having recently graduated, she now intended to grow the business enough to support herself financially, and she requested a $20,000 line of credit to support this growth. Kaur had to decide if the request was merited, and if the business would require additional financing.

HISTORY

Nicole Baranowski

Baranowski was a former Western University (Western) student and athlete on the varsity rowing team. The idea for Hairstrong came to her after years of struggling to keep her hair up during competitive rowing. Baranowski struggled to get through practices, finding it infuriating to pause workouts and readjust her hair. She found that regular elastics often broke or fell out, becoming distracting instead of helpful. She was in an entrepreneurship class when she realized that her hair was not the problem, the product was. This meant there was a demand for a better hair product, a demand for Hairstrong. She began to design a scrunchie that was adjustable to all hair types and lengths.[1]

COMPANY

After a year of designing prototypes, Hairstrong sold its first product in July 2019. There were two main product lines: "Tough Strongband" and "Nano Strongband." Each product featured an adjustable tightening mechanism and durable bungee cord band, wrapped in a soft, sweat-wicking fabric for comfort. With a band that tightens to the perfect fit, no readjustment was needed, allowing consumers to feel confident and in control of their hair with a reliable hold. To reinforce their value, each product came with a free 100-day warranty, as well as a "5-star custom hold" guarantee or refund.

Hairstrong sold direct-to-consumer (DTC) and initially focused its marketing efforts on live demonstrations in gyms and personal training facilities that aligned with Hairstrong's values. Given Hairstrong's fundamental vision to carve out a new niche market in the hair accessory industry, Baranowski knew that Hairstrong needed face-to-face interactions within the DTC channel in its early stages of business.

In 2020, however, the COVID-19 pandemic forced Baranowski to quickly transition this in-person strategy to a purely digital one. This change in selling strategy required a significant investment in social media advertising to help increase online sales. For every $1 spent on digital advertising, Hairstrong generated $1.30 in sales, contributing to notably tight margins.

In mid-2021, Baranowski attended a trade show to try supplementing her digital sales with in-person customer interactions and sales. She was met with significant positive feedback from customers, but sales were nonetheless disappointing. Undeterred, she attended a total of 11 trade shows, mostly in 2022. Baranowski averaged approximately $2,500 in sales at each show and paid an average of $1,500 in booth fees per show. The high fixed cost of the booth, coupled with rising variable costs from her Canadian manufacturer, meant that on average Baranowski generated a net loss at each trade show.

After almost four years of running Hairstrong independently, Baranowski was getting tired. She believed in the value that her product provided athletes, but she knew that the company was facing profitability challenges, and something had to change. Baranowski decided that she would eventually like to sell the business, but not until she had achieved enough financial success, which would ensure that Hairstrong was attractive to future buyers.

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[1] N. Baranowski (2021, June 3), "Meet Hairstrong's Female Founder, *Hairstrong*, https://hairstrong.ca/blogs/meet-someone-new/meet-hairstrong-s-female-founder.

INDUSTRY

There was a rise in customers who wanted to purchase high-quality products in sporting goods, and the sporting goods industry was expected to grow at an annualized rate of 0.1% to $6.6 billion by 2027.[2] In the cosmetic and beauty product manufacturing industry, revenue was forecasted to increase at an annualized rate of 1.4% to $3.7 billion by 2027.[3] It was estimated that the accessory store industry revenue would increase at an annualized rate of 2.0% to $1.6 billion into 2027.[4]

The global hair accessories market was valued at approximately $20 billion in 2020 and was expected to grow at a compound annual growth rate (CAGR) of approximately 3.1% from 2021 to 2028.[5] Worldwide e-commerce beauty purchases were expected to account for 25% of all beauty retail sales in 2023—up from 11% in 2019.[6] There was also a growing trend in personal care and beauty markets for sporting goods products that were ethically made and environmentally sustainable as well as a trend for high-quality sporting goods products. These trends could influence consumers' choice of hair accessories, benefiting brands that could demonstrate commitment to these values.[7]

FINANCIAL REQUEST

Although recent years had been plagued with financial hardships and tough economic conditions (see exhibits 1 through 5 for previous years' financial data), Baranowski was optimistic that certain operational changes could dramatically impact Hairstrong's financial positioning and make the company more attractive to potential buyers.

Baranowski was confident that the projected growth in the hair accessory industry, coupled with the positive industry trends, would have a favourable effect on top-line revenue. She projected the number of units sold to increase to 9,400 in 2023 and 11,800 in 2024, respectively. The average selling price per unit would remain consistent with previous years.

To help offset the losses Baranowski experienced from participating in previous trade shows, and to make breaking even more attainable at future shows, she wanted to focus on growing her gross margins. Knowing that her customer base was price sensitive, she believed that raising prices would not be a viable option to accomplish her short-term goals, and thus she did not intend to change the selling price. Instead, Baranowski sought to reduce her variable costs by outsourcing production. Previously, Hairstrong scrunchies retailed on average for $11 and cost $7.45 per unit when manufactured in Canada by an experienced sewer. Baranowski determined that if she outsourced production to an international manufacturer, the cost of goods sold would drop to $2.50 per unit.
Baranowski hoped that the $20,000 line of credit and increased gross margins would help her retain more in-stock inventory to improve her shipping time to customers as order volume increased. She anticipated that in future years, this would result in her inventory staying in the warehouse for 15 days longer than it did in 2022.

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[2] Matthew Buchko (2024 April) "Sporting Goods Stores in Canad," *IBISWorld*, https://my-ibisworld-com.proxy1.lib.uwo.ca/ca/en/industry/45111ca/industry-outlook.
[3] Alexia Moreno Zambrano (2024 April) "Cosmetic & Beauty Product Manufacturing in Canada," *IBISWorld*, https://my-ibisworld-com.proxy1.lib.uwo.ca/ca/en/industry/32562ca/industry-outlook.
[4] Grace Wood (2023 October) "Handbag, Luggage & Accessory Stores in Canada," *IBISWorld*, https://my-ibisworld-com.proxy1.lib.uwo.ca/ca/en/industry/44832ca/industry-outlook.
[5] "Hair Accessories Market Size & Share Report, 2021-2028," *Grand View Research*, https://www.grandviewresearch.com/industry-analysis/hair-accessories-market.
[6] Holly Stanley (2022, December 13) "Beauty Ecommerce Trends: Growth Strategies, Stats & Brands to Follow," *Shopify*, https://www.shopify.com/ca/enterprise/beauty-ecommerce-trends.
[7] H. Hastings, H (2022, May 12) "Shoppers want clean and green beauty products," *NIQ*, https://nielseniq.com/global/en/insights/analysis/2022/shoppers-want-clean-and-green-beauty-products/.

She further estimated that the increased sales volume would result in Hairstrong's accounts receivable growing by an additional 10 days in 2023 before stabilizing for the foreseeable future. Along with these financial changes, Baranowski anticipated that in the next year, she could start paying her suppliers in 20 days and could pay within 40 days in 2024.

Baranowski expected that other operating expenses would remain at the same dollar value, excluding advertising and promotion, which would increase at the same rate as sales growth, and insurance, which would increase by $500 when the policy was renewed at the start of 2024. She also applied for a grant, which would provide an estimated one-time cash influx of $10,000, for 2023. The tax rate would remain at 20%, and the deferred revenue account was expected to return to $0.

As an entrepreneur, Baranowski understood the importance of financial success in the early years of the company. Since she was the sole founder and only employee of Hairstrong, Baranowski decided to keep all cash reinvested in the company and had not yet been paid a salary. With financial stability on the horizon, she planned to pay herself a $50,000 salary starting in 2024.

DECISION

Cognizant of the financial significance of the proposed changes to Hairstrong, Khushdeep Kaur knew that it would be important to project future financial statements before approving the request for a line of credit. Kaur was confident that with these projections, and the historical information Baranowski provided, she could reach a decision before Monday arrived.

EXHIBIT #1

Hairstrong Inc.
Statement of Earnings
for the years ending December 31

Revenue	**2022**		**2021**	
Net Sales	$ 80,137	100%	$ 91,311	100%
Cost of Goods Sold				
Cost of Goods Sold	53,996	67.4%	46,296	50.7%
Gross Profit	**$ 26,141**	**32.6%**	**$ 45,015**	**49.3%**
Operating Expenses				
Advertising and Promotion	$ 31,579	39.4%	$ 49,583	54.3%
Professional Fees	12,869	16.1%	5,911	6.5%
Office	556	0.7%	3,036	3.3%
Interest and Bank Charges	4,357	5.4%	2,798	3.1%
Meals and Entertainment	1,503	1.9%	1,479	1.6%
Supplies	6,842	8.5%	1,200	1.3%
Telecommunications	2,182	2.7%	1,040	1.1%
Insurance	1,468	1.8%	997	1.1%
Depreciation	1,195	1.5%	890	1.0%
Travel	12,943	16.2%	844	0.9%
Memberships and Licenses	1,983	2.5%	631	0.7%
Rental	—	—	—	—
Total Expenses	**$ 77,477**	96.7%	**$ 68,409**	74.9%
Net Loss from Operations	**$ (51,336)**	- 64.1%	**$ (23,394)**	- 25.6%
Other Income				
Grants	3,002	3.7%	25,503	27.9%
Income Before Income Taxes	$ (48,334)	- 60.3%	$ 2,109	2.3%
Income Taxes	—	—	400	0.4%
Net Income	**$ (48,334)**	- 60.3%	**$ 1,709**	1.9%

EXHIBIT #2

Hairstrong Inc.
Statement of Retained Earnings
for the years ending December 31

	2022	2021
Beginning Retained Earnings	$ 5,099	$ 3,390
Add: Net Income	(48,334)	1,709
Less: Dividends	—	—
Ending Retained Earnings	**$ (43,235)**	**$ 5,099**

EXHIBIT #3

Hairstrong Inc.
Statement of Financial Position
as at December 31

	2022	2021
ASSETS		
Current Assets:		
Cash	$ 2,723	$ 14,197
Accounts Receivable	426	—
Inventory	15,630	5,881
Income Tax Receivable	1,150	—
Total Current Assets	**$ 19,929**	**$ 20,078**
Fixed Assets:		
Property and Equipment	$ 5,898	$ 4,049
Less: Accumulated Depreciation	3,338	2,143
Net Fixed Assets	**$ 2,560**	**$ 1,906**
Total Assets	**$ 22,489**	**$ 21,984**
LIABILITIES AND EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Liabilities	$ 228	$ 5,079
Income Taxes Payable	—	713
Deferred Revenue	326	366
Due to Shareholder	65,150	10,707
Total Liabilities	**$ 65,704**	**$ 16,865**
Shareholders' Equity		
Share Capital	20	20
Retained Earnings	(43,235)	5,099
Total Equity	**(43,215)**	**5,119**
Total Liabilities and Equity	**$ 22,489**	**$ 21,984**

EXHIBIT #4

Hairstrong Inc.
Statement of Cash Flows
for the years ending December 31

	2022	2021
OPRERATIONS		
Net Income or (Loss)	$ (48,334)	$ 1,709
Adjustments to Cash Basis:		
Add back: Depreciation	1,195	890
Accounts Receivable	(426)	445
Inventory	(9,749)	(1,294)
Income Tax Receivable	(1,150)	24
Income Taxes Payable	(713)	(587)
Accounts Payable and Accrued Liabilities	(4,851)	677
Deferred Revenue	(40)	366
Net Cash Flow from Operations	**$ (64,068)**	**$ 1,864**
FINANCING		
Due to Shareholders	$ 54,443	$ 6,886
Capital Stock	—	—
Net Cash Flow from Financing	**$ 54,443**	**6,886**
INVESTING		
Property and Equipment	(1,849)	(751)
Net Cash Flow from Investing	**$ (1,849)**	**$ (751)**
Beginning Cash	**$ 14,197**	**$ 5,832**
Total Cash Flow	(11,474)	7,999
Ending Cash	**$ 2,723**	**$ 13,831**

EXHIBIT #5

Hairstrong Inc.
Ratio Analysis

	2022	2021
LIQUIDITY		
Current Ratio	0.30	1.19
Acid Test	0.05	0.84
EFFICIENCY		
Age of Receivables (days)	2	—
Age of Payables (days)	1	39
Age of Inventory (days)	106	46
STABILITY		
Net Worth/Total Assets	N/A	N/A
Interest Coverage	N/A	N/A
GROWTH		
Revenue	- 12%	183%
Gross Profit	- 42%	324%
Net Income	- 2928%	43%
Shareholders Equity	- 944%	50%
Assets	4%	70%