

WHY GAINFUL EMPLOYMENT 3.0 WILL HURT THOSE IT IS DESIGNED TO PROTECT

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The Faces of the For-Profit Cosmetology School Industry



Arlene Lyons - Founder/CEO, Esani Institute

MBA, Stanford School of Business

Left successful Fortune 500 VP career to pursue passion for elevating the lives of young creative talents and helping to transform the beauty industry.



Ozzie Moore – Co-Founder/COO, Esani Institute

M.Sc. (Engineering) & MBA, Stanford School of Business

Retired CEO of market-leading firm in aviation Industry. Invested in Arlene's vision to transform beauty industry.



Jennelle Llantín Reinhardt – 2008 Esani Graduate

Founder/Owner, Bonnie & Clyde's Barber Salon

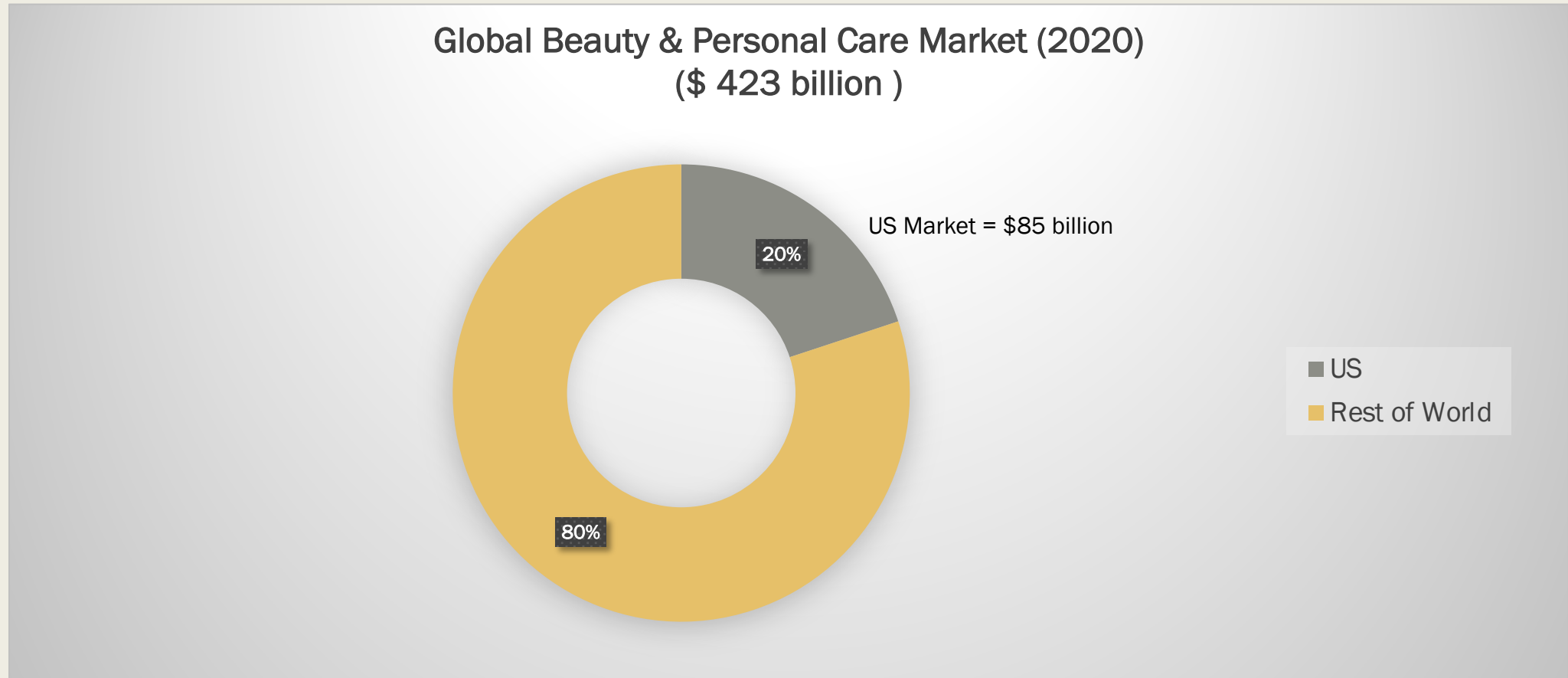
Established and grew one of the top barber salons in the Atlanta area, recently becoming a franchisor of barber salons under her brand.

- The vast majority of cosmetology school owners are self-made cosmetologists, small entrepreneurs, or family businesses who are passionate about training and mentorship of largely women and minority youth interested in pursuing a non-traditional academic path that leverages their creative talents and provides a stepping-stone to financial security.
- Paul Mitchell Schools (including the two owned and operated by The Esani Institute, LLC) have donated over \$24 million to a variety of charitable causes over its 19-year history of charitable giving. We believe in giving back to our communities.

Follow this link for a short message from two Esani Graduates: <https://youtu.be/SjKiciJOEZo>

About The Cosmetology Industry

- \$532 billion global industry in 2020 projected to grow at CAGR of 4.82% to over \$558 billion by 2026
- US market is 20% of global market, projected to grow to \$112 billion by 2026

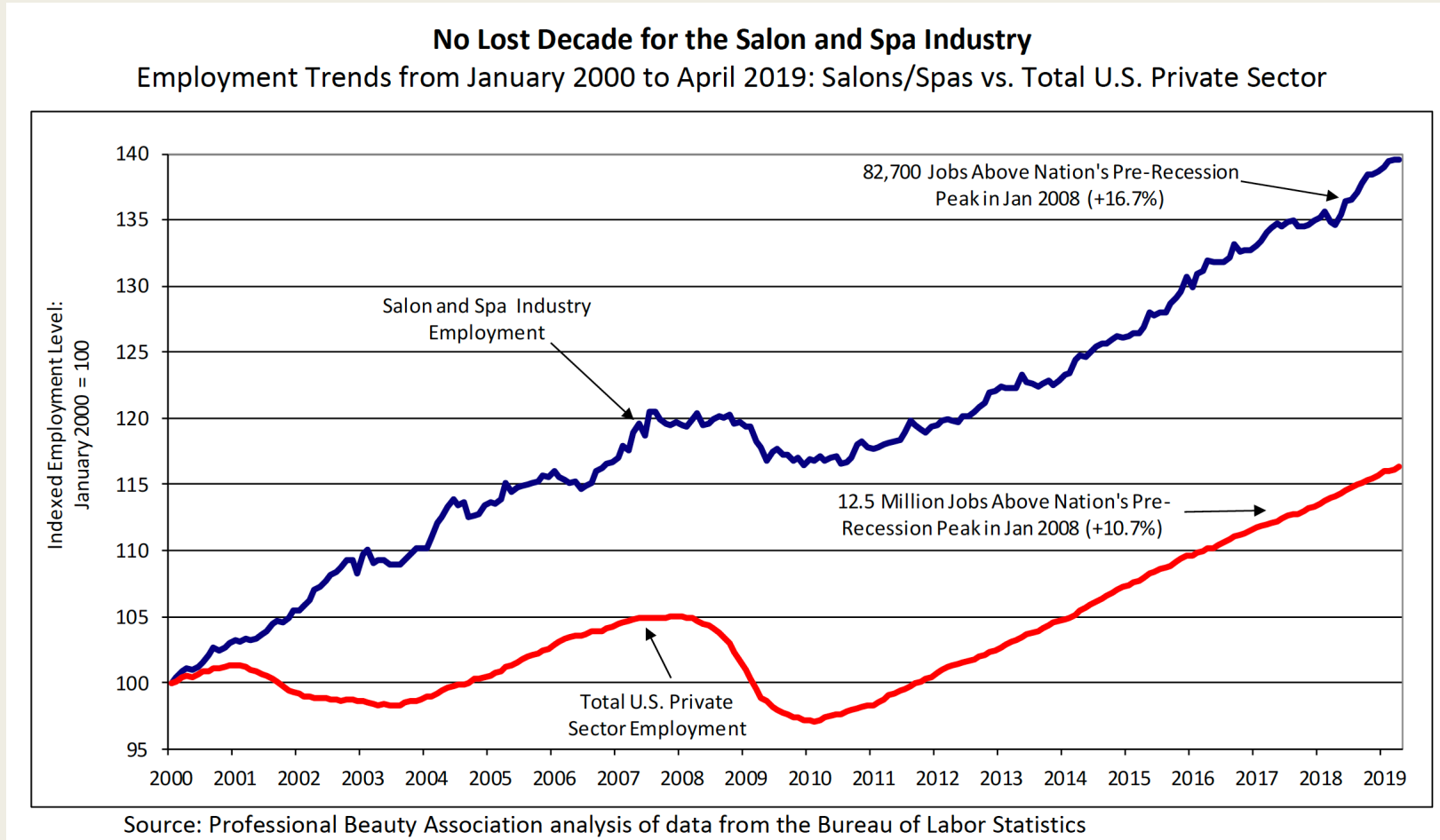


Source: Business Wire (June 22, 2021)

The Cosmetology Industry is a Growth Industry and is Recession Resilient

- In 2023 salon industry revenue is estimated at \$67 billion from a total of 1.4 million established businesses, projected to reach \$71 billion by 2029 with a total of close to 2 million established businesses. (Source: IBISWorld)
- The salon and spa industry outperformed the private sector during the 2008-2009 recession (Source: Professional Beauty Association Economic Snapshot of the Salon Industry)
 - *Between 4th quarters of 2008 and 2009, the salon/spa industry experienced a decline of only 130 establishments (or just 0.1%)*
 - *For the same period, the national economy experienced a net decline of 92,000 private sector businesses (a decline of 1%)*
 - *Coming out of the recession (between 4th quarters of 2009 and 2010) the salon/spa industry grew by nearly 1,600 businesses (an increase of 1.7%)*
 - *For the same period, the overall economy experienced an increase of 26,500 private sector businesses (a gain of only 0.3%)*
- Between 2010 and 2018, the salon/spa industry experienced a 15.2% gain in establishments (compared to 12.5% for the private sector as a whole)

The Cosmetology Industry is a Growth Industry and is Recession Resilient

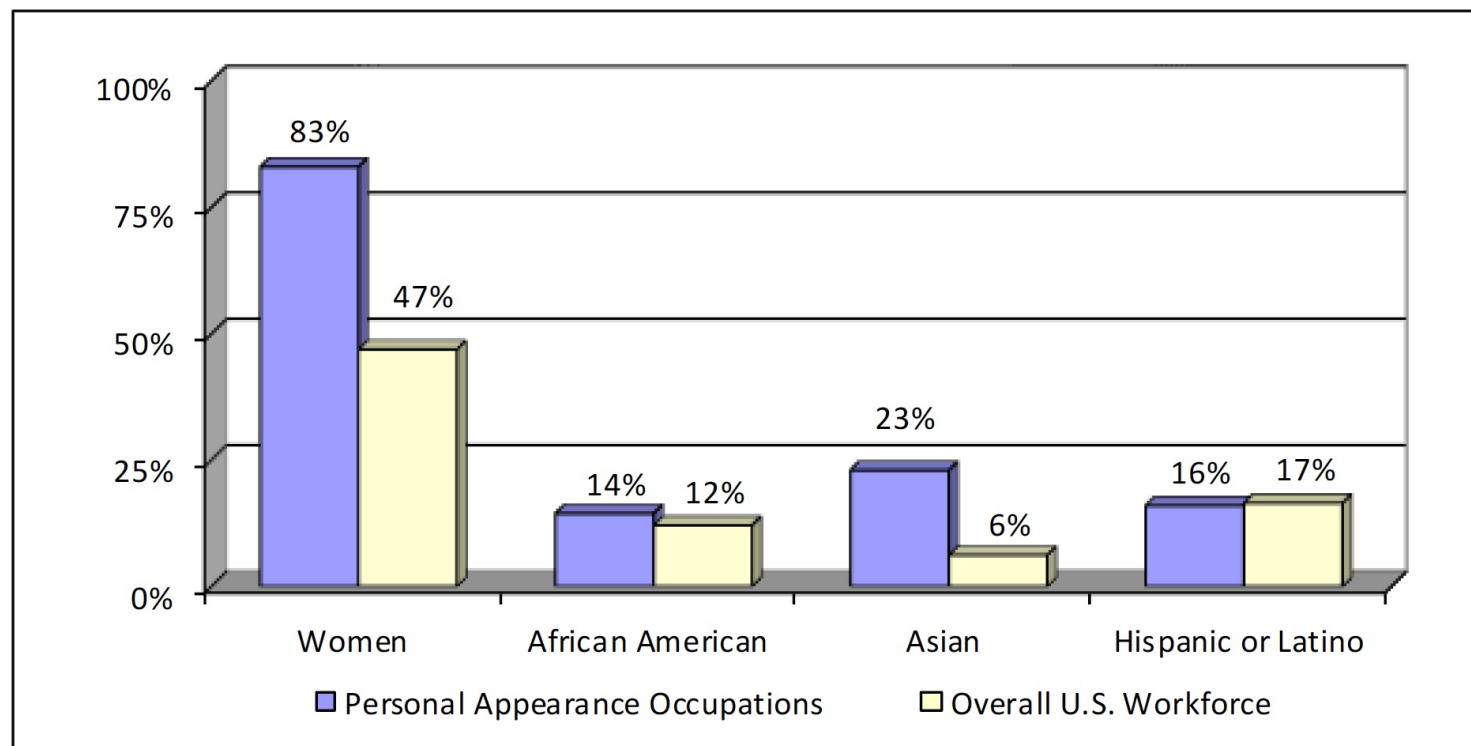


Salons Report Significant Staffing Shortages

- According to American Salon Article “Salons Seek Staff Amid Scarce Workforce. Survey Reveals” - 09/02/2022 (based on The American Salon Business Sentiment Survey – May – June, 2022)
- 44% of salon owners responded that they are actively hiring
- Salon Owner Quote: *“We have not been able to find new stylists for at least six months. We are booked weeks in advance, our stylists earn more than 95% of stylists in the area, and it’s still difficult to find staff.”*

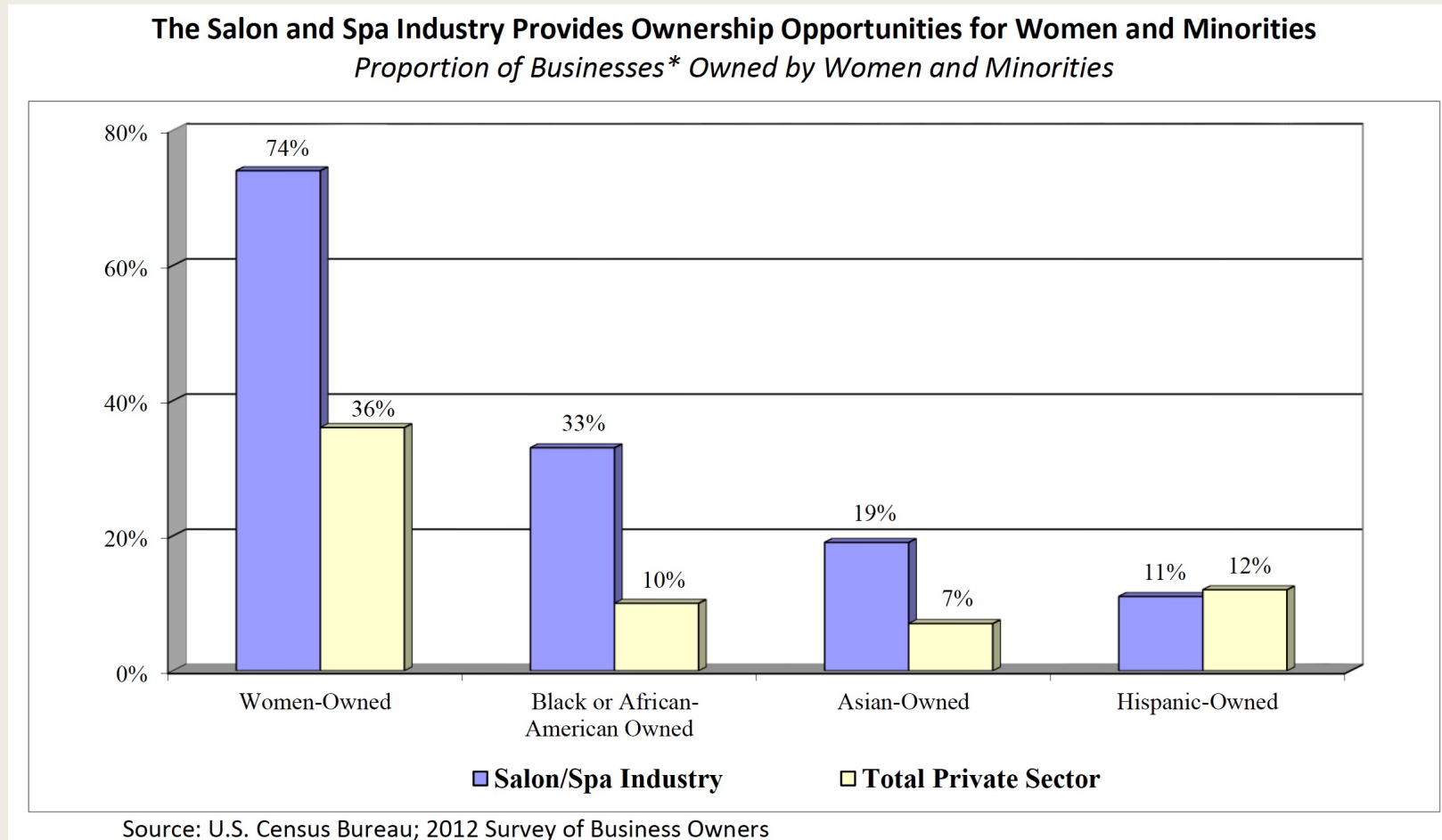
The Salon/Spa Industry Provides Career Opportunities for Individuals of All Backgrounds

Breakdown of Employed Individuals by Gender, Race and Ethnicity
Personal Appearance Occupations versus Overall U.S. Workforce



Source: Bureau of Labor Statistics; 2018 data

The Salon/Spa Industry Provides a Path to Ownership Opportunities for Women & Minorities



GE 3.0 Will Decimate the Cosmetology Industry

INTENTIONAL OUTCOME OR UNINTENDED CONSEQUENCE?

Private For-Profit	Number of GE Programs in Cosmetology and Related Personal Grooming Services	Programs Passing Earnings Threshold Without Published Earnings Threshold Metric	Programs with Earnings Threshold Metrics		% of All Cosmetology and Related Personal Grooming Services Credentials Awarded in Programs with Failing Earnings Threshold
			Passing Earnings Threshold	Failing Earnings Threshold	
Certificates	858	277	10	571	87.0%
Public	Number of GE Programs in Cosmetology and Related Personal Grooming Services	Programs Passing Earnings Threshold Without Published Earnings Threshold Metric	Programs with Earnings Threshold Metrics		% of All Cosmetology and Related Personal Grooming Services Credentials Awarded in Programs with Failing Earnings Threshold
			Passing Earnings Threshold	Failing Earnings Threshold	
Certificates	419	351	3	65	37.8%
Private Nonprofit	Number of GE Programs in Cosmetology and Related Personal Grooming Services	Programs Passing Earnings Threshold Without Published Earnings Threshold Metric	Programs with Earnings Threshold Metrics		% of All Cosmetology and Related Personal Grooming Services Credentials Awarded in Programs with Failing Earnings Threshold
			Passing Earnings Threshold	Failing Earnings Threshold	
Certificates	14	9	0	5	72.1%

Source: CECU Analysis of ED's March 2022 GE Information Rates

Socioeconomic Impact of GE 3.0 and Proposed Cap on Student Financial Aid

If the vast majority of cosmetology programs fail GE, what will become of the 200,000 mostly female and minority students currently enrolled in GE cosmetology programs?

- The Cosmetology Industry employed workforce is 80 to 90% women and over 50% minorities.
- 74% of salon/spa businesses are women -owned, 33% are Black-owned, 19% Asian-owned, and 11% Hispanic owned.
- For Esani, our student population is 98% female and 68% minority.
- Abruptly cutting off training options for the most vulnerable segments of our population will have a devastating impact on the economic futures of our industry's largely female and minority population.
- Abruptly cutting off the supply of trained labor force for an industry already suffering from a severe labor shortage will have a severe recessionary impact on the \$85 billion US beauty industry that gainfully employs approximately 2 million people and generates strong economic activity in every city and town across the country.
- Capping student's Title IV eligibility based on the lesser of state minimum hours requirement or the national median minimum hours could place significant burden on a female/minority population who could least afford to have their eligibility reduced.

Cosmetology is an Extreme Outlier Among GE Programs

- Gender and minority disparities in income are amplified in the Cosmetology industry, given the strong over-representation of women and minorities.
- Diligently collected data show that under-reporting of income is much more significant than the 8% estimated in the “Hair and Taxes” Study by Cellini and Blanchard.
- Earnings measurement punishes careers like cosmetology with a slower build to full income potential and a higher prevalence of part-time workers.

Why Almost all Cosmetology Programs Fail GE 3.0

UNREPRESENTATIVE & DISCRIMINATORY EARNINGS THRESHOLD METRIC

- The High School Earnings Threshold as currently defined is a severely flawed benchmark for cosmetology schools given the very different demographic profiles of cosmetology schools compared with the proposed high school earnings cohort.

	High School Cohort	Esani Student Population
% Male	61%	2%
% Under age 25	0%	40%
% Non-White	23% *	68%

* Based on Bureau of Labor Statistics data

- According to the Urban Institute, **the median earnings gap between men and women with only a high school diploma is large – about \$8,800 or 43% of the average earnings of women.**
- There are also disparities in earnings based on race. According to the US Bureau of Labor Statistics 2020 Report, **Blacks earnings were 79% of the earnings of Whites and Hispanic earnings were 76% of the earnings of Whites.**

Why Almost all Cosmetology Programs Fail GE 3.0

INACCURATE AND UNREPRESENTATIVE EARNINGS METRIC

- **The Earnings metric used in the debt-to-earnings ratio is flawed** when applied to cosmetology schools due to a number of factors:
 - Contrary to the January 2022 “Hair and Taxes” study by Cellini and Blanchard, underreported income in the beauty industry is not limited to tip income.
 - Of the estimated 1.4 million salon businesses in the US, only 9% are establishments with payroll employees (accounting for about 50% of the industry sales)
 - 91% of salon businesses have no payroll employees. These are very cash-intensive businesses which from our own diligently collected information reflect a level of underreported income that is significantly higher than the 8% that might apply to less cash intensive tip-income businesses such as restaurants.
 - Based on the alternative earnings survey conducted by Esani for GE 2.0, having met all the survey requirements including response rate (over 50%) and non-response bias test, the median earnings of our graduates increased by over 50% compared to reported SSA earnings.
 - 36% of hairdressers, hairstylists, and cosmetologists and 47% of barbers are self-employed. It is likely that the earnings data being used for GE excludes self-employment income, which represents a significant share of cosmetology school’s graduates’ earnings

Why Almost all Cosmetology Programs Fail GE 3.0

INACCURATE AND UNREPRESENTATIVE EARNINGS METRIC

- **The Earnings component of the debt-to-earnings ratio is flawed** when applied to cosmetology schools due to a number of factors:
 - Cosmetology graduates take 3 to 5 years or more to build to their full earnings potential due to the need to grow a clientele.
 - Women make up over 80% of the cosmetology industry and 98% of Esani's student population. Many women choose cosmetology so they could have the flexibility of working part-time during child-bearing and child-raising years; increasing their work hours in later years – GE does not distinguish between part-time and full-time earnings.
 - Lifetime earnings is a more representative metric for the value of a cosmetology education.

RECOMMENDATIONS TO ENSURE ACCOUNTABILITY & FAIRNESS

DELAY AND IMPROVE

- **Delay implementation** for programs like cosmetology where the entire industry will likely be decimated to allow time for a more effective solution that will not harm the students GE was designed to protect. Or, do not impose sanctions for metrics calculated using data from years that preceded effective date of rule. Implement reasonable disclosure requirements and allow time for changes to ensure compliance in future years.

ENHANCE ACCURACY OF EARNINGS METRICS

- Eliminate the Earnings Threshold or create multiple high school cohorts to choose from to ensure there is an option for each program that is representative of that program's demographic profile. For example, for cosmetology, consider using a female high school cohort age 18 to 24. Or, incorporate mechanisms to account for gender and race-based wage discrimination for programs with high percentage of women and minorities
- Extend the cohort period to place earnings measurement no sooner than four or five years after graduation
- Develop a metric based on estimated lifetime earnings and ROI for each GE Program. This would establish target program pricing. Only programs that exceed target program cost will be subject to annual GE measurement process.

RETAIN ELEMENTS OF GE 2.0 (OBAMA-ERA VERSION) THAT COMPENSATE FOR INHERENT DEFICIENCIES IN MEASUREMENT PROCESS

- **Alternative Earnings Appeal** – This process worked well with the guard rails that were put in place. Of 254 cosmetology schools that appealed only about 61 (24%) additional programs passed and 39 (15%) were no longer failing. This is a reasonable outcome and does not suggest a process that is subject to abuse as some have suggested.
- Allow use of **higher of mean and median earnings**.
- **Zone and Transitional Periods** – Given the historical nature of the GE measurements and the potential devastating impact on enrolled students (especially including women and minorities), reinstitute the zone and transitional period to allow time for schools to work towards meeting GE requirements.
- **Use of six-digit CIP codes**; 4-digit CIP codes guarantee that cosmetology schools will lose eligibility for all their programs.

RECOMMENDATIONS TO ENSURE ACCOUNTABILITY & FAIRNESS

ENHANCE ACCURACY OF DEBT METRIC

- Exclude federal and state grant funds from the total debt to avoid holding schools accountable for loans used for living expenses.
- Exclude Direct PLUS loans
- Exclude institutional grants from tuition

ENHANCE FAIRNESS

- Be transparent about all sources of data and methodologies and allow an opportunity for schools to review and appeal prior to ED final outcome determination.
- Apply rule equally to all Title IV programs at all institutions, including public and private non-profit schools. At minimum, all schools should be made to comply with disclosure requirements.
- CERTIFICATION PROCEDURE: Remove student Title IV eligibility cap based on lesser of minimum hours required by state or national median minimum hours

THANK YOU!

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