National HOTEL EXECUTIVE
The Publication for Hotel Owners, Operators, Senior Executives, and Hospitality Professionals

Is Your Spa a Lazy Asset?

By Judith L. Singer, Ed.D., ISHC, President, Health Fitness Dynamics, Inc.


Ms. Judy Singer

The spa business is booming and, for the most part, spa and resort operators are pleased or at least satisfied with their "success." However many spas are "lazy assets"….they do not even realize they are under-performers. Part of this is due to the fact that there is not enough available, reliable economic information that allows a spa to benchmark itself against other spas.

Do you really know if your spa is bringing in more room nights, more profits, higher revenue per occupied room, etc.? Is your spa a tangible asset, a profitable and viable business in and of itself as well as a strong marketing tool for your "core" business? Do you have measurable goals and financial metrics? Do you know how your spa does in comparison to your competitive set or industry "standards?"

When my business partner, Patty Monteson, and I started our spa consulting company in 1983, we were considered pioneers and trend-setters especially with our mantra that "spas need to be planned, marketed and operated as profitable business ventures in and of themselves and as marketing tools to the 'core' business." When we met with resort developers and investors, their focus was on the spa as a "marketing tool" and they did not believe or really care if it made money. Over the years, they realized that spas do not need to be loss-leaders and their expectation moved up a notch as they defined success as having both a marketing tool and a "break even" spa. Now the mandate, especially by the asset managers, is that the marketing value of a spa is not enough…spas need to be profitable. We need to be able to measure their contribution to the overall business whether it is to fill more rooms, sell real estate, higher RPOR, etc.
While the number of spas has increased significantly, there is a lack of "business management" tools to measure a spa's success or to establish reliable financial benchmarks. I feel there are two main challenges that need to be addressed in order for spas to be able to know how they are doing, understand the opportunities and maximize their potential:

1. Spa software programs are wonderful for three-dimensional scheduling (schedule the guest, the staff and the treatment room), but not many have standard "business" reports that can be used to collect and compare benchmark data. HFD is now working with some spa software companies to create these business management tools.

2. Spas have never had a uniform system of accounting so it has been difficult to gather 100% reliable data. HFD developed its own reporting format for its clients and has been conducting industry-wide research by analyzing pieces of data rather than data summaries. This has proved to be helpful to the industry, but now it's time to go to the next step. The spa industry realizes the importance of having a uniform system of financial reporting that all spas can use. I am now serving on the ISPA/EI committee which is developing such a system.

When the two challenges above are addressed, the industry will be able conduct better economic research on the "financial realities" of being in the spa business. Being able to measure one's success is important to defining success. Accurate benchmarks are also important when evaluating a feasibility study and finding investors. When you read the results of various studies, it's obvious that anyone who does economic research is faced with the same challenges.

As you look at a few of the benchmark studies performed by HFD, you will see how spas can become more viable business ventures if they have the tools to "measure reality."

<u>1999 HFD Economic Study</u>. HFD surveyed thirty resort-based spas. One of the questions we asked was: "Does Spa Enhance or Increase… " The percentages of "yes" answers from the general managers and directors of operations were:

- Marketing Advantage - 97%
- Revenue/Occupied Room - 83%
- Occupancy - 73%
- Perceived Value for Room Rate - 70%
- Room Rate - 57%
- Length of Stay - 43%
- Number of People/Occupied Room - 27%

HFD has conducted several follow-up studies whereby we have tried to quantify the above. You will see that guidelines or benchmarks are sometimes based as much on intuition and estimates given by the resorts as on actual, measurable numbers.

2001 HFD Study on The Impact of Spas on Resort Occupancy. HFD surveyed eleven resorts for a "before and after" study. We wanted to know how many additional rooms nights and occupancy points were the result of having a spa. While just about every resort said they had an increase in occupancy after the spa was open and that the spa played a significant role in marketing the property, the resorts could not quantify the additional business.

2001 HFD Study on Spa-Specific Revenue per Occupied Hotel Room. HFD surveyed thirty resort-based spas to examine the spa's contribution to the revenue per occupied room (RPOR). The spa gross revenues did not include membership fees and dues nor any hotel-related room nights and food and beverage related to spa packages. We excluded the highest and lowest properties due to the significant extremes in their numbers and found the average RPOR was $35.28.

2004 HFD Capture Rate Analysis Study. HFD surveyed fifteen resort-based spas to determine what percentage of hotel guests by market segment use the spa facilities and what percentage use the spa treatments. None of the resorts could give us actual rather than estimated numbers in terms of hotel capture rate, never mind capture rate by market segment. In resorts that have about a 50/50 or 60/40 or higher mix of group to leisure business, the capture rate estimates for the conference/group/business market was about 3% - 5% (could not determine if they use the facilities and/or the spa treatments) and about 7% - 10% of the leisure/FIT guests use the spa. When the resort is more leisure-oriented, the capture rate is higher.

It is obvious that the spa industry is in need of more "hard numbers." Some of the lodging chains that have a "collection of spas" are further ahead than the industry as a whole in terms of collecting and analyzing their own data and thereby establishing their own internal benchmarks. As they identify spas within their company that excel in certain benchmarks, they are able to learn what that spa is doing well and use this as a teaching tool and case study for their other spas. This micro analysis has been very helpful for the chains. If there was a macro analysis and if all spas had the ability to see how they are doing, the industry as a whole would be better able to look at the business-side of spa operations.

HFD has defined and developed a list of "metric benchmarks" that we believe are important to measure, monitor and use as points of comparison. Many of these are the same as those that some of the resort chains are using. The following are but a few of the benchmarks that are worthy of being monitored:

Marketing and Forecasting Metrics

- Capture rate of group and leisure guests
- Number of treatments per spa guest
- Utilization % of treatment rooms by hours of operation
- Utilization/occupancy % of treatment rooms based on available number of treatments
- Utilization % by treatment type

Revenue Metrics

- Revenue by line item as a percentage of gross revenue
- Overall revenue per square foot then broken down by treatment revenue and retail revenue according to the square footage of each potential profit zone
- Retail revenue as a percentage of treatment revenue
- Treatment revenue per market segment
- Treatment revenue per guest visit
- Retail revenue per guest visit
- Revenue per occupied treatment room
- Revenue per occupied hotel room

Payroll Metrics

- Payroll as a percentage of gross revenue
- Benefits as a percentage of payroll
- Employee cost (payroll and benefits) as a percentage of gross revenue
- Productivity analysis based on hours worked
- Revenue per service provider

Operating Expense Metrics

- Operating expenses as a percentage of gross revenue
- Product/supply costs as a percentage of treatment revenue
- Controllable expenses as a percentage of gross revenue

Profit

- Departmental profit as a percentage of gross revenue
- Profit as a "stand alone" business verses as a department

As the spa industry focuses on the business-side of spa marketing and operations, there will be an increasing number of spas that will go from being "lazy assets" to "active assets." Just as spas have grown in number, there is tremendous potential for them to increase their revenues, control payroll and operating expenses and to increase profits. More and more spas want and need useful and practical information. The future of the spa industry will be based on helping spas be economically feasible business ventures. Showing the financial feasibility and economic reality of a spa will be of significant importance to developers, investors, stockholders, asset managers and resort operators.

Judith L. Singer, Ed.D., ISHC, is the President & Co-Owner of Pompano Beach, Florida-based Health Fitness Dynamics, Inc. (HFD) (www.hfdspa.com) an internationally recognized spa consulting company that specializes in the planning, marketing and management support services of spas for fine hotels and resorts, day spas and mixed-use developments. HFD is also actively involved in conducting economic and consumer spa research. Since its inception in 1983, HFD has been the consulting firm to almost $650 million of completed spa projects. 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). Ms. Singer can be contacted at 954-942-0049 or judysinger@hfdspa.com

Back to Hospitality Forum