



# HFD Spa®

Spa Advisory Services for Fine Hotels, Resorts & Mixed-Use Developments®

## **SPA PROFIT MAXIMIZATION**

### **HOW TO GO FROM REVENUES TO PROFITS**

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#### **INTRODUCTION**

Do you want your spa to be profitable? Do you want your spa to help improve your hotel's occupancy and increase the revenue per guest? If yes, have you invested any resources (money, training or coaching) to help your spa director to be a better financial business manager? If you haven't invested in educating your spa director to be a spa "business" director, don't expect your spa to be as profitable as it could and should be.

Most spa directors do not come with the business skills they need, and when they are on-the-job, they are not typically given the business training that will help them to maximize the spa's profit potential. One would think that with a multi-million dollar "bricks and mortar" investment in a spa venture, investing in training the spa director to be the best possible business manager would be a "common sense priority." Unfortunately, this is rarely the case...the reality is typically to provide minimal training and support, yet have high expectations related to performance and profitability. This disconnect presents a dilemma that is the biggest current and future challenge facing the spa and hospitality industry.

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In the June 2012 study commissioned by the Global Spa & Wellness Summit, SRI International examined the many challenges faced by the global spa industry in "hiring strong, well-qualified spa management personnel, as well as the root causes of these challenges." Among the findings of SRI's study are the following (all of these points are quoted from the SRI study entitled "**Spa Management Workforce and Education: Addressing Market Gaps: June 2012**" as presented at the GSWS June 2012):

- One of the biggest challenges in the spa industry, as it exists now as well as in the future, is to find staff who have a "heart and soul" as well as "common sense and business."
- Spa businesses are facing a fundamental challenge in their management workforce – they are simply not able to find enough people with the right skills to fill management-level positions.
- Hard skills in business and management are considered to be the number one deficiency among today's spa managers/directors. Revenue management was listed among the top 3 areas where spa directors need help.
- Industry leaders who are currently working in a capacity in which they hire/oversee/supervise spa managers/directors, 95% stated that they have difficulties finding job candidates with the right qualifications and experience. Among that group, two-thirds also stated that the people they hire as spa managers/directors usually require a lot of additional training, coaching and mentoring once on the job.
- Ninety-five percent (95%) of spa industry leaders stated that they currently face problems in hiring spa managers/directors with the right combination of qualifications and experience; 52% stated that they believe these problems will stay the same or worsen over the next decade.
- While staffing challenges occur across all levels and positions in today's spas, these challenges are *especially important* and *especially prevalent* at the management level. As for any other business, talented leadership and strong management are critical to the success of a spa.
- There are only 64 spa management-related degree programs globally at universities/colleges/schools that provide education for students interested in careers in spa management. The annual number of graduates from these programs meets only a tiny fraction the spa industry's growing hiring needs for well-trained spa management personnel (i.e., there are only around 4,000 students worldwide currently enrolled in spa management-related degree programs, but there are an estimated 130,000-180,000 spa managers/directors currently working in spa businesses globally). For this reason, industry leaders tend to place very little emphasis on educational credentials when hiring spa managers/directors. This problem is closely linked with the gaps in "hard skills" and technical/business management skills that industry leaders complain are prevalent among their spa managers/directors.

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For 30 years, HFD (an international spa consulting company) has recognized and tried to address the lack of business acumen among spa directors and the lack of on-the-job "business" training as being what we considered to be the biggest "operational" problem in the spa industry. We could never understand why extraordinary amounts of money were spent on the "hard costs" (spa facility), yet very little money, time or resources (relatively speaking) would be spent on the "soft costs" (marketing, operating, training, etc.). Too many hospitality leaders still do not believe in the spa's potential; therefore, they do not provide the necessary resources to train the spa director to be directly responsible for making sure the spa is a financially successful business venture. The need to find or train qualified spa directors has become increasingly more important and has been clearly identified by SRI as the biggest challenge in the global spa industry both today and the future.

In this article, we will focus on a few techniques that we use as part of HFD's business management/coaching program. This educational software and hands-on coaching program helps spa directors collect, measure, understand and monitor data so they can make strategic business decisions that will improve the spa's profitability.

## **DEVELOPING A SPA PROFIT MAXIMIZATION PLAN - EVALUATING & MEASURING PERFORMANCE**

Insights & Recommendations by Ben Campsey, Director of Finance, CPA, MBA, CHAE - The Umstead Hotel and Spa - Cary, NC

Revenue management practices have long been utilized in the hotel industry to maximize financial performance. Hoteliers know that the variable cost of an occupied room, such as housekeeping labor and supplies, room amenities, utilities, etc., are minimal when compared to the room revenue generated from the sale. Even when large discounts are offered against room rate, significant margin will exist with the goal being to generate enough revenue to exceed the fixed costs of running the hotel. Spas operate differently, with variable costs being significant and fixed costs being a smaller factor. Therefore, spas should focus their strategy on profit management instead of revenue management.

Developing a profit management plan for your spa will take time, but if you follow this simple road map you will be able to implement a strategy built on understanding the financial consequences of your operational decisions. We will use the following process to determine the variable components of your cost structure, which will allow you to determine the impact of operational strategies and pricing decisions.

1. Distinguish between fixed costs and variable costs
2. Separate variable costs into step variable costs and true variable costs
3. Determine the drivers that cause step variable costs and true variable costs to change
4. Implement a process to evaluate the profit impact of changes in business volumes

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Before developing and implementing your strategy, it is important to determine the cost structure of your spa. Throughout the process, all necessary information may not be available to you. It is important that your analysis is thorough and accurate. I do advocate, however, carefully weighing the time commitment in studying data to the value it will grant. If making a reasonable estimate will save you a significant amount of time and labor, then use the estimate and proceed. For the purpose of this article, we will focus on breaking costs down into fixed costs, semi-variable costs and variable costs. Additionally, we will separate variable costs into step variable costs and true variable costs. Below are basic definitions for the terms we will be using:

- **Fixed Costs:** Costs that do not vary with changes in business volume. Examples of fixed costs include management salaries and service contracts.
- **Semi-Variable Costs:** Costs which contain both a fixed and variable portion. Examples of semi-variable costs include wages for non-service providers, locker room amenities and operating supplies.
- **Variable Costs:** Costs that are fully dependent on business volumes. Examples of variable costs include wages to service providers (when dependent on a service) and professional supplies.
  - **Step Variable Costs:** Costs that are uniform until a specified threshold is reached.
  - **True Variable Costs:** Costs that are incurred directly when additional business volume is incurred.

Please see the chart below which lists common types of costs and describes the process used to distinguish between them.

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<p><b>Fixed Costs</b>  <u>Common Examples:</u>          Management Salaries &amp; Wages          Advertising &amp; Promotions          Contract Cleaning          Dues &amp; Subscriptions          Decorations          Licenses &amp; Permits          Service Contracts          Travel &amp; Entertainment</p>	<p><b><u>Fixed Cost Determination:</u></b></p> <p>Total fixed costs will be the total of all Fixed Costs along with the fixed portion of the Semi-Variable Costs.</p>	
<p><b>Semi-Variable Costs</b>  <u>Common Examples:</u>          Reception Desk/Locker Room Wages          Laundry &amp; Dry Cleaning Expense          Locker Room Amenities          Printing &amp; Stationary</p>	<p><b><u>Variable Cost Determination:</u></b></p> <p>Total Variable Costs will be the total of all Variable Costs along with the variable portion of the Semi-Variable Costs.</p> <p>Once the Variable Costs are determined, the cost drivers must be identified. These can be broken down into Step Variable Costs and True Variable Costs.</p>	<p><b><u>Step Variable Costs</u></b>  <u>Example:</u>          Staffing the front desk using the method of 1 agent for every 30 guests. Labor cost will not vary when one additional guest is added, instead it will vary once a threshold is achieved.</p>
<p><b>Variable Costs</b>  <u>Common Examples:</u>          Service Provider Wages (Booked Portion)          Comps &amp; Allowances          Cost of Goods Sold          Credit Card Fees          Professional Supplies</p>		<p><b><u>True Variable Costs</u></b>          True Variable Costs in the spa are typically isolated to labor and product costs related to providing treatments.</p>

While understanding the fixed costs of your operation is important for many purposes such as determining your breakeven point, our current goal is to maximize profitability through strategic operational decision-making. With this as the objective, most decisions will be based on evaluating service volumes and pricing as well as the impact these have on profitability. Therefore, variable costs will play a greater role in helping us decide between proposed operational strategies, and we will focus strictly on variable costs.

The next step is to determine the drivers that cause step variable costs and true variable costs to change. Step variable costs are typically based on labor standards for front-of-the-house associates. An example of a labor standard would be to add one front desk agent for every 30 guests.



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True variable costs are most often related to the performance of treatments. Therefore, the most accurate way to obtain variable costs is to calculate the profitability of your treatments. Please see an example of this calculation below.

<b>Service Name:</b>	<b>50 Minute Massage</b>
<b>Total Duration (Minutes)</b>	60
	<b>\$</b>
Retail Price	\$100.00
Therapist Compensation	\$35.00
Employment Taxes/Benefits	\$3.50
Professional Supplies	\$2.00
Credit Card Fees	\$2.50
Comps/Allowances	\$1.00
Other (Amenities, Laundry)	\$1.00
<b>Total Variable Costs</b>	<b>\$45.00</b>
<b>Contribution Margin</b>	<b>\$55.00</b>
<b>Contribution Margin %</b>	<b>55.0%</b>
<b>Contribution Margin/ Treatment Hour</b>	<b>\$55.00</b>

As we proceed, the contribution margin and contribution margin per treatment hour will be referenced frequently as they depict the profit derived from services. It is also important to calculate a weighted average contribution margin in order to evaluate decisions that impact multiple services. For example, if your spa offered 4 different massages, with the following margins:

<b>Service</b>	<b>Contribution Margin</b>	<b>% Service Mix</b>
<b>Massage 1</b>	\$50.00	25.0%
<b>Massage 2</b>	\$60.00	15.0%
<b>Massage 3</b>	\$45.00	50.0%
<b>Massage 4</b>	\$55.00	10.0%

The weighted average contribution margin is derived by taking  $\$50 \times .25 + \$60 \times .15 + \$45 \times .50 + \$55 \times .10 = \$49.50$ .

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Now that you have had a chance to review examples on how to determine the drivers of step variable costs and true variable costs, we will proceed with a few examples of how this system can be implemented to assist with common operational strategy proposals.

**Example 1:** Business volumes have been slow through the week but are near capacity Friday through Sunday. I believe a 20% discount Monday through Thursday would generate more business for the spa. How many more spa treatments would I need to book to justify this decision?

To answer this question, let's use the profitability calculation mentioned previously to determine the difference in contribution margin between the full-price massage and the discounted massage:

Based on this information, we would earn a contribution margin of \$55 if we did not offer the discount and \$35.70 if we did offer the discount. To determine how many more services we would need to book to justify the discount, we divide the contribution margin of the no-discount scenario by the contribution margin of the discount scenario  $\$55/\$35.70=1.54$ . This ratio tells us that we must book 1.54 services at the discount price to equal the profit we would earn for every 1 service at full price. To examine further, if we could do 20 services a day without the discount, we would need to do  $20 \times 1.54=30.8$  services with the discount to reach the same profit.

Other factors to consider in this example include brand impact of offering the discount, up-sell of products or services from increased business and whether or not the additional services will result in additional cost related to step variable costs as described above.

**Example 2:** On average, the spa has 2 guests on the wait-list for massage each day. It is difficult to justify bringing in a staff member for a full shift and finding on-call staff is very hard. Based on history, I can bring somebody in for the 8 hours that spans the time the guests are wait-listed. I would do my best to manage labor and send the employee home if it does not appear likely that the slots will book. How can I determine whether or not I should do this from a financial standpoint?

Additional Information:

- Provider wage when not booked: \$8/hour
- Taxes/Benefits: \$2/hour
- Assume no other variable expenses

From our previous example, we determined that the 50 minute massage has a contribution margin of \$55. If we will book 2 services during the 8 hour shift, we will net \$110 from the services. We must also factor in the additional labor we will incur of  $(\$8+\$2) \times 6$  hours (un-booked time) = \$60. This results in a \$50 profit per day from making this decision.



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It is important to recognize that an adverse effect of this strategy is that it could cause the profit margin *percentage* to decrease. This should be ignored as the goal is to drive profitability in terms of dollars, as opposed to providing the highest profit margin *percentage*. This can be a highly contested point so must be understood and articulated.

The above examples show how financial-training and coaching can help spa directors to better measure, understand and evaluate performance so that strategic, profit-oriented decisions can be made. There are numerous additional performance tools that can be used to make a significant impact on the spa's profitability. The key is to give the spa directors the tools and training/coaching so that they can be effective business managers.

## **SPA PERFORMANCE STRATEGIES**

In order to generate the revenues so you can use Ben's financial tools for profit maximization, HFD invited 3 experts to share some business strategies. Here are some ideas that might help improve your spa's performance:

Kim Parker, Executive Spa Director - Pinehurst Resort - Pinehurst, NC (Effective July 2012, Kim will be the Spa Director at The Umstead Hotel and Spa - Cary, NC. Information below is from Kim's experience at Pinehurst.)

- **Forecasting & Scheduling:** 45% of our business is still booked in the week for the week. Staff is paid hourly plus service charge and are only on the clock when providing a treatment. Therapist scheduling requires careful balance to ensure you have staff available for short-term bookings and to ensure no guests are on the wait-list.
- **Capturing In-House Resort Business: Groups and Social.** Marketing efforts are key:
  - How do we “speak” to our guests prior to arrival and when they are on property
  - Suggestive selling during the reservation process
  - Internal marketing through-out the property: in-room television, collateral, displays/shadow boxes, ease of booking a service, spa button on all in-room and public space phones)
  - STAFF are the Ambassadors of suggesting/promoting: transportation drivers, hotel desk agents, bellmen, golf cart attendants, etc..
  - Social media efforts (Twitter, Facebook, etc..)
- **Up-Selling:** Incentivize staff by setting monthly goals for reservation agents and spa receptionists, include spa “support” staff in service charge distribution to create a “win/win” for all
- **Discounting:** When necessary, offer discounts when demands are low and maintain regular pricing during peak demands. It is better to add more value rather than discounting, i.e., up-grades, gift with purchase, complimentary eye serum with facial, etc.

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- Maintain Payroll & Expense Margins!!!: Efficient scheduling: “minimum nut” during slow periods/days, staff “cuts” for the day/week, portioning product, linen usage, etc.

## Tina Crawford, Spa Director - Ritz Carlton - Amelia Island, FL

- Determine Fixed Cost: It is important to find a metric that works for you, i.e., what is the daily hurdle you need to achieve to meet your goal. We have scoreboards in the spa with monthly targeted goals. It is broken down in daily goals so that the team feel as though they can achieve results.
- Treatment Costs: We are constantly seeking ways to improve on the cost per treatment. We also strive to promote services that drive revenue with lower cost of sales during peak times.
- Develop a System to Track Your Daily Progress: We report our daily revenue results (wins or losses) as well as what is left to achieve goals.
- Scheduling: Use a flexible scheduling strategy based on knowing your seasons and "need" periods and ramping up during those times. Obviously, holidays/weekends for the resort locations will require additional staffing.
- Up-Sells: Incentivize front desk team with products and services by utilizing our vendors for support on the product end.
- Pricing/Discounts: Pricing has been increased this year by doing a comp set. Discounts are limited to entice larger groups to enter a contract with the spa. We are trying to steer clear of discounts and prefer to add value to services by offering enhancements.
- Monitor Booking Pace/Wait-list: Consistently monitor booking pace to ensure we have staff coverage to avoid waiting lists. Knowing what your mix of business is and what is going on in the resort will help you schedule accordingly.
- Price Elasticity of Demand: We yield manage the books to make sure that services which keep us from making the most monies are "managed out" on holidays and weekends.
- 30 Minute Gaps in Service Times: We have trained the front desk staff and therapists to make sure they know what the books look like and when they can offer 30 minute services or service enhancements in treatment rooms.
- Added Value to Replace Discounts: Offer daily, complimentary enhancements to encourage retail purchases which have been very successful in retail percentage to treatment revenue.
- Marketing Opportunities - Internal/External: It is very important to partner with local charities and do after hours events that will keep the community talking about your spa. Social Media is certainly the way to go if there are no restrictions for promoting your brand.

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- Productivity Analysis: We monitor our treatment providers productivity with retail sales percentage to treatment revenue weekly then we discuss challenges and opportunities to improve. We have quarterly vendor training sessions in addition to trunk shows as often as we can get them (this supports retail sales as well as on-going training during free-time of spa employees).
- Checkbook: Monthly checkbooks are in place to keep costs under control. If the resort misses forecast then our checkbook purchase reflects a decrease in spending unless spa forecast stays on target.
- Daily Tracking Log: We measure revenues daily and set weekend goals by looking at history and challenging our teams weekly by knowing the goals.
- Ratio Analysis – The Impact of Discounts: We know the impact that discounts can have on the bottom line of a spa, so it is better to add value to your services rather than offering a discount.
- Payroll Variance Report: Payroll is obviously always the challenge in making sure your fixed costs don't eat up your profit line. Your providers are revenue producers, and you never want to skimp there. You can't skimp on fixed payroll, but you have to be in control and know where and when you can afford to take some risks.

Diana F. Mestre, Founder & President, Mestre & Mestre Spa Consulting - Polanco, Mexico

- Evaluate the profile of the target market of the guests that visit the spa in order to know what strategies are necessary to implement social media and on-line reservations strategies:
  - On-line reservations verses direct spa reservations
  - The impact of social media interaction with the spa
- Social media is now playing a very important role and can generate a more permanent connection with existing and potential clients
- Book on-line from smart phones and personal computers
- Develop better web-pages with virtual tours that explain the Spa Experience
- Maintain a permanent connection with the existing guest with a maintenance blog, spa club, spa memberships that offer various incentives to members or associates. For resort spas, you can offer maintenance programs that can be monitored remotely. For local community, provide incentives to day spa guests and/or members to come once a month.
- Measure marketing performance especially in these areas:
  - Social media participation and generated income
  - Spa club, blog or membership sign-ups
  - Web page, on-line reservations



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## **CONCLUSION**

We hope this article is a "call for action" for more business training for spa directors. Investors, owners, general managers, directors of finance and asset managers need to dedicate more resources to help their spa directors understand and put into practice all the financial business skills that are needed for the spa to be a profitable business venture.

The lodging and spa industries as well as educational institutions and consulting companies need to create the business management tools to better educate and help spa directors to be better business managers. Until this happens, spas will continue to be "lazy assets."

As more spas are built and as more investors/owners/operators/asset managers realistically raise their expectations and become adamant that the spa be a profitable business, there will be increasingly need to find competent spa directors and executive spa directors for the hotel chains. Right now, spa directors are primarily hired based on appearance, passion and/or experience as a spa service provider (massage therapist, aesthetician, cosmetologist, fitness instructor), front desk/reception/reservations team member or hospitality-trained employee who wants to ascend to the spa director position. While these people may come with good "spa experience," they typically do not have "spa business experience." As evidenced by HFD's 30 years of spa consulting experience and expertise as well as SRI's extensive research study, there is a definite shortage of business-educated spa directors, and the prognosis for the future is not very optimistic in terms of seeing this situation improve.

If you want your spa to make money (and why wouldn't you?), you need to invest money, time and resources to help your spa director gain the skills necessary to manage your spa venture as a business. There are proven, cost-effective financial and coaching programs available, but too many leaders in the spa and hospitality industries are either not aware of them or are non-believers in the spa's ability to be a profitable business venture. Why is it so difficult and why is it taking so long for the people at the top to believe in the spa's potential? Why aren't they making the commitment for the spa to be profitable? Why would they invest millions into the "hard" resources (the building, FF&E, etc.) but not into the "soft" (education/training/coaching) resources?

It's been 30 years since HFD identified the lack of business-training/education as a major challenge/problem. Unfortunately, and shockingly, we have not seen the progress that one would expect. There is no valid reason to wait any longer. We have seen the lack-luster results of doing nothing. Why not make the commitment to provide business management training and reap the benefits? The time is "now" for the spa and hospitality leaders to raise their expectations and allocate the resources necessary for success...if you expect it and invest it, it will happen.

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**Judith L. Singer, Ed.D., ISHC, President & Co-Owner Health Fitness Dynamics, Inc. (HFD Spa):** Judith L. Singer, Ed.D., ISHC, is the President & Co-Owner of Pompano Beach, Florida-based Health Fitness Dynamics, Inc. (HFD Spa) ([www.hfdspa.com](http://www.hfdspa.com)) an internationally recognized and pioneering spa consulting company that specializes in planning, marketing and operational advisory services for spas within fine hotels, resorts, day spas and mixed-use developments. HFD is dedicated to helping spas be marketable and profitable business ventures. HFD has developed a highly detailed, turn-key spa development program from concept to opening. HFD has also created a unique, comprehensive business coaching program and business-management tools to help spa directors, directors of finance, general managers and asset managers to collect, measure, understand and monitor financial and marketing data so spas can make strategic decisions that will improve their potential to be viable, successful business ventures. Since its inception in 1983, HFD has been the consulting firm to over US\$750 million of completed spa projects. A partial list of clients includes: The Allison, Banyan Tree Mayakoba, Mount Washington Resort, The Umstead Hotel and Spa, Rosewood Mayakoba, Canyon Ranch in the Berkshires, Little Dix Bay, Four Seasons Hualalai, Miraval, Malliouhana, Cranwell, Pinehurst, The Homestead, The Greenbrier, Bacara, Silverado and the Delano. Dr. Singer is the past chairperson of The International Society of Hospitality Consultants ([www.ISHC.com](http://www.ISHC.com)) and was on the ISPA Committee for the inaugural edition of the *Uniform System of Financial Reporting for Spas*. Dr. Singer may be contacted at 954-942-0049 or [judysinger@hfdspa.com](mailto:judysinger@hfdspa.com).

**Ben Campsey, CPA, MBA, CHAE, Director of Finance at The Umstead Hotel and Spa:** Ben Campsey is the Director of Finance for Cary North Carolina's Five Star, Five Diamond, Umstead Hotel and Spa. He joined the opening team at The Umstead Hotel and Spa after nearly ten successful years with Canyon Ranch Health Resorts. While at Canyon Ranch, he recognized the void that existed in the spa industry related to effective financial management strategies. Often considered a loss leader, Mr. Campsey viewed the spa as a profit center, and one which had been neglected from an analysis standpoint. During his tenor at Canyon Ranch, Mr. Campsey successfully designed and implemented tools that measured profitability, demand and resource management that resulted in immediate financial improvement. After nearly ten successful years in varying capacities with Canyon Ranch Health Resorts, Mr. Campsey elected to join the opening team at The Umstead Hotel and Spa in 2006. Innovative in his approach to spa financial management, Mr. Campsey has long been a proponent of establishing and measuring a common set of benchmarks in the spa industry. He has assisted HFD with developing tools and software which can be used to target areas where spas can become more profitable. It is with these benchmarks and metrics that spas can evaluate the financial success of their operational strategies.

Mr. Campsey has experience in the development, opening and operating phases of luxury resorts and hotels. He understands the spa's contribution to a lodging property and knows how to help maximize the spa's potential. Mr. Campsey may be contacted at 919-447-4311 or [ben.campsey@theumstead.com](mailto:ben.campsey@theumstead.com).

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