



**APC**  
Accounting Practise Center

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**Denis & KoKo Ltd**

**DEMO**

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# Section 1: Strategic options and models

## Market structure – Page 2

Hairdressing is a very large and competitive industry in Kayland, employing 259,200 people (just under 1% of the working population of Kayland). It is very fragmented, mainly because there are low barriers to entry.

### *Financing method for expansion must match the operating model*

Regis Corporation, a US-based hair salon group operating brands such as Supercuts, SmartStyle and Cost Cutters, shifted over several years from company-owned salons towards a franchise-heavy model. The main affected markets were the US and Canada. The affected services were salon services such as hair cutting, styling and related customer services. The key turning point was that company-owned salons exposed Regis to high rent, labour, staffing and refurbishment costs, so management moved towards franchising to reduce capital intensity and rely more on franchise income.



In a competitive salon market with low barriers to entry, financing more company-owned salons with heavy debt may increase risk, while franchising can reduce capital needs but also reduces direct operational control.

### **What are the advantages and disadvantages of using debt, equity, or franchising to finance salon expansion?**

#### **Answer plan:**

#### **1. Debt finance**

##### *Advantages:*

##### **control retained**

X: Regis's move to franchising reduced direct ownership, but debt-funded acquisition would allow the company to keep full ownership of acquired salons.

Y: Existing shareholders would avoid dilution and management would retain direct control over brand standards, staff training and customer service.

Z: This is useful where the salon brand depends heavily on consistent service quality and premium customer experience.

### **tax benefit**

X: Debt interest is normally tax-deductible, unlike dividends on equity.

Y: This reduces the effective cost of borrowing and can improve post-tax returns from acquired salons.

Z: Debt may be attractive if operating profit from the acquired salons is sufficient to cover interest comfortably.

#### *Disadvantages:*

### **fixed repayment pressure**

X: Regis's company-owned salons were exposed to rent, wages, staff shortages and local demand changes.

Y: Adding loan interest and principal repayments would increase fixed cash outflows on top of fixed operating costs.

Z: Debt would be risky if acquired salons have volatile appointment bookings, weak margins or slow integration benefits.

### **mismatch with asset light strategy**

X: Regis shifted away from company-owned salons because direct ownership was capital-intensive.

Y: Borrowing heavily to acquire more owned salons could reverse the benefit of moving towards a lower-capital model.

Z: Debt finance may be unsuitable if the acquisition increases exposure to the same operating risks management is trying to reduce.

## **2. Equity finance**

#### *Advantages:*

### **stronger balance sheet**

X: A share issue increases equity capital rather than debt.

Y: This improves gearing and may reassure lenders, suppliers and franchise partners that the group has financial capacity.

Z: Equity finance could support a larger acquisition without creating immediate solvency pressure.

### **strategic flexibility**

X: Regis operated in a market where salon performance could vary by location, staff quality and customer loyalty.

Y: Without fixed debt repayments, management would have more flexibility to close weak sites, invest in training or convert salons to franchisees.

Z: Equity can give management more time to deliver integration benefits.

#### *Disadvantages:*

### **higher expected return**

X: Equity investors normally require a higher return than debt providers because they take higher risk.

Y: The acquisition must generate sufficient long-term returns to justify the higher cost of equity.

Z: Equity is less attractive if the acquired salons only generate modest or uncertain returns.

## **3. Franchising (instead of buying salons directly)**

#### *Advantages:*

### **reduced capital requirement**

X: Regis shifted towards a franchise-heavy model, where franchisees funded more of the salon-level investment.

Y: The parent company needed less capital for premises, staff, equipment and local operating costs.

Z: Franchising can reduce or avoid the need for debt or equity finance when expanding salon coverage.

### **faster geographic growth**

X: Franchisees bring local capital and local market knowledge.  
Y: The company can expand into more locations without funding every outlet itself.  
Z: Franchising may be more suitable than acquisition where the market is fragmented and local relationships matter.

Disadvantages:

**lower direct control**

X: Regis no longer directly controlled every salon once locations were operated by franchisees.

Y: Service quality, staff behaviour and customer experience may become inconsistent across the network.

Z: Franchising is risky where brand value depends on uniform premium service.

**franchisee failure risk**

X: Franchisees bear local rent, wage and operating risks.

Y: If franchisees are underfunded or poorly managed, salons may close or damage the brand.

Z: The company must assess franchisee financial strength before approving expansion.

## Market structure – Page 2

Halo Hair is the largest chain, has 203 salons and provides a good client experience. The second largest chain, Trimz, has 85 salons. It provides a basic client experience. DKK, the third largest chain, has 50 salons and provides an excellent client experience.

### *Drybar: "No Cuts. No Color. Just Blowouts"*

Drybar was founded in the United States in 2010 by Alli Webb, with a clear proposition: "No cuts. No color. Just blowouts." The affected market was the US salon and beauty services market, and the affected service was professional blow-dry styling rather ..... interiors, service menus, staff training, booking convenience and retail products. Management had to respond to growth pressure by standardising the concept so it could expand without losing the brand identity that made customers choose it.



Drybar shows how a service business can build a strong brand by narrowing its service scope rather than expanding it. Drybar did not compete by offering every hairdressing service; it competed by making one repeatable, premium-feeling service easy to understand and easy to scale.

#### **Would a focused premium styling concept strengthen or weaken a full-service salon brand?**

##### **Answer plan:**

##### **Brand positioning/ differentiation**

X: Drybar ..... by excluding cuts and colour.

Y: This reduced direct comparison with conventional salons and positioned Drybar as a specialist styling experience.

Z: The brand competed on convenience, atmosphere and consistency rather than technical breadth.

##### **Service design/Standardising menu**

X: Drybar used a defined blowout menu rather than offering unlimited bespoke hair services.

Y: Standardised service choices made the offer easier for customers to select and easier for staff to deliver.

Z: The service model improved consistency across locations.

##### **Protecting quality through a narrow service scope technical risk**

X: Drybar did not offer chemical colouring, straightening or cutting services.

Y: This reduced ..... as poor cuts, chemical damage or allergic reactions.

Z: The narrower scope made quality control more manageable.

##### **staff training**

X: Drybar could train stylists around a focused set of blow-dry techniques and service standards.

Y: Training ..... staff to deliver full-service hairdressing.

Z: Standardised training supported faster expansion while maintaining service consistency.

##### **Growth strategy/Scaling a focused salon concept replicability**

X: Drybar's model was ..... delivered the same core service.

Y: Expansion could be supported by standard layouts, service processes, staff training

and brand manuals.

Z: The focused concept made multi-site growth more feasible.

**franchise potential**

X: Drybar's .....

### 3. Denis & KoKo Ltd – Page 7

The business has grown organically and through acquisition of individual salons and small chains. It is currently the third largest hairdressing business in Kayland. The founders have retired from the company, although Denis is the non-executive chair of the board. (Page 7)

## *WellBiz Brands Acquisition of Drybar Franchise Rights*

In 2021, WellBiz Brands acquired the franchise rights for Drybar, the US blowout salon brand known for “No Cuts. No Color. Just Blowouts.” The main affected market was the US beauty and wellness services sector. The affected services were blow-dry styling and franchise-operated salon services.

The key turning point was that Drybar moved from being mainly a founder-led specialist salon concept into a scalable franchise brand within a wider portfolio that already included Amazing Lash Studio, Elements Massage and Fitness Together. Management had to respond by preserving Drybar’s distinctive customer experience while using WellBiz’s franchise infrastructure to support growth.



WellBiz Brands’ acquisition of Drybar’s franchise rights shows how a strong service concept can be scaled through a multi-brand platform.

### **How attractive is the acquisition of a premium franchise-based salon brand as a growth strategy?**

#### **Answer plan:**

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# Section 6: Technology and digital business

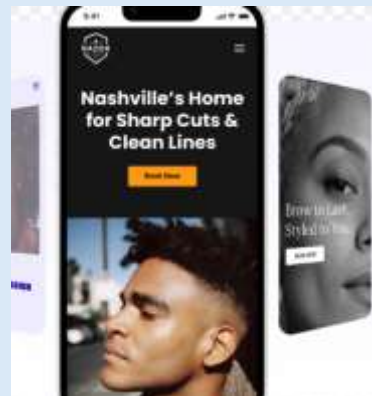
## Information systems and use of technology - Page 10

DKK's website provides information about the company, its ethos, its service offering and its 50 salons. There is no functionality to book appointments or purchase retail products online. Individual salons engage in social media activity on a limited basis and focus on highlighting their hairdressers and their skills.

### *StyleSeat and Instagram Booking: Turning Social Media into a Booking Funnel*

StyleSeat is a beauty and wellness booking platform used by independent professionals to display portfolios, receive customer reviews, take bookings and connect social media content to appointment scheduling. The affected market is the beauty, hair and personal care services market, where stylists increasingly use Instagram and other visual platforms to attract customers.

Social media stopped being only a gallery of hairstyles and became part of the booking funnel: clients could see work, trust reviews, book online and pay through connected digital tools. StyleSeat shows how social media can move beyond brand awareness and become a measurable customer acquisition and booking channel.



### **Which e-marketing features should a salon chain use to build online customer relationships and convert social media interest into bookings?**

#### **Answer plan:**

#### **1. Interactivity**

##### **1. client interaction**

X: StyleSeat allows clients to view stylist profiles, photos, service information and reviews.

Y: Clients are not just passively seeing hairstyle images; they can actively compare stylists and decide who suits their needs.

Z: DKK should make stylist portfolios interactive by allowing clients to browse services, view work and choose a preferred hairdresser.

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# Strategic summary

## SWOT analysis

### Strengths

#### Strong premium brand

DKK is the third largest chain in Kayland and the most well-known premium hairdressing brand. Its clients are loyal and willing to pay premium prices.

## 2. Porter's Five Forces

### 1. Competitive rivalry – High

DKK operates in a very competitive market. The hairdressing industry in Kayland is fragmented, and no single business dominates.

This means DKK must keep defending its premium position through service quality, skilled staff and brand reputation.

**From preseen:** *The industry is described as "very large and competitive," with low concentration. The three largest chains together generate less than 3% of total industry revenue.*

## 3. PEST analysis

### Political / Legal

#### Legal compliance is important

DKK must comply with employment law, health and safety law, consumer protection, competition law, data protection law and local government permit requirements.

This matters because DKK provides services involving chemicals, staff and client data.

**From preseen:** Hairdressing businesses in Kayland must comply with these legal requirements.

### **Patch testing is compulsory**

DKK must carry out allergy patch tests before certain hair products are first used on a client.

This protects clients, but it also adds time and administration to the service process.

**From preseen:** Businesses are legally required to carry out allergy tests before certain hair products are first applied.

## **4. Value chain analysis**

### **Primary activities**

#### **1. Inbound logistics**

##### **Currently good at:**

DKK uses exclusive supply contracts for premium haircare products and styling tools. This supports its luxury image and gives it products competitors cannot sell in Kayland.

##### **Not good at / weakness:**

DKK is dependent on these suppliers. If prices rise or products are unavailable, DKK's retail sales and premium client experience could be damaged.

**From preseen:** DKK has exclusivity contracts with two international suppliers, and availability and price of these products are listed as key risks.

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