

Spas Are Hot, Don't Get Burned: Understanding the realities and steps for a marketable and profitable spa. Part II

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Spas have gone from being a luxury to an amenity to a necessity for almost any four and five star resort and to many up-scale hotels. Many resort/hotel spas have become "signatures" for the property in terms of facilities and services. Some properties have even become notable because of the spa, and the spa features prominently in advertisements and public relations announcements. Spas have become, and will continue to evolve, as one of the fastest growing and hottest components of a lodging venture because they are on-trend in terms of helping people relax, release stress and have a sense of balance in their lives.

While spas need to be very market-driven and attractive to the consumer, it's easy for the owner, operator or investor (you) to get burned if you do not understand the development, staffing, marketing, financial and operational realities of the spa business.

It's essential that you do your homework before jumping on the spa band-wagon. You should visit a few spas. Spend some time as a guest so that you can appreciate and understand the unique intricacies and personal nature of the spa. Then go from your robe to your suit and talk to spa owners and operators to understand the economic realities from concept to completion to day-to-day operations. Spas should be run as a business.

In Part I, we discussed some of the conceptual and planning issues that need to be considered when developing a spa:

- Definition of a Spa
- Objectives
- Benefits
- Market
- Concept
- Facility

In Part II, the focus is on the operational issues:

- Treatments
- Products
- Payroll
- People
- Operating Expenses
- Marketing

- Spin-Off Ventures
- Conclusions.

Treatments

People typically go to a spa because they want to take a treatment, but a spa should make the treatment into an experience. Although the treatment is the medium to help them relax, get rid of stress, feel pampered, etc., there are some key factors to consider:

- **Consistent with Concept:** Treatments and products must be in line with the concept.
- **More is Not Necessarily Better:** Be careful not to create what amounts to the encyclopedia of spa services. This can be confusing and stressful to the guests, difficult for the staff and expensive in terms of training and inventory.
- **Competitive Pricing:** Look at what everyone else is charging, the length of the treatments, the overall experience, etc. then determine what you can charge in relationship to the experience you offer. Be careful not to under-estimate or over-price yourself. As treatments become more and more expensive, the guests need to see and feel the value and results for the time and money spent.
- **Charge More but Offer More:** If you can create convenience, people will pay for it, e.g., charge \$5 - \$10 more for your deluxe manicure but use a fresh bottle of polish for the treatment and give it to them after the treatment, offer to clean their rings, given them a beverage of their choice, offer a heated “neck buddy”, provide a heated foot massager or a foot whirlpool, etc.
- **Don't Discount...Do Value-Added:** Offer value by doing add-ons or with give-aways, e.g., after a body polish, give people the loofa mitt; after a pedicure, give them the emery boards and buffers, etc. Don't discount or de-value what you offer...strive to enhance the value.
- **Gift Certificates:** Un-used gift certificates mean that you may have lost a marketing opportunity. You need people to come in if you want them to come back. Encourage people to use these.
- **Up-Sell and Link-Sell to Create an Experience:** People should have an experience and not just a treatment. For instance, up-sell by suggesting the four handed massage rather than the two handed massage and link-sell by suggesting a hair style after a facial. Think what you can do to create a memory and a “wow.” Create excitement and you will have ambassadors who will do your word of mouth marketing.
- **Personalize:** Each service should be customized and modified to meet the guest's needs and desires. People want it “their way” not your way or they will take the highway to the next spa in order to get their own Special Personalized Adventure (SPA).

Products

Products are important because they are directly related to the concept, treatment experience, retail opportunities, branding and profitability. Here are some points of consideration:

- **Branded Product Lines:** Branded products can be a wonderful option because of the packaging, name recognition, liability insurance, etc. Be careful, however, with how many lines you have. Carrying too many lines can dilute your bargaining power for pricing, training, collateral material, merchandising assistance, complimentary samples, incentive program and promotional give-aways, etc. If there are minimums, you could also face a spoilage problem.
- **Private Label:** There are a wide gamut of options from having a generic product and package with your name on it to creating a product formula, fragrance, color, packaging, etc. Having your name on a bottle is a great way to establish and enhance your brand identity if you create a good product line, but there are lots of risks if you don't. The mark-up value can be enticing, but the price of entry can be substantial. If there is not a strong “home spa” sales program, this may not be a cost-effective option.
- **Retail In-House:** Retail is the only “annuity” a spa has because it is consumable. If people like the spa experience, they will want to take it home with them in terms of spa products, accessories and

themed gift baskets. If you expect to sell products, you need the right line, space, incentive program, “sales” people, etc. Retail is an untapped potential. It should be an on-going extender of your brand identity and equity. It has the highest profit potential and is not labor intensive.

- **Mail Order:** Database retailing is important in terms of establishing a relationship with your guests. Your product company should be your partner in the “after spa” sales efforts. This can be through direct mail or web-based marketing, fulfillment house services, etc.
- **Re-Order:** Know the lead time for ordering products so you don’t tie up money by heavily stocking your shelves. At the same time, you don’t want to be too “tight” on what’s on hand because if you run out of a product, you have lost a sale that may never be re-captured.

Payroll

Payroll is the spa’s most costly expense; therefore, it is critical to have the right compensation program so that you can control payroll without adversely affecting the guest experience. Planning less labor-intensive facilities and creating a realistic (for both the employee and employer) salary package for the spa staff is something the spa industry needs to address.

There are many ways to pay your service providers to show that they are valued and that they are part of your success. As you put together a compensation program, consider the following:

- **Hybrid Compensation:** There are lots of options but some type of hybrid program can give people security as well as incentive. For instance, offer an hourly wage plus a productivity incentive when they give a treatment. Another option is to give people a weekly guaranteed salary with an incentive program based on treatment revenue, retail sales, requests and repeat guests, etc.
- **Commissioned Staff or Contract Employees:** You may want to have people on a fee-for-service program. They would be paid a flat rate per treatment. Do not pay people a percentage of the treatment because every time you raise the price of the treatment, it means the staff automatically receive a raise.
- **Team Incentives:** When everyone works together to achieve departmental and team goals, there can be greater earnings for the individuals as well as for the spa supervisors and managers.
- **Benefits:** Think about a benefits menu so that your staff can select what is important to them, e.g., health and dental insurance; discounts on treatments and retail; meals; uniforms; training; conferences; day care services; etc.

People

The spa business is a people business, e.g., everything you do revolves around your staff and your guests.

Invest in Your Team: Hire well, provide on-going training, help the staff to grow personally and professionally and reward them in terms of recognition and incentives. Make your success their success and celebrate the success of the individual and the team. Create an environment that reduces turn-over and builds loyalty.

Invest in Your Guests: Personalize each guest’s experience, use people’s names, remember birthdays and special occasions, etc. Never forget to say thank you, invite them back and when they come back welcome them. Create loyalty programs and make sure you have a guest comment program. As with the staff, it is important to establish a relationship and to make them feel that they belong and that you cherish their loyalty.

Invest in Your Community: You and your staff should participate in community events that are consistent with your concept, e.g., environmental programs if you have a “green” spa. Do volunteer work, make charitable donations, reach out to and invite individuals or organizations who could benefit from the spa, e.g., people recovering from an illness, battered women who need a little TLC, accident victims who may need to know about camouflage make-up, etc. Be a good neighbor.

Operating Expenses

It is important to control operating expenses without incurring a negative impact on the guest experience. The types of operating line items and the financial assumptions depend on if the spa is an IBU (independent

business unit), semi IBU or a department within the resort. The following are some of the more expensive operating expenses:

- **Laundry:** When a guest spends a full day in the spa, it is not uncommon to use 25 items per person per day. Guests expect that a spa will have an abundance of quality towels, robes and slippers. The laundry expenses will vary based on whether it is done in-house or out-sourced. You should do a laundry analysis, e.g., sometimes if out-sourced, the laundry company will buy all your robes, slippers, terry, etc. but will charge a bit more to launder each item.
- **Marketing:** Most spas will be part of piggy-back marketing plan with the resort. However, there may be direct marketing costs the spa will incur for local marketing, special occasion marketing, gift certificates sales, membership sales, etc.
- **Professional Products & Supplies:** The cost of doing a treatment is primarily governed by the products used as well as by the payroll as mentioned above. Products need to be used appropriately in order not to have waste and to see treatment results. Think about pre-measuring products, setting up a requisition program, keeping track of pars and re-order times, etc.
- **Utilities:** It makes sense for a spa to have an environmental consciousness program with water, electricity, disposables, recycling, etc. because this is consistent with the “health” message plus there are economic benefits.

Marketing

Remember the saying “if you build it, they will come.” Well, don’t expect this to happen. You need to constantly have a front-of-mind presence with your market so when they “think spa,” they think of your spa. Once they are in the door, the focus needs to be on establishing the relationship and creating the bond if you want to have loyalty and retention.

Internal Marketing: A guest should never be at your resort and not know that you have a spa. There are numerous ways to promote awareness starting with hotel reservations booking your hotel room as well as your massage. Awareness strategies can include, but not be limited, to direct mail, e-mail blitz, newsletters, referral programs, frequent user and loyalty programs, in-room collateral, a spa button on your phone, etc.

External Marketing: If people like your program, make them your “ambassadors.” Offer them some type of incentive program to let their friends and customers know about the spa. Ambassadors could include wedding planners, gift stores, liquor stores, real estate agents, travel agents, etc.

Spin-off Ventures

If you have been able to establish a strong brand and a solid business plan that can be implemented impeccably and consistently, maybe it’s time to see how you can create additional revenue streams:

- **“House Call” Services:** Be the provider of spa services to other hotels, private residences, condominiums, etc. Set up an “out-reach” program which can help you be a good neighbor while bringing in additional revenues for you and your staff.
- **Spa Parties:** When people want to celebrate special occasions, create the spa party either at the spa or at a person’s home. This can include spa services, gift baskets, spa food and beverage, etc.
- **License Your Name or Set Up a Franchise:** This is a major step, but if you have something that is re-produceable, you might want to consider this option. This can include both programs and products.
- **Lifestyle Real Estate:** Many people want to incorporate the “spa life” into their everyday life. Your spa may be attractive to a residential community developer or a condominium developer who recognizes the increase price point and marketing value that your spa name can bring to real estate sales, monthly maintenance fees, enhanced membership dues, etc.

Conclusion

The spa business is not an easy business to operate. It is a high risk business because it is so personal and labor-intensive. There is minimal room for error in terms of concept, program, products, design and

delivery. As a stand-alone business, the spa is not as profitable as people may think, but it certainly is an important tangible as well as intangible asset for the resort/hotel. Your success formula should include the following:

- **Understand Your Market:** Know your guests and give them what they want. Know your competition and make sure you're better than them. Spas have become a way of life for many people. Spas are an expected and necessary feature of a resort/hotel.
- **Well Thought Out Plan:** Create a market-driven concept, develop a solid and realistic business plan; plan a facility that has a good flow, feel and is operationally efficient; hire and reward well-motivated and service-oriented staff; continue to do on-going marketing; stay focused.
- **Economic Realities:** Make realistic financial budget in terms of pre-opening expenses, revenues, payroll and operating costs; monitor and measure everything you do; look at benchmarks and metrics; operate the spa as a business and not just a department.
- **Impeccable Execution:** Pay attention to detail; provide small and consistent surprises; be proactive; make sure the facility adheres to the most stringent cleanliness standards; etc. Do on-going staff training for staff development, treatments, hospitality and business management.
- **Look at Trends:** Stay on-trend by being aware of what is happening in spas, hospitals, recreation, health clubs, family vacations, leisure time pursuits, etc. Understand the past and present, but think in the future. Adjust to trends, but don't run the risk of being "trendy."
- **Confront the Challenges:** Make sure the spa experience is affordable, guest-friendly and service-oriented without being labor-intensive.

Spas are not a passing trend. They are an expected and necessary component of a resort, and they are becoming increasing in-demand for many urban hotels. Spas must be planned and operated as a viable business. Stay focused and deliver the promise. The key to profitability is to drive the top line by getting people in the door, giving them a great experience and getting them to return.

Judy Singer is the co-owner of Pompano Beach, Florida-based Health Fitness Dynamics, Inc. (www.hfdspa.com) an internationally recognized spa consulting company that specializes in the planning, marketing, training, operations and management support services of spas for fine hotels and resorts, day spas and mixed-use developments. Since its inception in 1983, HFD has been the consulting firm to over \$625 million of completed spa projects since 1983. A partial list of clients includes: Little Dix Bay, Four Seasons Hulalai, Miraval, Malliouhana, Cranwell, Pinehurst, The Homestead, The Greenbrier, Bacara, Silverado, Delano, La Posada de Santa Fe and Hotel Crescent Court. Dr. Singer is also the past chairperson of The International Society of Hospitality Consultants (ISHC). Judy can be contacted at judysinger@hfdspa.com

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