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BEST PRACTICES: Revenue Maximization for Spas

By Judy Singer, President & Co-Owner, Health Fitness Dynamics, Inc.
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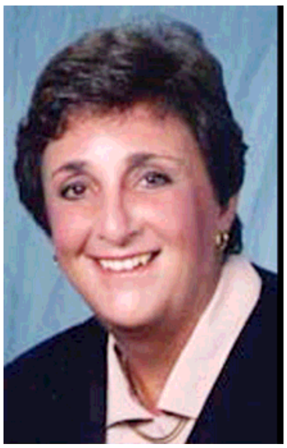

Spas need to and should be profitable. You may be saying “of course,” but not many spas are being managed or marketed as multi-million dollar businesses. Some people in the spa industry think that if the spa is managed as a “business,” it will negatively impact the guest experience. I do not think that a well-managed spa needs to sacrifice quality and service in order to make money. It amazes me that spas have been “allowed” to be “lazy assets,” but now, as a response to the challenging economy, there is a necessity and sense of urgency to focus on how spas can be profitable business ventures. Developers, investors, asset managers, hotel/resort operators and directors of finance are carefully examining every department within their lodging establishment with an eye on how to deliver the spa experience in an economically logical way so the spa is profitable. Even stand-alone/non-lodging spas have embarked in a serious re-evaluation process regarding how they are doing business...so they can stay in business. I believe that the future of the spa industry and its impact on the lodging and real estate industries may become stronger as a result of applying common sense...and much needed... business practices. As a result of careful scrutiny and due diligence, we are seeing the creation and use of spa-specific business tools to help spas attain higher levels of financial performance and profitability. Spa business management is still in its infancy, but it is certain to be the next area of emphasis in the spa industry. Spa PMS software companies have added many business reports to their scheduling program. Hospitality consultants are modifying their lodging-related financial management tools, tactics and best practices so that they can be used by the spa. Spa directors are being given business management tools, training, support and mentorship so they can be responsible and accountable “business managers. A variety of companies are trying to establish benchmark and metric programs so spas can see how they are doing within their chain, competitive set and the global spa industry. The spa mantra is how to offer a competitive and desired spa experience in the most economical manner so that the spa makes money. This is not easy, but it is necessary, and it certainly is possible.

A Consultant’s View

My company, HFD, provides advisory services to the global spa industry. HFD’s focus since our inception in 1977 is to help spas be more marketable and profitable by paying attention to not only the guest experience, but also to the operational business tactics and strategies. Spas are finally being “held to a higher standard” by asset managers, owners, investors and operators who are focused on measuring and monitoring the spa’s contribution to selling rooms and real estate as well as it being an independent profit center. Spas need to financially contribute to the hotel/resort...they are not just occupancy-based marketing tools. The first, and obvious, step in being profitable is to generate enough revenues to exceed your expenses. Some spas are too focused on decreasing expenses rather than increasing revenues. This is like trying to save pennies rather than trying to make dollars. Revenue management...or as I prefer to refer to it as revenue maximization... is an art as well as a science. It has been used extensively in many industries. The time has come to incorporate it into the business practices of the spa industry. Revenue maximization within the hospitality industry consists of complex and integrated tactics, strategies and processes. It is important, however, to try to keep the concept of revenue maximization very simple, logical and non-threatening when you introduce it to the spa industry. Not many spa directors have a business background, but they certainly can be mentored.

The following are the key components of my simplistic approach to spa revenue maximization:

Marketing: define your market and find the best ways to reach them then give them what they want. People need to come into the spa and spend money.

Product: create facilities, treatments, experiences and service standards that are different from and better than what currently exists in your competitive set. You have to give people what they want and need and do it better than anyone else.

Pricing: price the experience so it is value-added for the guests, allows the staff to earn a living and meets your profit-quotient goals. The pricing needs to be affordable so people will use the spa on a frequent basis rather than just for special occasions. (SIDE-NOTE: High prices have resulted in fewer guest visits, fewer treatments per guest and lower revenues per guest....so don’t think that raising the prices is the answer...it’s been part of the problem.)

Service Delivery: deliver the promise in order to delight and retain your guests and turn each guest into a raving fan and ambassador. Please the people.

Measure & Monitor: adopt an objective means to evaluate and quantify the above so that you can continually fine-tune what works and re-position what does not work. The things you do right make money; the things you do wrong lose money. It is important to execute the above in an integrated and synergistic manner so that the whole is greater than the sum of the parts. When you "get it right," guests will want to visit your spa on a regular basis because it fulfills their needs at a price they can afford. They will want to share this experience with like-minded people because spas both a social (we) as well as personal (me) experience. Revenue maximization will be achieved when the spa achieves a high utilization (occupancy) rate at a profitable price point.

Advice From Three Outstanding Industry Leaders

I invited 3 industry leaders to share their "top 5" ideas on how to maximize spa revenues. Each of these leaders has a different perspective based on his/her role: revenue management consultant, director of finance for a leading hotel and spa, and spa director with start-up and operating experience.

Bonnie Buckhiester, President & CEO, Buckhiester Management USA Inc.

Bonnie Buckhiester is one of the top revenue management consultants in the lodging industry and is on the Board of Directors for the International Society of Hospitality Consultants (www.ishc.com). She has created several tools, workshops and coaching services to help her clients. She understands the needs of spas and is exploring the opportunity to adapt her tools to serve the spa industry. www.buckhiester.com.

Bonnie's Top 5 Recommendations:

1. Acknowledging Perishable Inventory: Not every industry is ideally suited to benefit from revenue management, but spas like airlines, hotels and cruise ships operate in such a way as to present the "ideal conditions" for practicing Revenue Management. These conditions include fixed capacity, variable demand periods, the ability to forecast future demand and the ability to segment customers accordingly to their needs and willingness to pay. Think about it - these industries charge many different prices for the exact same product. In addition, like the other industries, spas have a perishable inventory - sell it or sacrifice it for that day or hour. But perhaps more importantly, spas have high fixed costs and low variable costs; therefore, any top line revenue is going to improve the bottom line exponentially. Spa operators must think of their treatment rooms and hours as perishable products.

2. Match Pricing to Demand: It's all too easy in the spa industry to take a cost-based pricing approach, i.e., identify the cost and mark-up to achieve a pre-determined margin. Taking a Revenue Management approach means adhering to market-driven pricing. This combines market conditions, competitor prices, customer expectations and demand levels to identify pricing. This means that a facial on Saturday morning at 10:00am would cost more than one on Monday at 3:30pm.

3. Conduct Serious Competitive Benchmarking: By serious, we mean quantitative benchmarking verses qualitative. In quantitative benchmarking, product and service variables are rated numerically (for example on a scale of -3 to +3). If the competitor has a better range of services, a +3 score might be assigned. The advantages of identifying a "score" for each competitor is that spa operators can then combine a benchmark score with price points to see if pricing contradicts a rational price-value relationship. Pricing decisions are much easier to make if competitor price anomalies are identified first.

4. Five Golden Rules to Deal with Price Wars: In these recessionary times, spa operators are experiencing price resistance and "haggling" as much as any non-essential business. So how does a spa operator deal with these situations? The best way is to follow the 5 "golden rules" to deal with price resistance:

a. First and foremost, re-state the value proposition (why the service is worth the price?)
b. Make sure you are comparing apples to apples (are the treatments identical?)
c. Add value before dropping price
d. Put "fences" around offers (booking window, limited time offer, only good in combination with, etc.)
e. Do the math before dropping price (how many more treatments will have you have to sell to break even?)

5. Showcase Where the Customer Is: You've heard the expression "fish where the fish are." Well, spas need to "showcase" where the customer is. By this we mean that spa operators must be very savvy about the online world. How are customers researching and buying spa treatments? What online booking means are available? Spa operators need to put themselves in the shoes of tech-savvy customers. For example, a local massage spa is using Twitter to put out messages of availability on same day massage treatments. Is your spa on the leading edge of online marketing?

Ben Campsey, Director of Finance, The Umstead Hotel and Spa

Ben Campsey is the Director of Finance for a Leading Hotel of the World and Leading Spa of the World. He has created many financial templates to help spas collect, measure and monitor data for increased performance and profitability. He has helped many spa directors understand the business side of spa operations so that spas can be a profitable and tangible asset to the lodging venture.

Ben's Top 5 Recommendations:

1. Managing Time Increments: Proper management of time increments can lead to significant increases in revenue. Hoteliers have it easy: they need only manage occupancy and ADR on a daily basis. In the spa industry, to maximize our revenue potential, we should be doing this on an hourly basis. Just think of how much additional revenue we could generate by reducing the idle time after a 75-minute treatment. One way to better manage these gaps is to limit availability of popular services that create a scheduling challenge to low-demand times.

At a past property, we had a very successful service that lasted 90 minutes. It created many scheduling difficulties and created a 30-minute gap during many of our peak room utilization hours. We decided to temporarily offer this service only between 10:00am and 2:00pm, which were low-demand times. In doing so, we saw a significant increase in room utilization. We carefully watched the service that we had moved and only witnessed a minimal decline in the number of treatments.

2. Treatment Profitability: On a similar note, spa managers should have an understanding of the profitability of treatments. Before being introduced, and during the vetting process, each service should be analyzed so that the cost of providing the service is understood. If there are services with a low margin that are very popular, why not limit their availability to times of low demand, perhaps weekdays? Generally, what you find is that those guests who want to take the service will take it at the time offered and you are not filling your peak times with your least profitable offering.

3. Discounts: Time to revisit the 20% discount. We need to frequently evaluate whether the discounts we offer during low demand-intervals are still driving business. Let's say that we have a service that retails at $100, with variable costs of $55. Our contribution margin is, therefore, $45 for the service. Offering a 20% discount lowers the retail price to $80, and therefore, the contribution margin to $25. Let's say that without any discounts, you could do 40 services on a given day. If you wanted to offer discounts, what is the breakeven number of services you would need to do in order for the discount to make sense from a purely financial standpoint? First, we take our contribution margin and multiply it by the number of services we anticipate -- $45 x 40 = $1,800. Next, we divide this amount by the discounted contribution margin of $25, resulting in 72 services needed to break even. That means, with the discount we need to generate an additional 32 services (72-40), just for it to break even.

4. Product Up-sells: An easy way to increase revenue is by offering up-sell incentives to service providers. This can be done in a few ways: a flat dollar amount, a percentage of sales or even a team goal. For best results, this should be measured frequently, with winners recognized in staff meetings.

5. Managing Service Provider Productivity: While not directly related to revenue, managing service provider productivity has a direct impact on the profitability of an operation. It is important to make sure that service providers are available for services for walk-ins, but there is a point at which this can become excessive and costly. I generally recommend service provider productivity rates in the range of 75-90%. I have seen productivity rates as low as 50%; anything over 90% means you are turning away business. Service provider productivity is calculated by taking the number of treatment hours performed by service providers and dividing it by the number of available (paid) treatment hours by service providers. As an example, let's compare 2 spas that both average 50 service hours a day (18,250/year) and pay their providers a base wage of $9.00/hour. Spa "A" runs a productivity rate of 65%, and Spa "B" runs a productivity rate of 85%. Spa "A" would, therefore, have annual service provider labor hours of 18,250/65%=28,077 hours. Spa "B" would have annual service provider labor hours of 18,250/85%=21,471 hours. The difference between Spa "A" and Spa "B" is roughly 6,600 hours, or approximately $60,000 in base hourly wages before incentives, taxes and benefits. This improvement on service provider productivity flows to profit. This metric is often overlooked, although it is a very easy way to reduce labor through consistent management and analysis.

Paul Schmidt, CEO, Living Energy Design

Paul Schmidt is an experienced start-up and operating spa director with a strong focus on business. He has direct hands-on experience and responsibility for making sure his spas are profitable business ventures. Paul currently works with spas and technology companies on pre-opening development, operational efficiency and financial management. www.livingenergydesign.com

Paul's top 5 recommendations:

1. Controlled Discounting: Instead of charging a premium during the busy times, establish higher prices overall and move some demand to typically slower times through value pricing. Look at the variety of discounts already provided at your spa (owners, locals, packages, employees, etc.) and limit the times they are valid to your spa's typically slower times like Tuesday through Thursday or before 3:00pm. Then, take it one step further and reach out to new market segments with preferred pricing during low demand periods. A morning discount for AARP members is a good example. Be creative.

2. Controlled Availability: Create booking rules to encourage high margin treatments during high demand periods. For example, set low margin treatment bookings to be disallowed during high demand times. The controls can be activated by threshold triggers based on the availability of specialty treatment rooms or specific staff members or on set time based schedules depending on the capabilities of your scheduling software or booking staff skills.

3. Last Minute Deals: Gaps of 1 – 2 hours in a treatment schedule can cost your spa more in labor than at other times. Drive impulse and walk-in business to these times through "late bird specials" or one time offers spurring inquiring guests to come in sooner and leaving more availability for future full price bookings. Turning what would have been idle labor expenses into reduced rate treatments generates more profit and keeps service providers busy and earning more. These last minute lingering gaps are also ideal times to book comps and in-house training treatments as well since the staff are already present and an otherwise bookable time slot is not being consumed.

4. Daybreak and Nightcap Specials: Special treatments with value pricing or added value like complimentary foot bath or added snooze time after the service that can only be booked during the first or last hour of the day will help increase available staff on the fringes of the busy times. When done with the right timing relative to demand, this helps avoid having to turn away walk-in business during otherwise slow periods near the start and end of the day because one or two staff members are already present or planning to stay late.

5. Time Range Bookings: Offer some guests the opportunity to receive a reduced rate if they can be flexible with the time they take their treatment. Built to fit anywhere in a three or four hour spa ritual or wellness routine, these appointments can float to increase the ability to accommodate other guests and reduce the occurrence of costly scheduling gaps. A good policy and communication strategy is required to ensure the guests know when and where to arrive for their treatment.

CONCLUSION

Owners and operators are more focused than ever on how their spas can generate more revenue...and PROFITS. Although revenue maximization may be a new concept for most spas, "think simple" when you implement it. Conceptually, the easiest way to maximize revenues is to focus on attracting more guests and having a higher spend per guest. Strategically, look for ways to increase your competitive edge; deliver services that meet the needs, interests and budget of your market; and create opportunities for additional revenue per guest and more guest visits.

There are a variety of resources available to help your spa bring in more money and hopefully be more profitable. Make sure your team understands not only how to use the tools but also what the findings mean and how to take action to maximize the revenues. Although you may be on a tight budget (you don't spend money because it's an "expense"), now is the time to invest in revenue maximization so that you increase your gross revenues. We all know that costs keep escalating so if we don't drive the top line, we will not be able to have a healthy bottom line'

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 mixeduse 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 over $650 million of completed spa projects. A partial list of clients includes: The Umstead, Rosewood Mayakoba, Canyon Ranch in the Berkshires, Little Dix Bay, Four Seasons Hulalai, Miraval, Malliouhana, Cranwell, Pinehurst, The Homestead, The Greenbrier, Bacara, Silverado and the Delano, Dr. Singer is also the past chairperson of The International Society of Hospitality Consultants (www.ISHC.com) and was on the ISPA Committee for the inaugural edition of the Uniform System of Financial Reporting for Spas. As we go into our 25th year as spa consultants, HFD will be focusing more of its experience and expertise on helping existing spas to be more profitable via management advisory services. Ms. Singer can be contacted at 954 -942-0049 or judysinger@hfdspa.com.