

## HFD'S LANDMARK STUDY ON SPA FINANCIAL BENCHMARKS

By Judy Singer, Ed.D and Patty Monteson, M.S.  
Owners, HFD

During October 2004 and July 2005, Health Fitness Dynamics, Inc. (HFD) conducted a worldwide spa economic study entitled **HFD's 2003/2004 Spa Financial Benchmark Research Study**. This landmark study provides never-before released financial analysis of spa performance and contribution and was an expansion of **HFD's 2001 Spa Revenue per Occupied Room Study**.

### **Why Did HFD Do this Study?**

Since 1994, HFD has funded and conducted spa economic research because we believe the spa industry has always been in need of having reliable financial information. This information is crucial for resort spa owners, operators, asset managers, investors, developers, etc. to understand the economic realities of the "spa business." As more and more spas are built, there will be an increased need to understand the financial viability of spas and to create economic benchmarks and management tools.

### **Research Process**

In June 2004, HFD contacted major hotel/resort chains; management companies; asset managers; hospitality marketing organizations and associations; spa marketing organizations and associations; and independent hotels/resorts. HFD explained the nature and purpose of the study and invited them and their properties/members to participate.

A brief survey was developed which included mostly open-ended questions and was self-administered by the spas. Surveys were sent out to all participating spas via fax and e-mail in October 2004 and July 2005. As necessary, HFD made follow-up telephone calls for clarification. All information was self-reported by the participants.

All the invited participants were resort spas where the spa is defined as "a full-service facility that is part of a lodging establishment (hotel or resort). Guests at the resort may enjoy the spa as well as other recreational activities such as golf, tennis, horseback riding, skiing, water sports, etc. The spa offers a variety of treatments (massage, skin care, body, bath, hair care, nail care, make-up, etc.), fitness (exercise equipment, exercise classes) and relaxation areas (lounges, steam, sauna, whirlpool, Turkish bath, Kneipp baths, etc.). Some spa cuisine or healthy dining options are likely to be part of the resort's F&B menu."

A total of 60 spas participated in the research study. Sixty percent were located in the United States and forty percent were non-US (International).

### **REPORTS**

This study literally generated hundreds of reports regarding the industry as a whole as well as how each of the participating spas performed against the industry benchmarks. The data can be "sliced and diced" in terms of all of the following:

Geographical Location: United States, International and Global/World-Wide

Hotel Size: Total number of hotel rooms. Small is less than 200 rooms; medium is 200 – 400 rooms; large is more than 400 rooms.

Spa Size: Total square feet (SF) of indoor space in the spa. Small is less than 10,000 SF; medium is 10,000 – 20,000 SF; large is more than 20,000 SF.

Number of Treatment Rooms: Number of revenue stations for the spa and the salon. Small is less than 10 treatment rooms; medium is 10 – 20 treatment rooms; large is more than 20 treatment rooms.

Currencies & Measurements: All data supplied by participants was in their local currency and size measurements (square feet or meters). This was converted to US dollars at the current rate at the end of July 2005 and all measurements were equated to square feet.

### **SNAP-SHOT TOP-LINE FINDINGS**

This article pertains to the top-line findings for 36 participating US resort-based spas. The next article will pertain to the results from the non-US (International) spas.

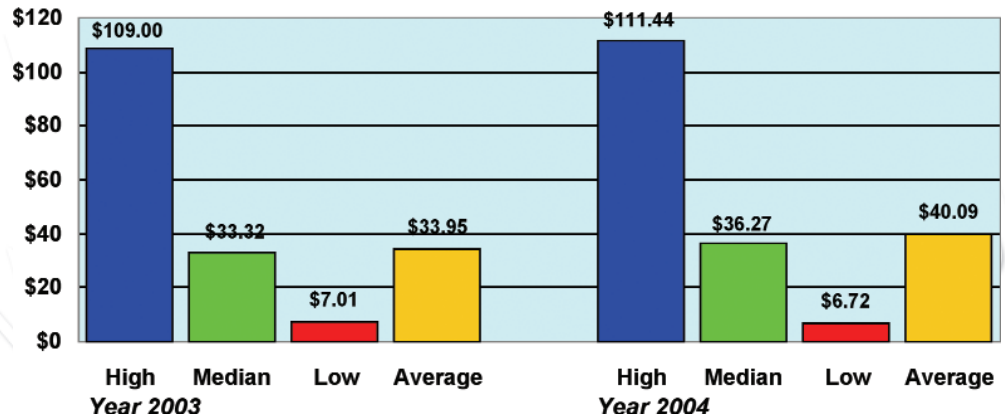
# LANDMARK STUDY

## THE SPA INDUSTRY IS VERY MUCH IN NEED

**Revenues Report:** Indicates Spa-Specific Revenue (US\$) per Occupied Hotel Room.

- Spa-Specific Revenue includes gross spa revenues from all revenue line items on the spa financial statement: spa facility fees, treatment/fitness fees, spa retail revenues, spa F&B revenues, etc. It does NOT include membership or initiation fees or lodging.

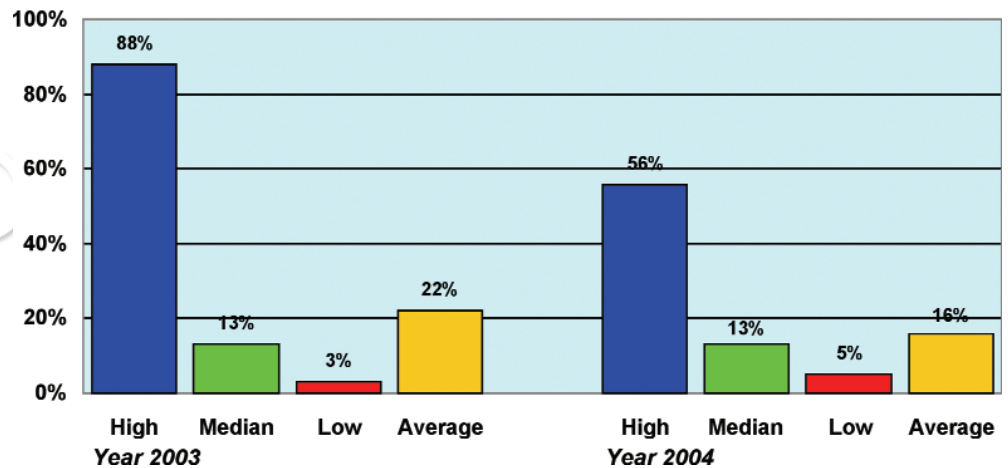
**Chart 1: Spa-Specific Revenue Per Occupied Hotel Room - US Spas Only**



**Expenses Report:** Indicates Operating Expenses (US\$) as a % of Gross Revenue (US\$).

- Operating Expenses include all spa-specific operating expenses other than payroll-related expenses, regardless of whether the spa is operated as a department or semi-independent business unit.
- Gross Revenue includes gross spa revenues from all revenue line items on the spa financial statement: spa facility fees, treatment/fitness fees, spa retail revenues, spa F&B revenues, etc. INCLUDING membership and/or initiation fees. It does NOT include lodging.

**Chart 2: Operating Expenses as a % of Gross Revenue - US Spas Only**



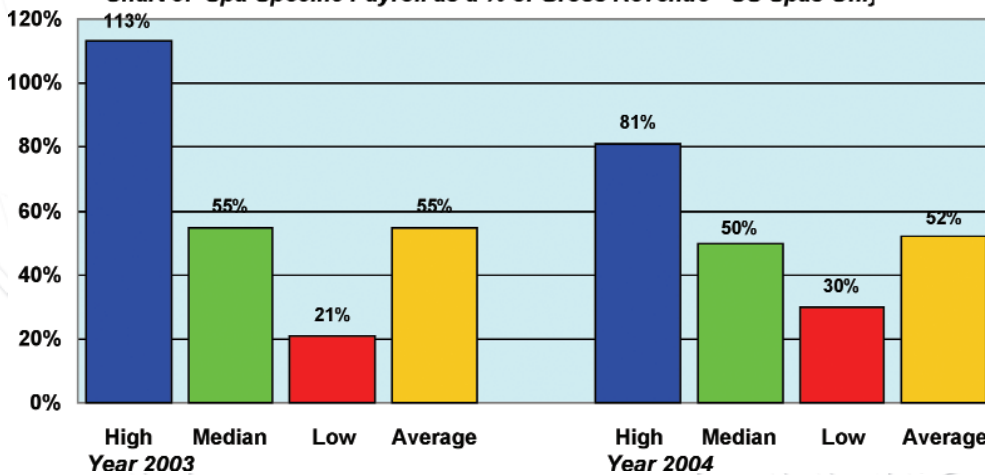
OF HAVING RELIABLE FINANCIAL INFORMATION



**Payroll Report:** Indicates Spa-Specific Payroll (US\$) as a % of Gross Revenue (US\$).

- Spa-Specific Payroll refers to the total compensation for all full-time, part-time, on-call, sub-contractors, support staff and management/supervisory staff. Payroll includes wages, salaries, commissions, contract labor, taxes and benefits.
- Gross Revenue includes gross spa revenues from all revenue line items on the spa financial statement: spa facility fees, treatment/fitness fees, spa retail revenues, spa F&B revenues, etc. INCLUDING membership and/or initiation fees. It does NOT include lodging.

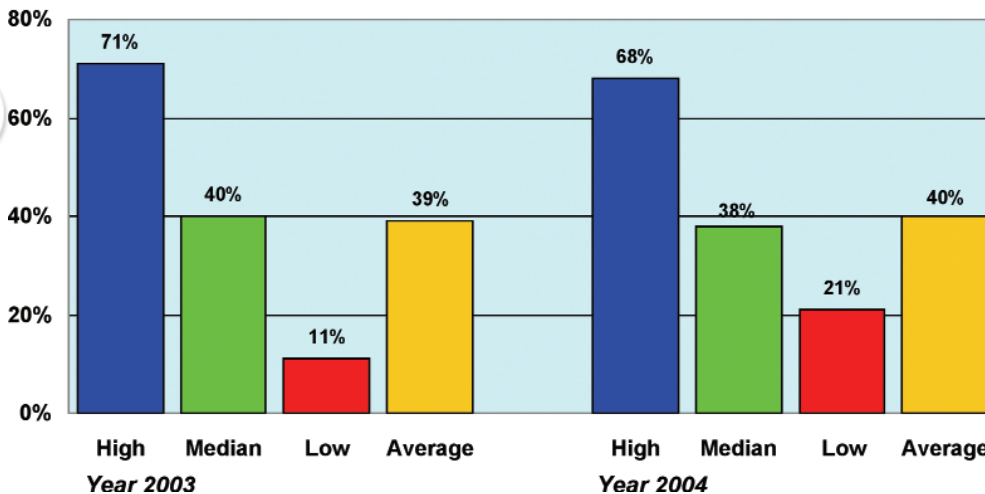
**Chart 3: Spa-Specific Payroll as a % of Gross Revenue - US Spas Only**



**Treatment Payroll Report:** Indicates Treatment Payroll (US\$) as a % of Treatment Revenue (US\$).

- Treatment Payroll refers to the total compensation for the service providers, e.g., anyone who provides a service/treatment that has a price associated to it. This includes massage therapists, aestheticians, nail technicians, hair stylists, make-up artists and fitness instructors. It does not include any of the support staff such as attendants, receptionists, retail specialists or management.
- Treatment Revenue includes the gross fees received by the spa from services / treatments performed by service providers, including: massage therapists, aestheticians, nail technicians, hair stylists, make-up artists and fitness instructors.

**Chart 4: Treatment Payroll as a % of Treatment Revenue - US Spas Only**



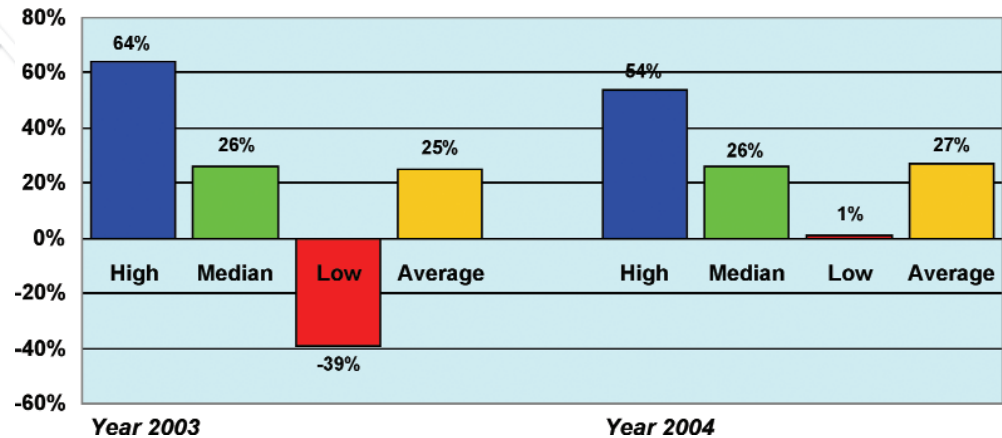
## LANDMARK STUDY

## SPA OWNERS - OPERATORS - MANAGERS - INVESTORS - DEVELOPERS

**Profitability Report:** Indicates Net Operating Profit as a % of Gross Revenues (US\$)

- Net Operating Profit is Gross Revenues minus Spa-Specific Payroll minus Operating Expenses.
- Gross Revenues include gross spa revenues from all revenue line items on the spa financial statement: spa facility fees, treatment/fitness fees, spa retail revenues, spa F&B revenues, etc. INCLUDING membership and/or initiation fees. It does NOT include lodging.
- Spa-Specific Payroll refers to the total compensation for all full-time, part-time, on-call, sub-contractors, support staff and management/supervisory staff. Payroll includes wages, salaries, commissions, contract labor, taxes and benefits.
- Operating Expenses include all spa-specific operating expenses other than payroll-related expenses, regardless of whether the spa is operated as a department or semi-independent business unit.

**Chart 5: Net Operating Profit as a % of Gross Revenues - US Spas Only**



During October 2004 and July 2005  
 Health Fitness Dynamics, Inc. (HFD)  
 Conducted a Worldwide Spa Economic Study  
 Entitled HFD's 2003-2004  
 Spa Financial Benchmark Research Study

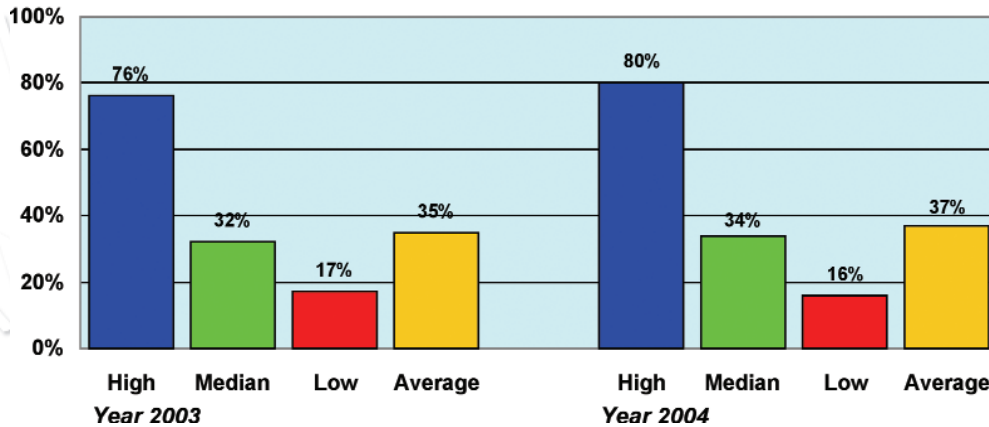
**MUST KNOW THE ECONOMIC REALITIES OF THE SPA BUSINESS**



**Utilization Report:** Indicates Utilization of Treatment Rooms.

- Utilization is the total number of treatments actually performed in a specific time period divided by the total available treatments in that time period (total number of treatment rooms x total number of available treatment periods x number of days in the time period).

**Chart 6: Utilization of Treatment Rooms - US Spas Only**



This Landmark Study Provides  
 Never-before Released  
 Financial Analysis of  
 Spa Performance and Contribution

## LANDMARK STUDY

# THERE IS A NEED TO UNDERSTAND SPA FINANCIAL VIABILITY

### **BIG PICTURE ANALYSIS OF US RESORT-BASED SPAS**

Based on the above, if we compare Year 2003 to Year 2004 we can see that in Year 2004:

- Revenue per Occupied Room (RPOR): up \$6.14
- Expenses: down 4%
- Payroll: down 3%
- Treatment Payroll: up 1%
- Profitability: up 2%
- Utilization of Treatment Rooms: up 2%

### **OF SPECIAL INTEREST - REVENUE PER OCCUPIED ROOM (RPOR)**

We thought it would be especially interesting to drill down and focus on RPOR in more detail.

We have found this to be a key indicator for many lodging operators because it shows how the spa contributes to the resort's overall financial performance.

|                                  | YEAR 2003 | YEAR 2004 | CHANGE      |
|----------------------------------|-----------|-----------|-------------|
| <b>AVERAGE RPOR</b>              | \$33.95   | \$40.09   | Up \$6.14   |
| <u>HOTEL SIZE (# of rooms)</u>   |           |           |             |
| Small <200                       | \$32.90   | \$35.75   | Up \$2.85   |
| Medium 200 – 400                 | \$30.39   | \$37.18   | Up \$6.79   |
| Large > 400                      | \$32.87   | \$38.38   | Up \$5.51   |
| <u>SIZE OF SPA (Sq. Ft.)</u>     |           |           |             |
| Small <10,000                    | \$22.28   | \$23.54   | Up \$1.29   |
| Medium 10,000 – 20,000           | \$37.34   | \$50.40   | Up \$13.06  |
| Large >20,000                    | \$39.19   | \$46.12   | Up \$6.93   |
| <u>NUMBER OF TREATMENT ROOMS</u> |           |           |             |
| Small <10                        | \$20.33   | \$19.83   | Down \$0.50 |
| Medium 10 – 20                   | \$38.75   | \$50.84   | Up \$12.09  |
| Large >20                        | \$47.22   | \$51.99   | Up \$4.77   |

## AND CREATE ECONOMIC BENCHMARKS AND MANAGEMENT TOOLS

### HFD'S COMMENTS

Overall, the spa industry looks "healthy" especially for hotels of 200 – 400 rooms, with spas of 10,000 – 20,000 square feet and with 10 – 20 treatment rooms. If you believe your "numbers" are not where you would like them to be, consider the following recommendations:

- **Pro-Active Marketing:** Resorts need to attract more people to their spas. There is a great opportunity to improve the utilization of treatment rooms by looking at all the "barriers to entry" and making it easier for people to enjoy your spa.
- **Revenue per Guest:** Spas need to do more "soft" up-selling and link-selling. HFD does not think that increasing the price of treatments is the sole answer to generating more revenues. We also believe that spas need to be able to make money outside "the walls of the spa."
- **Staff Compensation:** Spas need compensation programs, especially for the service providers, that reward the staff when they are busy and provide for team incentives.

## INVITATION TO PARTICIPATE IN THE 2005 STUDY

If your resort would like to participate in the next study, ***HFD's 2005 Spa Financial Benchmark Research Study***, please send your contact information to [hfd@hfdspa.com](mailto:hfd@hfdspa.com). All participants receive complimentary access to an electronic analysis consisting of hundreds of reports. As with all research conducted by HFD, participant information is treated with total confidentiality.

### BYLINE



*Judy Singer*

Health Fitness Dynamics, Inc. (HFD) is an innovative full-service spa consulting, planning, marketing and management advisory company that is owned and managed by Judy Singer, Ed.D. and Patty Monteson, M.S. Since 1983, the Pompano Beach, Florida corporation has worked primarily with fine hotels, resorts and mixed-use real estate developments that want to have a marketable and profitable



*Patty Monteson*

spa that complements and enhances their core business which is typically to sell hotel rooms and lifestyle real estate. HFD has been the spa consulting company to over \$650 million worth of completed spa development.

For more information about HFD as well as HFD's library of spa articles and other research studies, visit our website at [www.hfdspa.com](http://www.hfdspa.com). For specific inquires, please call HFD at 954-942-0049 or write to [hfd@hfdspa.com](mailto:hfd@hfdspa.com).

© Health Fitness Dynamics, Inc. • Spa Management Journal, October 2005