

Determinants of Pricing in the Hairdressing Sector in Response to Large Cost and Demand Shocks

Meetings of the European Social Partners in Personal Services, Bruxelles

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June 16, 2025

Just transition as cost shock

- ▶ *Just transition* as defined by IPCC: “[...] ensure that no people, workers, places, sectors, [...] are left behind in the transition from a high-carbon to a low carbon economy”
- ▶ For many reasons, Emissions Certificate trading is preferable policy to induce transition
- ▶ The market mechanism will cause usual means of production to become more expensive
- ▶ Question: Can hairdressers pass through higher costs to their customers?

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Our study: German hairdressers during Covid-19

- ▶ German government imposed stringent hygiene measures and two lockdowns in first year of pandemic
- ▶ Large (implicit) cost increases for all hairdressers:
 - ▶ foregone revenues
 - ▶ less productive salon space (distancing rules)
 - ▶ higher wear and tear on equipment (constant disinfection)
 - ▶ masks and tests
- ▶ We conduct detailed survey of hairdressers' pricing decisions at reopening after second lockdown in March 2021

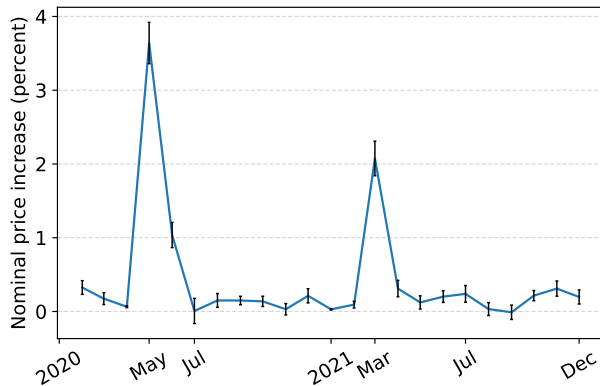
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Price dynamics during Covid-19



German CPI microdata, N=445-465.

Product: Male haircut, short, with washing

Survey

Survey design and realization

Design

- ▶ Query prices of specific service — male haircut — before and after lockdown
- ▶ Query rankings of hypotheses/reasons for price-setting, dependent on whether increased or not
- ▶ Controls: firm size, share of regular customers, pricing satisfaction, pessimism, customer understanding

Realization

- ▶ Sample hairdresser guilds in Germany (county-level)
- ▶ Online survey e-mailed to head of guild, asked to share among colleagues
- ▶ Time: March-April 2021 (after second lockdown)
- ▶ $N = 281$ usable responses, 21 counties with ≥ 6 firms

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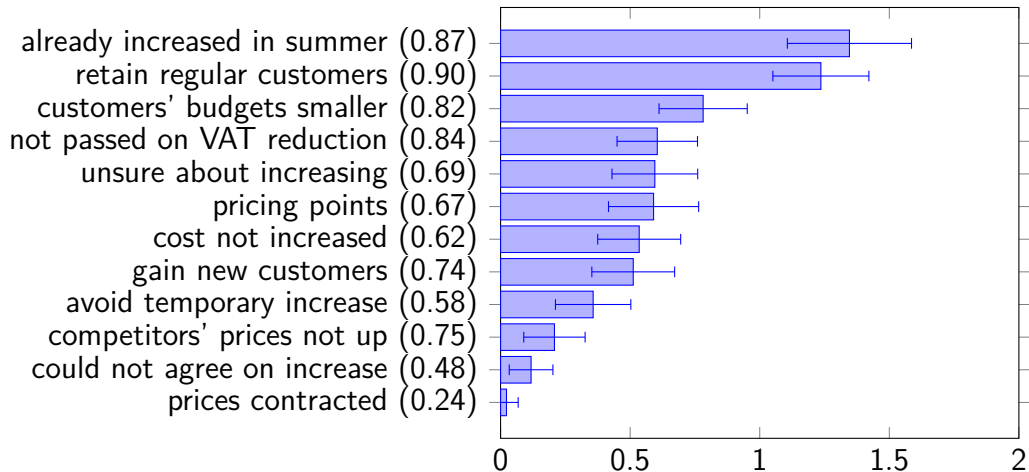
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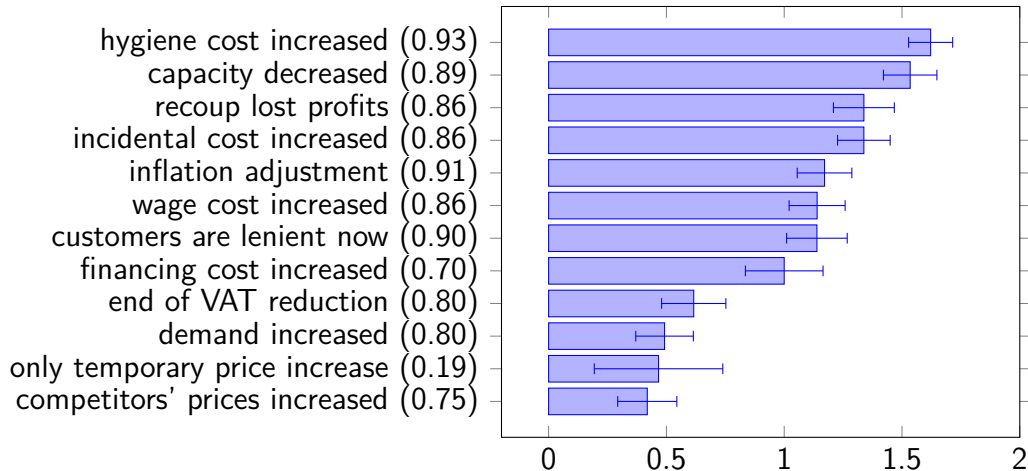
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Ranking of reasons for *not* increasing price



0: played no role, 1: played some role, 2: played strong role
(Brackets): Fraction of "Statement applies"

Ranking of reasons for price-increase



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The role of customer understanding

Definition Sum of Likert-scale answers to

| Sign | Statement |
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| + | The customers express understanding for my/our prices. |
| – | Some customers accuse me of profiteering. |
| + | The reasons for price increases are understandable for customers. |

Find: customer understanding significant for

- ▶ (+) extensive margin: whether or not price increased
- ▶ (+) intensive margin (nominal and real): by how much price increased, absolute or wrt competitors
- ▶ (–) importance of “retaining customers”-reason when not increasing
- ▶ (+) profit margins, price satisfaction, optimism

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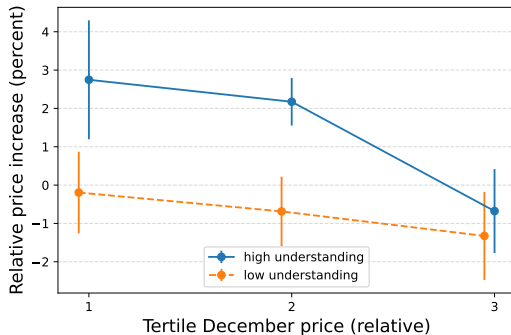
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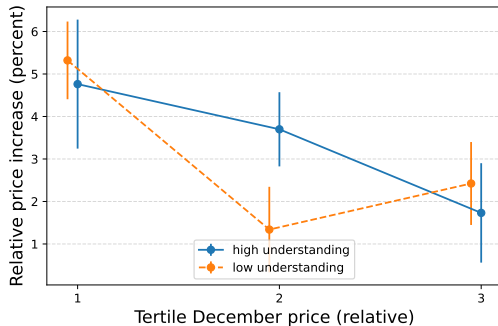
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Heterogeneous effect over relative price distribution

(a) All firms



(b) Only increasers



Relative price: relative to average local county price

→ Understanding-rigidity most relevant for firms in *middle price segment*

Summary of survey evidence

- ▶ Two third of hairdressers increased prices due to higher costs
- ▶ *aggregate* demand was up, but no reason for price increase for most firms
- ▶ significant fear of loss of *idiosyncratic*, i.e. *firm-specific* demand
→ importance of regular customers
- ▶ Firms in middle price segment with low customer understanding are most restricted in price setting

Possible explanation (see Weiß 2023, thesis): Firms in middle price segment less productive (see also “Porter’s U”)

- ▶ not the cheapest
- ▶ not high-quality salon (can have social component, i.e. conspicuous consumption)

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Customers ask for *reasons* behind a price increase
- ▶ The reason “higher demand” is not accepted by customers
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Application to Just Transition

Help hairdressers passing through cost increases

- ▶ Hairdressers have to be able to explain increase to regular customers
- ▶ An economy-wide change helps, e.g. CO2-price increase
- ▶ More problematic: higher labor costs due to regulations pertaining to service sector
- ▶ Hairdressers in middle price segment, without customer understanding, suffer most
 - downsizing could be beneficial (improves contact with client)

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Working conditions: labor hour flexibility

- ▶ 75% of hairdressers expand opening hours in March 2021, as demand higher and price increase *due to demand* not possible
- ▶ The need for flexibility worsens working conditions in businesses with many regular customers
- ▶ No remedy other than *macroeconomic stabilization*: smoothing out demand through business cycles with monetary and fiscal policy
- ▶ Large transformative changes should be *moderated*: communication, follow pre-committed paths. Heightened uncertainty can be recessionary

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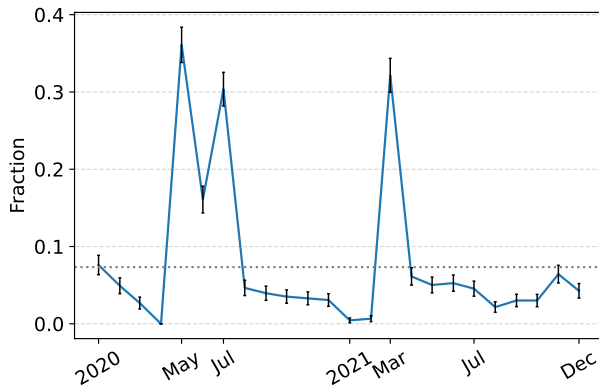
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References I

Benzarti, Youssef, Dorian Carloni, Jarkko Harju, and Tuomas Kosonen (2020), "What goes up may not come down: asymmetric incidence of value-added taxes." *Journal of Political Economy*, 128.

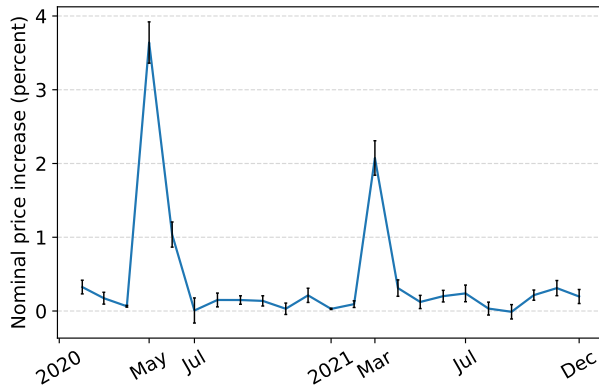
Appendix

Male haircuts price changes [back](#) |



German CPI microdata, N=445-465. Dotted line: monthly frequency pre-Covid.

Male haircuts price changes [back](#) II



German CPI microdata, N=445-465. Median price increase in March 2021: 5.5%