

Saimaa University of Applied Sciences
Faculty of Business Administration, Lappeenranta
Degree Programme in International Business

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Business Project: Establishing Laser Hair Removal Business in St. Petersburg

Thesis 2015

Abstract

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Tough competition in beauty sphere makes it hardly possible for a new business to enter and survive. The study was commissioned by the company X in order to investigate the feasibility of opening a laser hair removal salon in St. Petersburg. The idea is to provide affordable and reliable service to the masses.

The data for the study was collected from business literature and journals, which provide up-to-date information. The study involves empirical research in order to acquire primary data and study potential customers. The research was conducted as a questionnaire distributed through the Internet.

The study provides comprehensive market analysis, useful organisational considerations and financial calculations. The results of the study show that the proposed business model has potential for success in St. Petersburg. The salon can provide adequate profits, withstand the competition and create significant value for target customers, who are willing to use the service according to the market research.

Keywords: feasibility, business plan, hair removal, market research

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1 Introduction

1.1 Background

There are many business ideas in the beauty services area. A simple classification of beauty salons by different criteria reflects the existing diversity. For example, the level of service can be divided into three classes: economy class, business class, premium and luxury. Beauty salons also differ by the selection of services – it can be either full cycle or specialised one. Specialised service means that the salon is offering only few services, such as nail studios. Salons can be further divided in accordance with the target group – salon for women, men, family salons or mixed. In the beginning of the 20th century, the most popular business idea was opening an economy class hair salon and tanning studio. Nowadays, there is a significant demand for beauty salons with a decent quality of service and average prices, offering services that cannot be done at home. (Doroshina 2013.) Despite the fact that the field is strongly competed, there is a chance that a new company with a well-planned business model and appropriate marketing strategy can compete profitably.

The study was commissioned by the company X in order to help the founders of the company to organise a beauty salon in St. Petersburg. The business model of this potential beauty salon will solely focus on a specialised service – laser hair removal, with a vision of opening a chain of such salons. Two graduates of Saint Petersburg State Medical Academy, young doctors - gynecologist and dermatologist, founded the company X in 1994. The core activity of the company is to provide a wide range of medical and laboratory equipment. The company tried to open a relax center and a dental clinic, but both attempts turned failures. Nevertheless, the founders are intended to resume work towards health services.

Consumers value effectiveness, painless and safety in hair removal. Laser hair removal procedure meets the above mentioned customer demands. The method is also growing more popular every year. For instance, in 2013 laser hair removal took the third place as the most popular non-surgical cosmetic procedure. In contrast to depilation – temporary hair removal, for example, shaving – laser hair removal removes hair permanently. Technically, laser totally destructs hair bulb

and stem cells, which are responsible for hair growth. (Modern cosmetology 2015.)

In order to avoid mistakes, which the company already has faced in the past and to make the best use of the company's available resources, a closer look at the company and its history should be taken. Initially, the company consisted only of two individuals, who entered into a dealership contract with a factory in St. Petersburg, which manufactures some medical instruments. The founders are very sociable people and they were actively using their personal connections in medical and students' sphere in order to promote the domestic endoscopes, which had poor quality, but the lowest price in the world.

In the late 90's, the firm has bought several products in development and managed to manufacture colposcopes under their own brand. In 2000, the company purchased two real properties. One - in the central part of the city – currently used as an office. The second room is on the first floor of an apartment house under construction with c. 200 m² in the Kalinin district. The district was ranked 3rd out of 18 by living standards in St. Petersburg, despite the fact that it is one of the most densely populated areas in the city (Expert Online 2013).

In 2002, the second real property was decided to be renovated into a dental clinic. After a year and half the project was closed down. As soon as the clinic was paid off, it became detrimental. The main reason for decreasing profits was a high level of competition - two big dental chains opened their clinics next door. Moreover, inaccurate choice of equipment made it impossible to work according to modern technologies. In January 2003, the company opened a relaxation center called MAX, which involved the services of a cosmetologist, psychotherapist and massagist. The center was closed in February 2004 due to its low profitability. The center was promoted as luxurious, the prices for the services were high, but there were few customers. The above-mentioned experience was taken into account in the development of the beauty salon business plan.

Nowadays, several dozens of employees are working for X. Management of all the projects is carried out jointly by the founders. Decisions are made collectively. The company operates in four areas:

1. Sales of a wide range of medical and laboratory equipment;
2. Production of endoscopes;
3. Production of medical lighting;
4. Repair of medical equipment.

The main motivation for starting one more business is the declining profitability of their above mentioned core activities and the desire to take a place in the emerging market of paid medicine. The decision to open a hair removal salon is based on several substantial arguments. First of all, the owners of the company already have acquired all necessary licenses for providing cosmetic services. It will significantly reduce time for the opening and diminish costs. Secondly, owners have a suitable room with the required documents for a beauty salon with medical service. Thirdly, even though competitors charge high prices, there is a huge demand for such a service. Other pro and con arguments are presented further in the thesis.

1.2 Objectives

The purpose of this thesis is to study the feasibility of the proposed business model with necessary economic calculations, marketing research, and organisational development. Moreover, it aims to provide a functional guide for implementation of this model in practice.

1.3 Research questions

The main research question of the thesis:

- Is it feasible to establish a beauty salon in St. Petersburg, offering only laser hair removal?

In order to find an answer to the main research question the following sub-questions should be answered:

1. What are the advantages of laser hair removal in comparison to traditional methods of epilation and depilation?
2. What is the customer target group and how will they value the service provided to them?
3. What issues should be considered in organisation of this business?
4. What would be the projected profits and expenses?

The studying of the business feasibility means researching if the business idea is worthwhile to proceed and its viability. Thus, the main research question is comprehensive and the answer should be based on arguments, which a conclusion from the answered sub-questions can provide.

1.4 Delimitations

The thesis aims to prove viability of the proposed business idea and to develop a functional business plan for running a beauty salon based on the resources and capabilities of the company. No prospects or calculations towards a wider or different range of services have been done, because the business idea was based on the company's resources.

Moreover, legal issues are discussed only superficially, as well as government regulations of the business and required permits for the activities of a beauty salon. The owners of the client company are familiar with these issues and do not require a detailed report.

1.5 Theoretical framework

The thesis is based on the combination of feasibility study and business plan, which provide a well-reasoned answer to the main research question. Feasibility study is an investigation of the viability of the proposed business model. A business plan provides more comprehensive research on the topic and presents actions needed to be taken in order to translate this business model into reality. (Amit 2010.) During a feasibility study the following areas should be analysed and assessed:

- Market issues;
- Organizational/technical issues;

- Financial issues.

Usually business founders seek to assess several different alternatives of their business idea. The first steps of feasibility study facilitate to eliminate some of these options, only alternatives with best potential are further analysed. If certain model was proved to be viable, its analysis becomes the basis for the business plan. The business plan has the same contents as feasibility study, but provides practical advice based on the analysis.

However, feasibility study, which will analyse several alternatives is costly and time-consuming. It is possible to conduct informal initial investigation of the different business scenarios, which was done beforehand in the case. (Hofstrand 2009.) Only one business model was left to be studied. It was concluded that it is the most appropriate model according to the company resources and assumed to be feasible. The arguments for this decision were presented earlier in the background chapter and they are outlined further in this chapter. Even though the feasibility of the model was not proven yet, but only assumed to have great potential, the founders decided to take a risk and combine feasibility study with business planning. In case the business model is feasible according to the study's conclusion, the business can be launched straight away. The founders can follow the study and use it as a guide, as a business plan for internal use.

Although there are a lot of opportunities in the beauty industry, the diversity among service providers is not the same as among product providers. A differentiation between service providers is based on target customers, price and location. The initial business idea was to provide service with a medical emphasis in the beauty industry, in order to utilize the company resources and connections in the sphere. Moreover, it would support the main business. Opportunity of totally medical treatments service offering was rejected due to the fact that there are few decent clinics in St. Petersburg, but they operate for many years already and have strong brand, which is trusted and a new small clinic can hardly compete with that. Furthermore, the amount of investments is extremely high. The founders do not have the opportunity to allocate this amount of money. Consequently, it would be better to concentrate on one specific service, because any equipment for medical use is expensive. It is possible to open an ordinary

salon with haircuts and nail design, which does not require costly equipment. However, this alternative is not considered as feasible, it is almost impossible to have a competitive advantage in this sphere. Concerning beauty services, which are not fully medical, it refers to non-surgical cosmetic treatments and the beauty salon with laser hair removal is the most convincing option in consideration of other alternatives.

Thus, the chosen business model is a start-up salon, offering only laser hair removal, with an opportunity to develop a franchise of similar salons. The salon will provide affordable, high-quality service to the masses. This niche is not occupied, the interest for laser hair removal is growing and the business model was assumed to be feasible. The study researches the feasibility of the model, provides evidence and guide to practical implementation of the proposed business model.

Putting it all together, theoretical background consists of the brief discussion of a feasibility study, which is presented here, a business model concept and business planning. These theories support further development of the thesis and facilitate a better understanding of the study for the readers. Other theories involve components of feasibility study and business plan. The main ones are market research and SWOT analysis, which help to discover business opportunities. Moreover, advertising and pricing strategy are used. Another significant part of the theoretical framework is basic financial calculations and breakeven analysis.

The thesis involves three main chapters: Marketing, Organisation and Finances. These chapters are integrated by one major chapter about business planning. There are also Introduction, Recommendations and Conclusion chapters.

In the Marketing chapter, the first and second sub-questions are answered. There is information about laser hair removal, its history and advantages, compared to traditional methods. Moreover, in this chapter market research, SWOT analysis, price and promotion strategies are provided.

The organisation chapter gives the answer to the third sub-question, issues such as equipment, expendable materials, personnel and insurances are discussed. The Finance chapter is about primary expenses associated with the opening of

the beauty salon, projected monthly expenses and extended description of the price strategy based on all the previous acquired data. Moreover, the last sub-question is answered in Finance chapter. Conclusion and recommendations are presented at the end of the thesis.

1.6 Research method

The study involves a review of the appropriate literature, data assessment and empirical research. The theoretical framework is presented in the beginning of the thesis and includes theories from prominent writers and academics regarding business planning, marketing and empirical research methods. Chapters dedicated to organisation activities, finance calculations and demand forecast are mainly focused on empirical data due to its significance to the client company. Financial and demand projections were developed through the analysis of the up-to-date primary data provided by the clinic Y, which is one of the loyal customers of the X company. Moreover, secondary data obtained from «Salon business from A to Z» journal by Doroshina (2013) were involved in the business planning due to the valuable statistics it provides.

For the empirical research, quantitative method was used in order to identify the existing demand for the service in the targeted market segment, hair removal habits and preferred price for the offered service. The research contains questionnaires with mostly closed questions. The questionnaires were distributed to 300 female respondents. A sufficient amount of answered forms provides more accurate information for the research.

The chosen sample includes women in the age between 16 and 55 with the medium level of income. Wealthy women prefer to have a complex of beauty services. Moreover, the owners of the case company currently do not have the opportunity to open a premium class beauty salon with a vast variety of services.

Respondents were asked to answer two sets of questions. The first group includes the following questions:

1. What method of hair removal do you prefer?
2. How often?

3. Do you know about the existence of laser hair removal?

The first group of questions is followed by a short description of laser hair removal with a mention of average prices for the service.

The questions for the second group are presented below:

1. Would you like to try laser hair removal?
2. Could you allocate the necessary amount of money from your budget?
3. What is the maximum amount you would be willing to pay for laser hair removal of shins?

2 Business planning

Business planning is a comprehensive process, where all the elements are connected to each other. It comprises business model and business plan. Development of a business model in the beginning of a business planning process is an excellent foundation for producing a strong business plan. However, before a business plan is finished, the business model is only a draft – it should be refined after completing the plan. (McAdam 2013.) Moreover, the business model needs to be tested in the real world, to see how it works (Kaplan 2012). These mean that business model and business plan are depending on each other and were invented to work together. The business model can exist separately, but a business plan is more of a solid support. It can be used as a guide for an entrepreneur and not only as a document for investors. More detailed information on the topic is presented in the next chapters.

2.1 Business model

According to Nielsen (2005) business model is about handling resources, processes and supply of a service in order to make a company profitable in the long term. Elaborated business model brings sustainability for the company and makes it competitive. However, it should not be confused with competitive strategy. The difference is that a competitive strategy distinguishes a company from its competitors, while the business model determines on which base it can be obtained. In order to keep up with rivals in the constantly changing market,

business model should be continually updated and further developed. (Beckmann 2011.)

No matter how simple or complex the proposed business model can possibly be, it will evolve during the creation of the business plan. Furthermore, when it will be exposed to the real market conditions it has to be adjusted. Introducing a new business model into an existing market involves certain risk. Business models rarely work as intended in the business plan. After business is launched, some changes need to be applied to the model, because in theory it could work differently. Nevertheless, it is still important to write a detailed business plan, which will explain in details all the elements of a new business model. (Kaplan 2012.)

2.2 Business plan

Some entrepreneurs believe that writing a business plan is useless, unless the company needs to find investors. They prefer to use less theory and more practice, develop a rough business model and start to test it as soon as possible. (Kaplan 2012.) However, it has been proven that there is a positive correlation between a company's success and a good business plan (McAdam 2013). According to Hormozi, Sutton, McMinn and Lucio (2002), running a company in theory first gives a chance to identify and avoid future problems or even to come up with the solution in advance without any detriment to the company.

While the business model explains how the company will create value and monetize it, a business plan presents the business model in a combination with how the company will put it into practice, and demonstrates why it will work (McAdam 2013). A business plan can be used for different purposes. In this study, the business plan with a flexible structure was made for internal use as an implementation guide. There is a standard of a business plan structure offered by the Small Business Administration, which is widely employed worldwide. Nevertheless, the content and the length may vary depending on a company and the plan function. (Hormozi et al. 2002.)

This case is a commissioned study and it was agreed with the client company that it is not needed to adhere to specific business plan standard. It is more

important for this study to answer the research question and sub-questions. However, it is easier to start a new business with a clear, thought-out plan. Thus, the following business plan structure facilitates the development of the thesis and sets the example of the contents and its sequence:

- Introductory elements
 1. Cover page
 2. Table of contents
 3. Executive summary
- The business section
 1. Company overview
 2. Industry analysis
 3. Customer analysis
 4. Competitive analysis
 5. Marketing plan
 6. Management
- Financial statements
 1. Income statement
 2. Balance sheet
 3. Statement of cash flows
- Appendix of a business plan

This study is a combination of mutually complementary business plans proposed by Hormozi et al. (2002) and Bangs (2002). In the thesis, the author focuses on the most important issues from the plan: marketing, organisation and finances, as it was mentioned in the chapter dedicated to major headings.

3 Marketing

Marketing plays a key role in business planning due to customers' perception of the service provided. The quality of the provided service depends on the implementation of the developed marketing plan (Bangs 2002). The main marketing goal is to attract and keep the customers. Marketing is the process of value interchanging between a company and its customers. The idea is not only

to create value for the customer, but also to capture it in return in the form of loyalty, for example. More broadly, marketing process involves five steps. At first, the company needs to understand consumers, then to create value and build strong relationships. Finally, the company captures value from customers. Instead of loyalty it can be sales and profits. (Kotler and Keller 2012.)

Various strategies can be used in order to build strong customer relationships and they are designed with consideration of different management concepts. Prior to that the company should make market segmentation and choose its target group. One of the concepts is marketing concept. It means that accomplishment of company goals depends on the target customers' wants and needs, and on delivering desired satisfaction better than anyone. Customer-driven businesses try to investigate desires of current customers and test their new ideas. However, there are also customer-driving businesses that understand customer needs beforehand and create a product that meets it. (Bangs 2002.)

Marketing strategy outlines the company target group and ways of creating value. After that, a marketing program, which delivers this value to customers is developed. The marketing program transforms strategy into real action. It involves marketing mix of the company, which consists of the four marketing Ps: product, price, place and promotion. The company should make an attractive product, which meets the needs of the target group and the price, which satisfies both the company and the client. Furthermore, appropriate distribution channels should be identified as well as convincing promotion designed. The company should mix it in order to get a comprehensive marketing program, which fulfills its objectives. These components can ensure the success of the company through integration. However, they show low utility separately. For example, product price reduction does not guarantee an increase in sales even in a highly competitive market. Consumers may perceive a price decrease as a discount for a lower quality product compared to competitor's prices if marketing mix is not considered as a whole. This sales situation can be improved by appropriate changes in distribution channels and promotion strategy. The example demonstrates that each component is vital and all of them should be carefully considered, because any mistake will affect the entire marketing mix. (Kotler and Keller 2012.)

The traditional marketing mix was extended by Booms and Bitner in 1981 into the service marketing mix. It includes three more elements: people, process and physical evidence. Extended or service marketing mix is presented in Figure 1. (Kalyuzhnova and Jacobson 2013.)

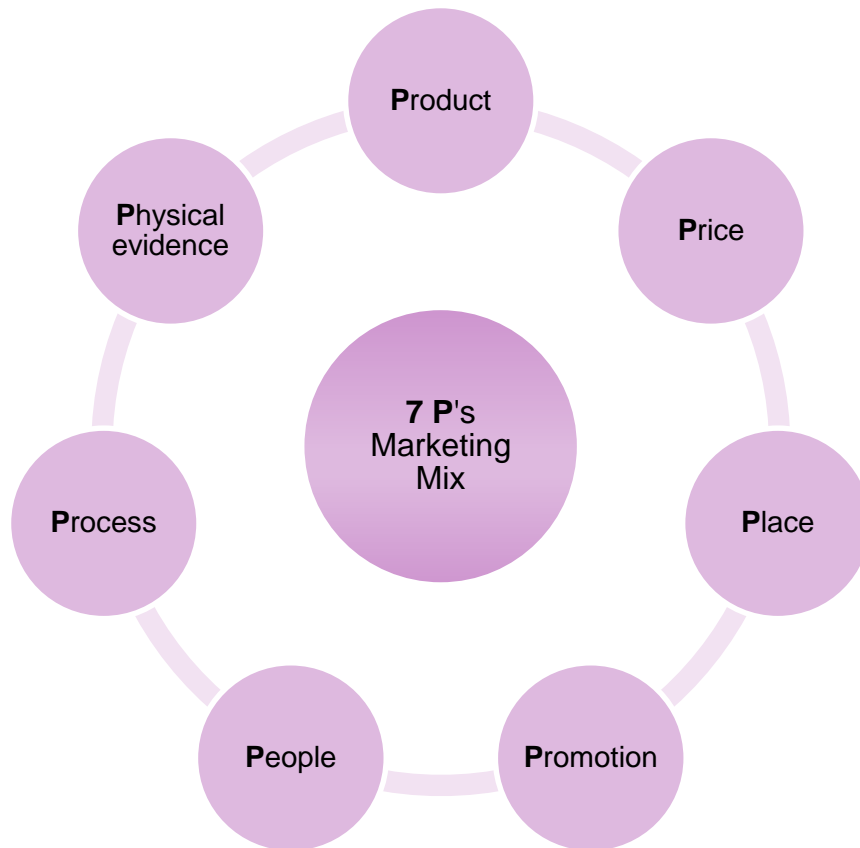


Figure 1. 7 P's Marketing Mix (Kalyuzhnova and Jacobson 2013)

In the following chapters, marketing mix's components are presented. However, they are presented not in a strict order due to combination with other issues. Chapters will also include analyses of the market, competitors and consumers. In the final chapters, a SWOT analysis and demand predictions can be found.

3.1 Service overview

In this chapter the service, laser hair removal, its benefits and difference from other similar services in the market will be discussed. In order to prove that the offered service will be in demand, it is important to be able to describe the service and explain its competitive advantage. Moreover, an understanding of the

technical details of the service allows to propose a better service to the consumer and to choose appropriate equipment. (Bangs 2002.)

The simple principle, which is lying at the foundation of laser hair removal, is that intense solar radiation can both stimulate and stop hair growth. It was noticed by the scientists that as farther from the north to the south, as much hair is on the body of the locals. However, at some point reverse process comes. The men from equatorial Africa do not even have a beard and mustache. (Brown & Morris 2008.)

The main feature of the laser hair removal is that the laser has a direct effect on the hair bulb, which stops the hair growth. For most hair removal methods such an impact is impossible, because they interact only with the visible part of the hair. Consequently, these methods do not show desirable and lasting effect. Besides the fact that laser hair removal is effective, the procedure does not cause any discomfort. Lasers, which are used in cosmetology, have an ability to instantly heat up and destroy the cells, containing melanin. The hair bulb consists of these cells and the destruction happens in milliseconds. (Modern cosmetology 2015.) Despite of the rapid rise of the temperature, the procedure is painless due to almost instantaneous switch to cooling mode. Furthermore, laser impulses are applied by dots solely to the cells, which contain a substantial amount of the pigment. The time of the procedure depends on the size of the treated skin area. (Brown & Morris 2008.) The results of laser hair removal can be seen immediately after the procedure. For permanent removal of unwanted hair several procedures should be taken. Usually it takes from 3 to 5 times with a 1.5 - 2 month interval in between (Modern cosmetology 2015).

The advantages of laser hair removal are obvious. The procedure is painless, quick, has a greater efficiency in comparison with other methods, does not damage the skin and does not cause allergic reactions. As it was mentioned before, most of the hair removal methods do not destroy the whole hair. These methods refer to depilation. Depilation involves most of the traditional hair removal methods and tools for it – shaving, depilating cream, plucking with tweezers or epilator, epilation with wax or sugar. The last three methods damage

hair bulb, which slows hair growth and makes hair thinner, but do not destroy hair follicle. (Brown & Morris 2008.)

However, apart from laser hair removal there are two methods, which permanently stop hair growth: electrolysis and photo hair removal. Electrolysis is quite a painful and slow process – a thin needle under voltage is inserted in the hair bulb. There is the risk of scarring and infection. (Brown & Morris 2008.) Photo hair removal has a similar effect on the hair bulb, but the light for the phototherapy is more diffused. This allows to process larger skin areas and reduces procedure time, but significantly increases the risk of pigmentation and burns. In addition, equipment for photo epilation is less powerful and thus requires more consecutive procedures, whereas the price for this procedure is higher in comparison to laser hair removal. Photo hair removal and electrolysis are considered as the "last century", because the research in the laser hair removal sphere is making steady headway and new devices, that improve the procedure in all respects, appear on the market. (Goldberg 2010.)

3.2 Industry segment and current participants

In this study, the author concentrates on professional, salon hair removal methods, which cannot be otherwise done at home. Although the majority of potential clients uses home methods, they will not be left aside.

Nowadays there are around 1800 beauty salons in St. Petersburg and this sphere is highly competed. Almost 600 beauty salons and medical centers provide hair removal services. (Doroshina 2013.) Most of them offer hair removal services with wax and sugar, and only 10% offer laser hair removal. Nearly the same amount of salons provides photo epilation service. (RBK 2014.) Accordingly, depilatory methods absolutely prevail on the market due to their low cost, familiarity to the customers and widespread.

An independent laser hair removal industry does not exist yet in St. Petersburg. For instance, in a rapidly developing, but less populated city as Berlin more than three hundred devices for laser hair removal operate, with the service available to all strata of the population (Modern cosmetology 2015). The interest for laser hair removal is growing in St. Petersburg, although most women are not aware

of the procedure advantages compared to traditional methods. The evidence for this information is presented further in the market research results. Consequently, the market has a great potential. Apart from the resources of the company X, customer-driving marketing is leading development of the business idea. Hair removal will always be in demand. However, due to the increasing pace of life, people are searching for fast and convenient services, which will make their life easier. Fast food restaurants and tanning studios chains prosper in St. Petersburg. They satisfy customer needs, they are trusted and are perfectly located in each district. There are few salons in the city, which offer laser hair removal and answer these parameters. Moreover, entrance barriers are high by the reason of substantial capital requirements. These arguments make this industry suitable for the project. Competition is low, compared to hair salons, but there are several medical centers with a strong brand identification, which are analysed in the next chapters. In case the owners decide to exit this business, it can be made without significant losses through transferring room and equipment to the main business.

Laser hair removal service mainly competes with photo hair removal. It was discussed earlier in the thesis that there is also an electrolysis method, which permanently destructs hair. However, electrolysis is an outdated method and cannot compete with the modern fashions. There are approximately 16 firms in St. Petersburg, which offer electrolysis. (RBK 2014.)

According to the Center of laser medicine Lazmed (2014) the average prices of processing different parts of the body by laser and photo epilation are provided below in Table 1.

Body area	Laser hair removal	Photo hair removal
Above upper lip	1000	1500
Chin	2000	3500
Armpits	2500	3000
Hips (both sides)	8400	9000
Bikini	3200	5000
Shins	7000	8500

Table 1. Average laser and photo hair removal prices (Center of laser medicine Lazmed 2014)

The procedure price for various laser procedures depends on the initial cost of the equipment and the expendable materials used in the procedure. Equipment for photo hair removal is universal and allows to apply it in various beauty procedures. It makes this medical equipment more valuable and considerably rises its cost. Thus, the price of the photo epilation procedure is higher in comparison to similar procedure performed by conventional laser. (Brown and Morris 2008.)

Concerning popular home depilation methods, that most of the beauty salons offer, it should be noted that these methods and laser hair removal satisfy different needs. Although the prices for epilation with wax and sugar are much lower, it allows to get rid of unwanted hair for the next one or two weeks, whereas laser hair removal has a permanent effect for the whole life.

3.3 Market size and growth

As potential consumers, all female residents of St. Petersburg in the age group from 16 to 55 years are considered. According to the experts of the research company Gortis (2015) this group constitutes of 1315600 officially registered individuals with the annual growth of c. 60000 people. The share of potential customers among nonresidents, as well as among men is less than 2%, thus these groups will be ignored in the coming years (Research firm Gortis 2015).

3.4 Marketing research

In order to indicate potential customers' willingness to use the offered service, their hair removal habits and to set appropriate prices, an empirical research has been conducted. Two different research methods can be used – qualitative and quantitative. Qualitative research is used for understanding meanings, thoughts and feelings. Quantitative research allows to acquire statistics or measure variables, it relies on numbers. Quantitative method is applied in the case, because it suits the research goals and can provide data from a large sample. Self-administered questionnaire technique with closed ended questions was chosen. It provides clear information, which can be easily transferred into quantitative data. It is convenient for the respondents to answer and for the researcher to analyse. (Saunders, Lewis and Thornhill 2009.)

The questionnaire was created in the Russian language with Survey Monkey website and links to it were posted online in beauty blogs and distributed to the sample through social networks. The required sample size was 300 respondents and the online questionnaire was opened until this number was reached. Self-selection sampling method was used according to the fact that not all representatives of the population have an equal chance to answer the questionnaire. Individuals had free access to the questionnaires and they were deciding by themselves whether they want to answer it. (Saunders et al. 2009.).

The structure of the questionnaire involves two sets of questions. The first set includes three questions about the individual's hair removal habits and awareness of laser hair removal. This group is followed by a concise text about laser hair removal, its advantages and average prices. After it, the respondent is asked to answer if she would like to try the service, allocate the money for it and the maximum price she is ready to pay. The exact questions will follow the results graphs presented further in the chapter. Analysis of the data obtained from the questionnaires was conducted using SPSS Statistics program. This professional program allows to make basic data analyses through simple menus as well as more comprehensive analyses, which require deeper knowledge.

Age and income questions were intentionally excluded from the questionnaire in order to allow respondents stay anonymous and provide information that is more valid. However, in order to determine correlation between the acquired data and income, St. Petersburg's women professions statistics will be applied as if the sample would be totally random. The statistics provided by the Gortis company in relation to research respondents are presented below in Table 2. This correlation helps to determine not only the welfare of potential customers, but the social stratum. Although the validity of this method is low, the value of the information is substantial. It can be applied to almost each component of marketing planning as promotion, distribution and pricing strategies.

Occupational group	Number of female population in SPb	Percentage	Number of respondents
No occupation	394650	30	90
Unskilled occupations	100100	8	24
Partly-skilled occupations	236250	18	54
Skilled manual occupations	13800	1	3
Skilled non-manual occupations	148800	11	33
Managerial occupations	234300	18	54
Technical occupations	120750	9	27
Professional occupations	57600	4	12
Chief executives	9350	1	3
Total	1315600	100	300

Table 2. Occupational groups among women in St. Petersburg (Research firm Gortis 2014) in relation to research respondents

The charts and tables below present the analysed respondents' answers to each question in the questionnaire's sequence. The data provided in the table above is applied to the analysis of each question.

1. What method of hair removal do you prefer?

Occupational group	Shaving	Dep. cream	Wax	Sugaring	Laser	Other	None
No occupation	57	15	4	5	3	1	5
Unskilled occupations	10	11					3
Partly-skilled occupations	29	14	7	4			
Skilled manual occupations		2		1			
Skilled non-manual occupations	14	11	3	3			2
Managerial occupations	17	13	15	5	2	2	
Technical occupations	9	9	6	3			
Professional occupations	2	1	6	2	1		
Chief executives		1			2		
Total	138	77	41	23	8	3	10

Table 3. «1. What method of hair removal do you prefer?»

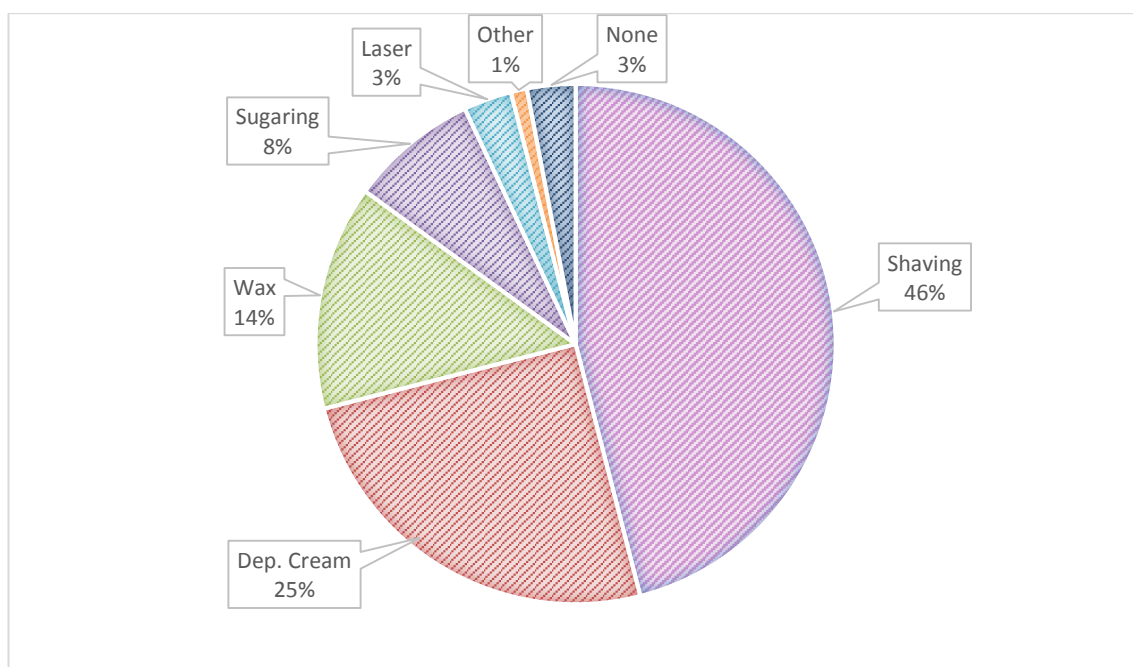


Chart 1. «1. What method of hair removal do you prefer?»

2. How often?

Occupational group	4 times/month	3 times/month	2 times/month	1 time/month	Less often	More often
No occupation	18	3	32	24	8	7
Unskilled occupations			8	12	1	
Partly-skilled occupations	1	7	42	4		3
Skilled manual occupations		1	1	1		
Skilled non-manual occupations	3	5	8	15		
Managerial occupations	7	9	34		4	
Technical occupations	4	5	17	1		
Professional occupations	10				2	
Chief executives	1				2	
Total	44	30	142	57	17	10

Table 4. «2. How often?»

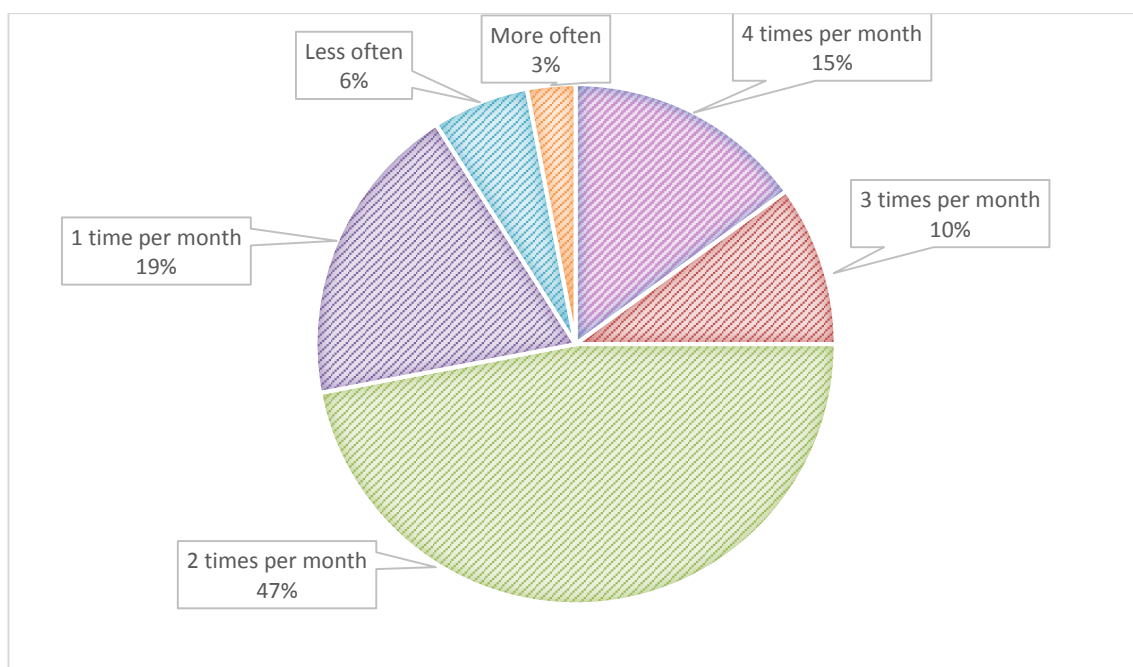


Chart 2. «2. How often?»

3. Do you know about the existence of laser hair removal?

Occupational group	Yes	No
No occupation	62	28
Unskilled occupations	2	22
Partly-skilled occupations	13	41
Skilled manual occupations	0	3
Skilled non-manual occupations	8	25
Managerial occupations	17	37
Technical occupations	22	5
Professional occupations	9	3
Chief executives	3	0
Total	136	164

Table 5. «3. Do you know about the existence of laser hair removal?»

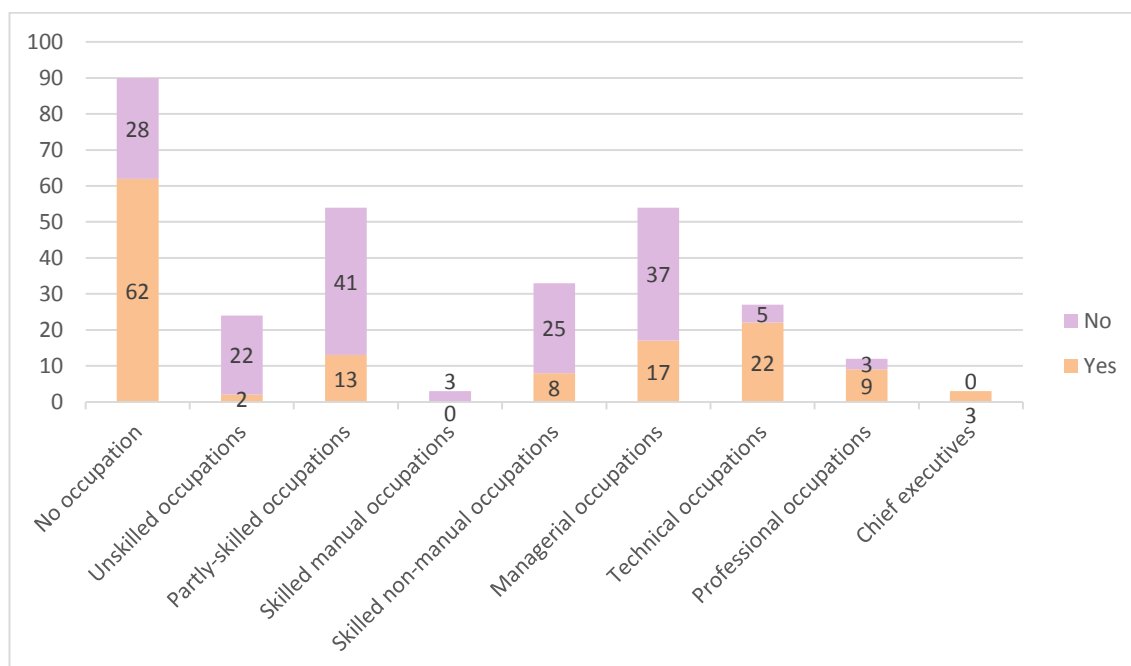


Chart 3. «2. Do you know about the existence of laser hair removal?»

4. Would you like to try laser hair removal?

Occupational group	Yes	No
No occupation	88	2
Unskilled occupations	23	1
Partly-skilled occupations	54	0
Skilled manual occupations	3	0
Skilled non-manual occupations	33	0
Managerial occupations	54	0
Technical occupations	27	0
Professional occupations	12	0
Chief executives	3	0
Total	297	3

Table 6. «4. Would you like to try laser hair removal?»

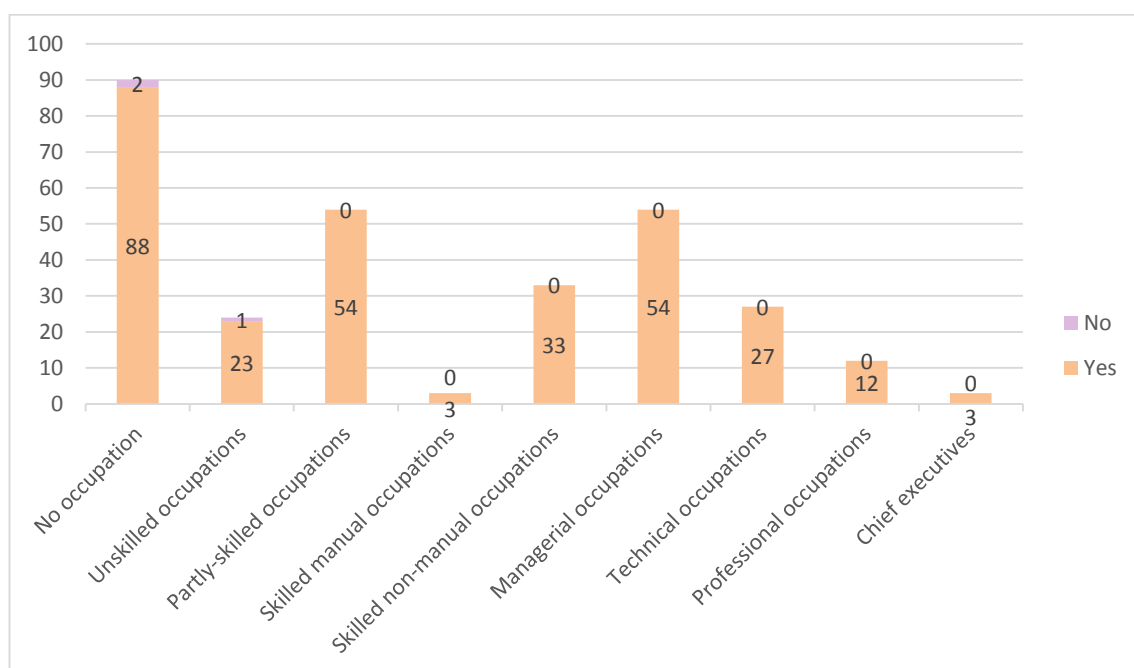


Chart 4. «4. Would you like to try laser hair removal?»

5. Could you allocate the necessary amount of money from your budget?

Occupational group	Yes	No
No occupation	72	18
Unskilled occupations	11	13
Partly-skilled occupations	32	22
Skilled manual occupations	3	0
Skilled non-manual occupations	33	0
Managerial occupations	37	17
Technical occupations	27	0
Professional occupations	12	0
Chief executives	3	0
Total	230	70

Table 7. «5. Could you allocate the necessary amount of money from your budget?»

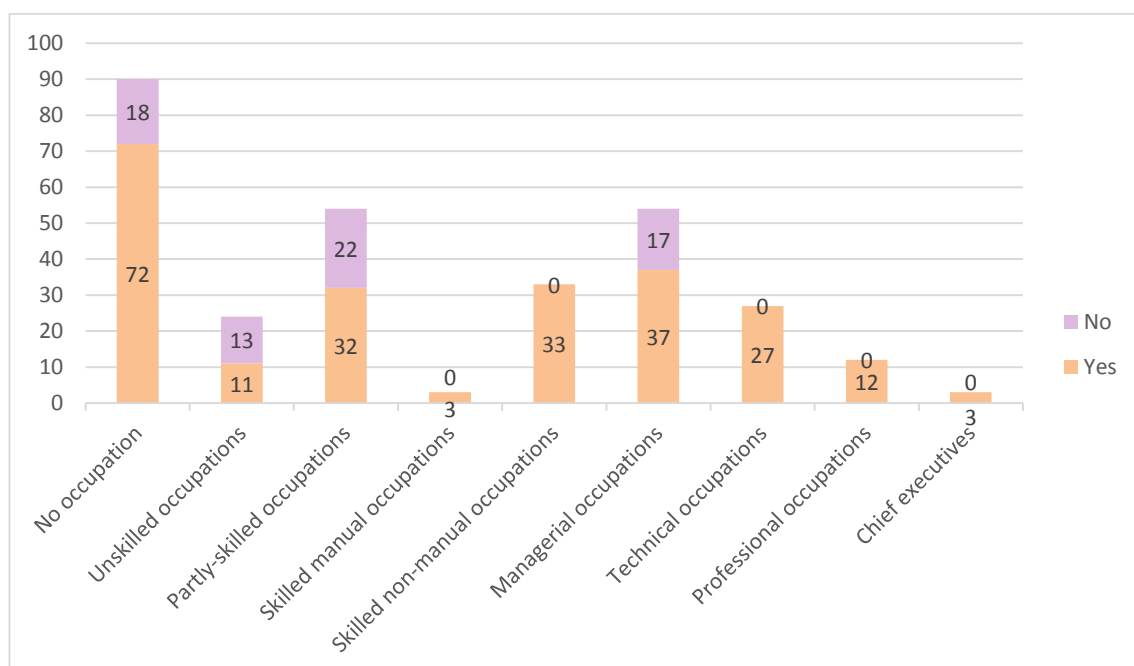


Chart 5. «5. Could you allocate the necessary amount of money from your budget?»

6. What is the maximum amount you would be willing to pay for laser hair removal of shins? The following prices are the total for all necessary procedures during 6-8 months.

There were a few options to answer in order to facilitate the analysis of the results.

Occupational group	33000 RUB	21000 RUB	15000 RUB	9000 RUB	3000 RUB
No occupation	2	9	58	13	8
Unskilled occupations	0	3	15	1	5
Partly-skilled occupations	0	0	28	14	12
Skilled manual occupations	0	1	1	1	0
Skilled non-manual occupations	1	3	21	6	2
Managerial occupations	0	2	33	12	7
Technical occupations	0	4	17	6	0
Professional occupations	3	6	3	0	0
Chief executives	2	1	0	0	0
Total	8	29	176	53	34

Table 8. «6. What is the maximum amount you would be willing to pay for laser hair removal of shins?»

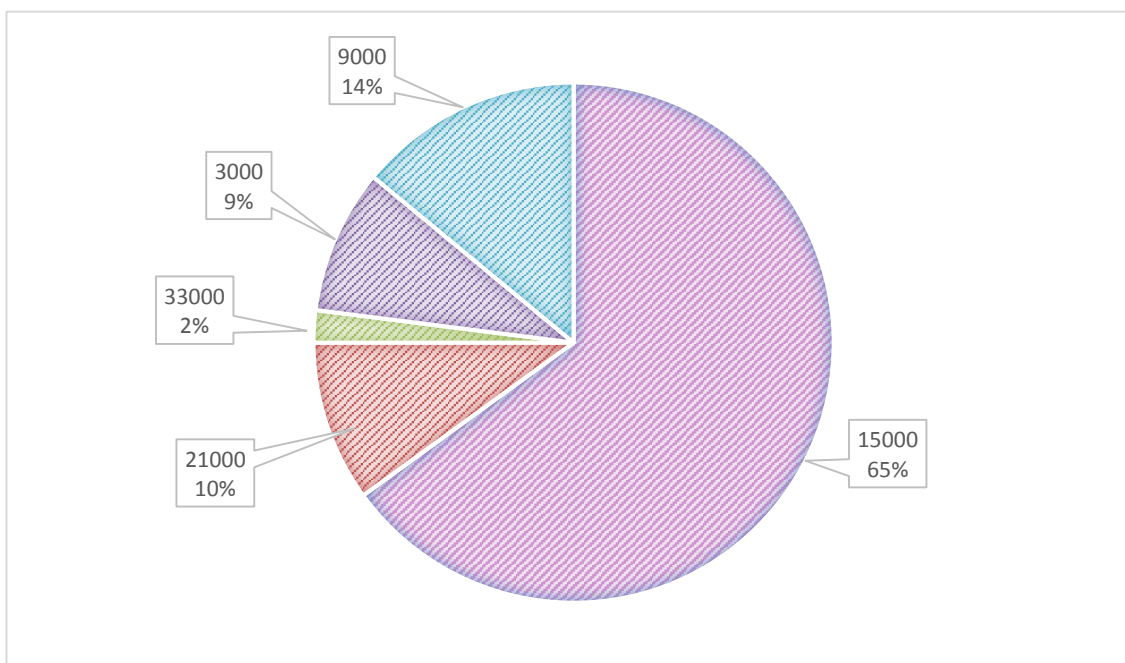


Chart 6. «6. What is the maximum amount you would be willing to pay for laser hair removal of shins?»

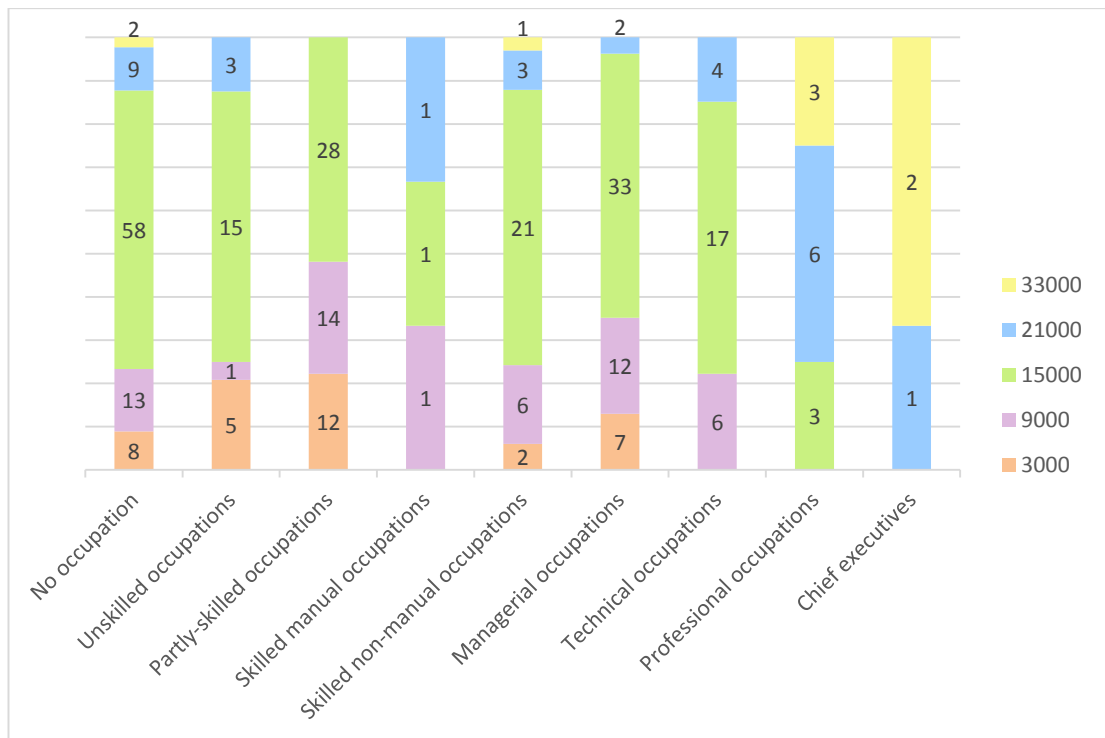


Chart 7. Distribution of price preferences according to professional group

3.5 Location

The beauty salon will be located next to the metro station Prospect Prosveshcheniya in the densely populated Kalinin district. There is one of the clients' real properties, which was mentioned in the beginning of the study. Several new shopping centers, infrastructure development, cultural-entertainment center and residential apartments ensure constant presence of a large number of potential customers. Moreover, there are no serious competitors in the area.

3.6 Communication strategy

The advertising appeal must contain information about the procedure itself, and information about the availability of procedures for the masses. Potential customers should perceive the service as prestigious, but affordable. Visual comparison of body areas before and after the procedure with an emphasis on painless and lasting results will have a great effect. The advertising strategy will start from distribution of leaflets on the street in close proximity to the salon and near shopping centers. It can be organised fast and will cover potential clients

living in the surrounding area. After a while, advertisement will appear in an inexpensive newspaper Panorama TV because it is the most popular printed media in St. Petersburg. Advertisement in glossy journals will be used to reach women with higher income. These channels will allow to cover the target group from 35 to 55. The target group in the age from 16 to 35 will be communicated through online social networks and advertisement on beauty websites with banners and commissioned articles about hair removal. Moreover, e-coupons for discounts on websites dedicated to coupons will successfully attract new customers. They appear on the page next to other similar services and potential customers can decide to choose this alternative instead of the services they are used to.

3.7 Competitors

There are only four clinics in the district, which are situated relatively close to the salon and provide laser hair removal service:

1. Aesthetic Medicine Clinic
2. Clinic Geneva
3. Clinic Medi – Aesthetic
4. The clinic named after N.I. Pirogov

All of them are multi-service medical institutions, focused on individuals with high level of income. In each of them there is a preliminary time booking. Customers are waiting for their turn for 1 - 2 days, meaning that there is a slight shortage of services supply in the higher price category. In these circumstances, it is not necessary to speak about a serious competition, but only a customer segmentation by price criteria. The main competitive advantage of the company X is that the service perceived as luxurious will be affordable to people with average income.

3.8 Pricing strategy

At the initial stage it is planned to pursue a strategy of low prices in order to occupy a niche market, stimulate demand and to differentiate from the competitors. It will be done in order to dispel doubts that the potential consumers

have about laser hair removal procedure, and create a positive image of the new salon.

When the initial demand will be formed it is necessary to refine financial predictions and pricing method provided in Finance chapter according to the actual profit rate. Once a steady demand is formed, pricing strategy will be based on the analysis of the demand, ensuring maximum profit.

3.9 SWOT analysis

Analysis of the external and internal environment is presented in Tables 9 and 10 below.

Factors	Opportunities	Threats
International factors	Increased variety of foreign suppliers of equipment to the Russian companies	Possible new sanctions, which will influence the market
The internal situation in the country	The stability of the political forces, the growth of GNP	Poor small business support
Natural and ecological factors	Global warming is leading to obvious summer season in the city	Degradation of the environment can cause the growth of chronic diseases, which will distract consumers' funds
Socio-cultural factors	Fashion for a smooth, devoid of hair signs woman's body. Strong tradition in relation to epilation and depilation	Changes in fashion, taste preferences of consumers. Redistribution of funds for other dominating particular time aspects of appearance
Socio-demographic factors	A sufficient number of women in working age with an average level of income	Reducing number of potential customers
Scientific and technical factors	Availability of the latest developments in laser hair removal	High competition from services-substitutes
Economics factors	Tax reduction, increased income growth	Economic crisis
Competitive factors	Competitors' focus on other consumer groups. Relatively high barriers to entry	Possible arrival on the market of major Western network campaigns
Demand factors	The growing market. Steady demand increase	Seasonal demand fluctuations

Development factors	Possibility to create a network of similar salons in bedroom communities	Increasing rents and property prices.
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Table 9. Determination of potential market opportunities and threats

Factors	Strengths	Weaknesses
Administration	High credibility of the manager and extensive connections	The absence of leading project manager
Personnel	Opportunity to find sufficiently well-trained staff and provide appropriate training	Lack of experience in this kind of business
Location	Convenient location of the salon close to the metro a number of large shopping centers and supermarkets	Remote location for the customers from the southern districts of the city
Incentives	High salaries in comparison with the industry average	There is no system of social and psychological stimulation
Equipment and technology	The most advanced of the existing today	Reducing number of potential customers
Service	Low costs	The lack of customer awareness
Finances	A sufficient amount of own funds for the initial investment. The possibility to obtain loan	Unstable financial condition of the main activities.
Accounting	Have a marketing plan for specific activities.	Lack of management accounting
Marketing	Prepared marketing plan for the activities of the salon	Lack of information
Organisation	High level of team cooperation	Failure to comply with the rational organisational structure

Table 10. Identification of the company's strengths and weaknesses.

Analysis of the obtained data demonstrates that under the given state of the environment, the company has a good chance to succeed in the market. All of the major threats are associated with lack of experience, rational management and incomplete organisational structure.

3.10 Demand forecast

Demand in the hair removal industry is strongly affected by seasonal factors. According to the information provided by the administrator of the clinic Y laser hair removal service has a stable demand throughout the year with a moderate increase in November-December and a significant increase in April-May. Increased demand in the spring is based on the fact that many women are preparing for the summer holidays and trying to take several procedures before it. The same trend applies to Christmas holidays. Focusing on customers with average income, who usually take only summer holidays, it can be assumed that there will be a slight increase during winter holidays and more noticeable positive changes before summer season. The business is planned to be launched at the end of November 2015. Thus, it is expected to achieve the estimated average day load by November and the maximum load by April according to the industry trends.

The price for the laser hair removal procedures depends on the total number of impulses provided, because as it was discussed earlier laser is charily applied by dots to certain areas. The following estimated statistics of the impulses in Table 11 were based on industry sales statistics according to Doroshina (2013) and probabilistic expert opinion by the company Y. The number of impulses derives from the hair density.

Body area	Min number of impulses	Max number of impulses	Number of procedures/month	Min number of impulses/month	Max number of impulses/month
Above upper lip	10	25	45	450	1125
Chin	10	50	40	400	2000
Armpits	40	200	35	1400	7000
Hips (both sides)	700	1500	2	1400	3000
Bikini	60	200	30	1800	6000
Shins	600	1200	8	4800	9600
Other	380	1990	29	1710	5420
Total	1800	5165	189	11960	34145

Table 11. Projected amount of procedures and impulses

The total average of the calculated number of pulses is 23052 impulses per month and 922 per day. Calculation of impulses per day considered day offs.

4 Organisation

This chapter provides valuable information on the issues that should be concerned before the actual organisation of the salon. Several issues do not require discussion, because they are already managed or easy to manage. First, the room where the salon will operate does not need any renovation, except of the new ventilation system installation. Secondly, the company already has furniture for the salon. Only equipment and expendable materials for the procedure should be acquired. Thirdly, the alarm system is also available already and the contract with security company was prepared. Finally, it is necessary to buy a laptop, a digital camera to make photos before and after the procedure, and a first aid kit.

4.1 Equipment selection

According to Goldberg (2010) selection of the device for laser hair removal is driven by the following factors:

1. The cost;
2. Cost effectiveness;
3. Reliability;
4. Warranty and service availability;
5. Modern technology;
6. Possibility of personnel training;
7. Customers' comfort.

There are three manufacturers of laser systems for hair removal in the world. These are an American company Candela, German company Nemelectron and Israeli-Italian company Scharplan. All of them have representative offices and service centers in Russia. However, in St. Petersburg, only one company is presented. Operating service engineer and physician-instructor of the company Candela provide consultations and service support in the city. Other

manufacturers have their representatives in Moscow. (Modern cosmetology 2015.)

Although the cost of the lasers does not vary a lot, they differ in characteristics and maintenance expenses. The prices are following:

- Candela - 75000 USD
- Nemectron - 69000 EUR
- Scharplan - 72000 EUR

There are three types of lasers manufactured by these companies – alexandrite laser, diode laser and ruby laser. The most modern is alexandrite laser, which is offered by Candela company. This alternative meets the above mentioned factors better than other companies for the further presented reasons. First of all, it requires minimal maintenance and possesses largest resources. Moreover, the most recent version of the laser is smaller and faster than the lasers of competitors. The main technical feature is before each laser pulse it sprays a dose of cryogen on the skin. It makes the procedure painless and allows to raise the energy of the laser, which will increase the efficiency of the procedure. Furthermore, the only consumables needed for the operation of the device are clean water and cooling gas, the same as in the household and automobile air conditioners. Finally, the cost of the device includes installation and training of the personnel. Training is conducted on the workplace, while other manufacturers provide training in Moscow. (Modern cosmetology 2015.)

4.2 Personnel, training, working hours

Unlike the competitors, which are working from 10 to 19 hours six days a week, except Sundays, it is proposed to organise shift work 2/2 from 10 to 20 hours with a day off on Monday. This system was developed considering the target customers with medium income. It creates the most favorable conditions for the customers and allows to evenly load the equipment. Moreover, shift work can also be an additional motivating factor for the personnel.

Efficient operation of the salon will require two doctors, who have specialised in dermatology and cosmetology, two administrators and cleaning staff. Accounting

will be carried out by the accountant of X. It is planned to invite young graduates from the appropriate universities of St. Petersburg to work with the laser. Graduates of medical schools can be invited as administrators. The utilization of young professionals at an early stage will allow to save on salary expenditure, due to their lack of experience. Laser hair removal technically is not complicated to execute if a doctor possesses necessary knowledge about equipment. Training provided by the Candela company will improve this issue. Until the business will reach payoff, salaries of the personnel will be fixed. It will be possible to add a certain percentage from the income to the salaries of doctors and administrators in the future.

A special attention should be given to the training of administrators. The work duties of an administrator include registering customers, answering the phone, providing primary information about the procedure to the customers, operations with cash register, and making photos of the customers before and after the procedure. Employees of the company X with similar duties can be involved in the training.

4.3 Equipment insurance

Insurance of equipment is intended to compensate the possible damage cost to the founders in a variety of situations that may arise. There are a lot of insurance companies, which primarily differ in price and company image.

Comparison of the prices in various companies revealed that the annual cost of insurance in this case can be from 4 to 7.5% of the equipment cost. Founders proposed to use the services of the company Z, a partner of the company X. Their services will cost 5%.

5 Finances

Founders will provide the needed investments by themselves, without taking a loan from a bank. Calculation of approximate expenses, investments, associated with the beginning of the salon activities are presented below in Table 12.

Expenses	RUB
Candela device for laser hair removal	2190000
Installation of the ventilation system	24000
Equipment insurance	110000
Laptop	12000
Digital camera	5000
First aid kit	3000
Initial advertising campaign	30000
Total	2374000

Table 12. Projected investments

Fixed costs are calculated in Table 13.

Fixed costs	RUB
Utility payments	1500
Security	1150
Communication	300
Doctors' salaries	20000
Administrators' salaries	16000
Cleaner salary	3000
Advertising in the newspaper	16560
Stationery	500
Household	200
Taxes	7887
Total	67097

Table 13. Projected fixed costs

Due to depreciation of the equipment, it will be necessary to replace elements of the laser in the future. The associated expenses form the cost of a single impulse, which is perceived as direct variable cost in further calculations. According to Brown and Morris (2008) with consideration of the chosen equipment the average impulse cost is 0,68 ruble.

For further calculations the required contribution in order to cover the fixed costs and the cost of services should be calculated. In order to calculate this, fixed costs should be divided by the average number of impulses per month and the result should be added to direct variable costs per impulse (Mott 2008). This way we get the cost of one impulse: $67097/23052=2,91$; $2,91+0,68=3,59$ rubles.

For setting the appropriate price for the procedure, the competitors' prices should be taken into account:

1. Aesthetic Medicine Clinic - 44,8 rubles;
2. Clinic Geneva - 38,7 rubles;
3. Clinic Medi – Aesthetic - 61,2 rubles;
4. The clinic named after N.I. Pirogov - 58,4 rubles.

Moreover, according to the research conducted, most of the respondents are ready to pay from 9000 to 15000 rubles to permanently remove hair from shins. Considering the average required number of impulses and potential customers' preferences the price for one impulse should be between 15 and 25 rubles.

The founders would like to pay back the salon in 1,5 years. In order to reach this goal, it is needed to calculate what should be the daily net income, which in one year and half will be equal to the amount of investments (Mott 2008). Investments should be divided by working days during 18 months: $2374000/465=5105$ rubles. After that the required mark-up for the impulse can be calculated through the dividing of the required daily net income on the number of impulses per day: $5105/922=5,5$ rubles. The required cost of impulse is its previously calculated cost plus required mark-up: $3,59+5,5=9,09$. This price does not exceed the price preferences of the potential customers. Furthermore, compared to the prices of competitors, it is obvious that further mark-up can be added without losing the price attractiveness to the customers.

After the costs, price and projected sales are identified, it is possible to calculate the breakeven point in rubles or units. This analysis is strongly recommended to be included in business planning. The breakeven analysis provides a sales objective, the point at which the company is not making profit and not taking loss. (Bangs 2002.) In order to calculate it in units fixed costs should be divided by

contribution margin, which is the price of the unit minus its variable costs: $67097 / (9,09 - 0,68) = 7974$. The salon should sell this amount of impulses in order to cover fixed and variable costs precisely, without profit or loss. Chart 7 below provides a graphic breakeven analysis based on the calculations in Table 14. The analysis of the table results shows that the performance of planned sales objective by 35% will cover the total costs of the salon.

Projected sales volume (impl.)/month	23052	Profit	126770
Unit sale price	9,09	Breakeven point in units	7 978
Unit variable costs	0,68	Breakeven point in rubles	72522
Fixed costs	67097	Breakeven percentage of sales	35%

Sales volume	Variable costs	Fixed costs	Total costs	Revenue	Profit/loss
0	0	67097	67097	0	-67097
2305	1568	67097	68665	20954	-47710
4610	3135	67097	70232	41909	-28324
6916	4703	67097	71800	62863	-8937
9221	6270	67097	73367	83817	10450
11526	7838	67097	74935	104771	29837
13831	9405	67097	76502	125726	49223
16136	10973	67097	78070	146680	68610
18442	12540	67097	79637	167634	87997
20747	14108	67097	81205	188588	107384
23052	15675	67097	82772	209543	126770

Table 14. Breakeven analysis

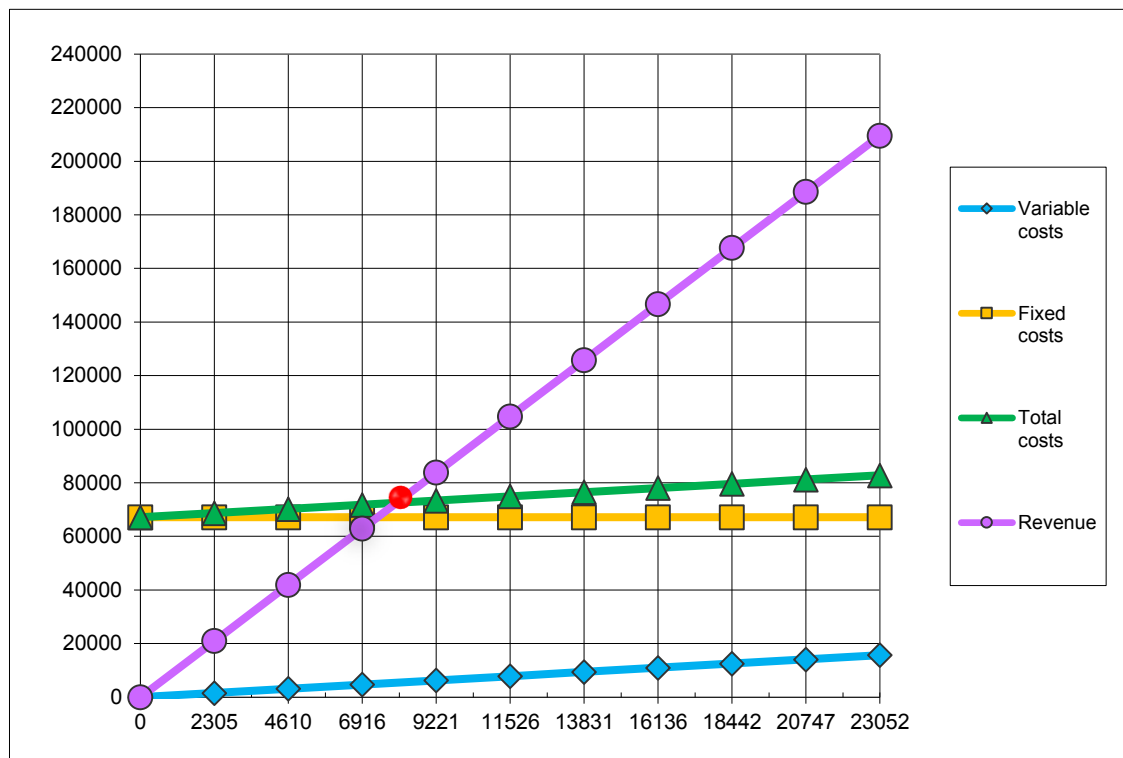


Chart 8. Breakeven point

6 Recommendations

One of the first recommendations to the founders is to develop policies in relation to income tax, as the expenses on income tax increase the cost of the procedure and affect the payback period. According to Doroshina (2013) there are three options. The first option is the most economical – to plan tax amount in advance and allocate it to fixed costs in management accounting. It is the most appropriate and simple way. The second option is to identify tax as variable costs and pay it based on the real implementation. It requires comprehensive calculations and a highly accurate prediction of the volume of sales. Finally, the third option is to deduct the tax from the profit. It is the most expensive option and difficult to forecast. Moreover, this option requires to add the greatest margin onto the cost compared to other options.

The next recommendation concerns the pricing issue. In further work, in order to stimulate consumer demand, it is possible to apply the method of nonlinear pricing. The impulse price in different procedures can be put in dependence on the total number of necessary impulses and the popularity of a particular procedure. For example, the impulse price for shins hair removal procedure may be lower than the impulse price for processing cheeks or the area above the upper lip.

Due to the fact that prior to the first procedure doctor's consultation is needed, it is recommended to do these consultations for free in the initial stage of business. Furthermore, it should be reflected in the advertisements of the salon. This can be an additional motivating factor for potential customers, and certainly will have a beneficial impact on the spread of awareness of the procedure.

In order to promote the salon better a system of cumulative discounts to customers and bonuses to intermediaries can be designed. As intermediaries, both the clients and numerous friends in the medical community of St. Petersburg can be involved. Moreover, affiliate programs can be developed with a variety of beauty salons and shops.

7 Conclusion

The investigated business model is the salon in St. Petersburg, offering only laser hair removal, with an idea to develop a franchise of similar salons in the future. The salon will provide affordable, high-quality service to the masses. The target customers are women, which are residents of St. Petersburg with higher or secondary education, with a medium income in the age from 35 to 55 and in the age 16 to 35, which involves students as well.

The main goal of studying business model feasibility is to determine potential for success. The study showed that the business model is viable and presented actions needed to implement this business idea in practice. Initially, it was only assumed that this model will be feasible. However, results from the conducted quantitative survey helped to validate this assumption. A considerable target market exists and customers are willing to try the service. The awareness about the advantages of the laser hair removal compared to traditional methods of hair removal is low, but the interest for this procedure is growing in St. Petersburg and it can be used as an advantage in communication strategy. Moreover, the conducted analysis of the market and industry showed that this niche is not occupied. There are few competitors and they offer laser hair removal for people with high level of income. Finally, the industry has high barriers to entry due to investments and licenses needed. The above mentioned factors constitute favorable conditions for launching the salon in the near future.

The salon will create significant value and competitive advantage through its modern equipment and low costs. The new business model for this industry, which the salon employed, will make economic offer with a high level of quality. The preferred prices for our target group were identified through questionnaires and the cost reduction allows to follow these preferences without losses. It was forecast from the financial calculations that the salon is at a loss during the first year. However, it will start to make profits already from the middle of the second year. Higher markup allows to reduce the payback period, but it contradicts the selected strategy of low prices and business model in general.

Apart from feasibility, the study outlines the main promotional activities in the initial stage of business. Moreover, based on demand forecasts the basic financial calculations are presented, involving cost structure and breakeven point analysis. Finally, organizational issues are described and followed by recommendations.

The collected data in the study provides a chance for the founders to start a well-planned and reasoned venture. The business has considerable opportunities with almost no threats. It is recommended to the founders to develop comprehensive branding strategy, especially if they develop a franchise in the future. Moreover, it would be wise to provide articles about laser hair removal on the website of the salon, involving FAQ section as well.

One of the main obstacles in the study was to obtain credible and relevant information from authentic sources. For further studies, it is recommended to include background information in the survey and to provide multiple answer questions, which will facilitate analysing. Moreover, an appropriate sample technique can provide more valid results.

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