Spa Economics & Metrics: Do you really know how your spa is doing?

By Judith L. Singer, Ed.D., ISHC
President & Co-Owner Health Fitness Dynamics, Inc. (HFD)

Is the Spa Industry Fiscally Healthy?


Dr. Judy Singer

We all know that any new four or five-star resort and many luxury urban hotels need to have a spa in order to stay competitive. While the supply of spas has been on a steady rise for many years, the growth has slowed and this is probably good because there are some challenges that need to be addressed . . .The supply has out-paced the demand, the labor pool from management to service providers is quite limited, and there isn't enough reliable economic information.

These may be "symptoms" that need further examination in order to address any "health" issues that could impinge on the well-being of our industry. It used to be that if the Spa had a unique concept, was planned to be operationally efficient for the staff and comfortable for the guests, had a well-conceived and executed marketing plan and was well-managed, it would be a financially profitable venture. The challenge has been to define "what is financially profitable." It may be time to really have a "fiscal check-up" to see just how healthy we are.

Lots of Information But Do We Have What We Need?

As a relatively young industry, there has been quite of bit of research conducted as it relates to the Spa Industry. Some findings have been useful and some are purely interesting, but at this point in our industry's development, are we getting what we really need to have a financially profitable business venture?

The following types of studies have provided some good information:

Consumer Studies

- Depth of the spa-goer market
- Demographic profiles
- Consumer behavior
- Key emotional and psychometric drivers
- Number of visits to a spa

Marketing Studies

- Size of the spa
- Number of treatment rooms
- Unique concepts and marketing strategies
- Number and variety of spa services
- Signature treatments and products
- Marketing strategies

Trends and Growth Studies

- Number, types and profiles of spas
- Products, equipment and technology
- Ownership and management
- Number of people employed in the spa industry
- Most popular treatments
- Issues, opportunities and challenges

While all of the above studies present important information, the area of most concern is the increasing focus on "spa economics." The spa industry wants reliable information which can be used to develop accurate budgets and determine the key economic metrics:

Economic Studies

- Wages, operating expenses and net profit
- Service provider productivity
- Capture rate and treatment room utilization
- Number of treatments per guest visit
- Revenue per guest visit
- Revenue per occupied hotel/resort room
- Revenue per available treatment room
- Revenue per square foot

Spas have lots of data at their disposal. The challenge is that most financial analysts, developers, operators, spa directors, etc. want and need help to determine what data are important, and they need tools to help gather and analyze the data. The future of the spa industry will be in business management, measurement and accountability and not just spa operations. If spas want to be economically viable business ventures, they need to go beyond the service-business.

The New 'Spa Mantra' is 'Spa Metrics'

We are at a turning point in the spa industry. Just about everybody in any way connected to the spa industry (developer, investor, lender, asset manager, feasibility analyst, appraiser, hotel owner and/or operator, spa owner and/or director, vendor, etc.) wants reliable financial information to help make critical and costly decisions.

As spas under-go more and more scrutiny in terms of development costs and economic performance, the focus will be:

- Grow the "spa numbers" rather than grow the "number of spas"
- Master the "spa business" rather the "business of spas"

As a spa consultant for 25 years, the one question I am ALWAYS asked (and with increasing frequency) is "where can I find reliable benchmarks or metrics that will help me analyze the economic viability of developing or expanding a spa or will allow me to see how my spa is really doing?" It is not enough for a spa to compare its performance against budget or against last year's actual numbers. Spas want to see how they are doing compared to other spas within their chain, a competitive set or the spa universe.

In this article, I will explore some of the most requested and important metrics. Regardless of what type of spa you have and how you have positioned it (IBU, semi-IBU, department), there are several key metrics that need to be gathered, measured and monitored if you expect to manage your spa as an economically viable business venture.

Spa Metrics:
The Data is Available But What Do We Do With It?

Ben Campsey

Over the years I have been privileged to work with many highly knowledgeable financial experts, but Ben Campsey, Director of Finance for The Umstead Hotel and Spa in Cary, NC, is truly exceptional. He has created business management and metric tools that really help spa and hotel/resort managers to operate spas that are profitable in and of themselves but also are economic contributors to the "core" business of room and real estate sales. Prior to being at The Umstead, Ben was involved in financial management and development for Canyon Ranch. I asked Ben to share some of the metric tools that have the greatest impact on managing profitable spa ventures. In addition, Ben has defined the terminology that will support consistency and uniformity in measuring a spa's performance. All too often, spas are asked to measure something but are not given the appropriate definition or formula with the result being that spas are interpreting, collecting or measuring data in different ways; therefore, when trying to do comparison research, the findings are not always accurate or helpful.

• Average Treatment Rate

Hoteliers utilize ADR as a measurement of revenue per occupied room. The corresponding metric in the spa industry is Average Treatment Rate (ATR). This statistic is greatly influenced by the mix of service offerings, duration of services and the pricing structure of services, i.e. is service charge/gratuity applied automatically. This metric will become more meaningful as dynamic pricing becomes more prevalent in the industry. Analyzing ATR combined with Treatment Room Utilization (see below) by day of the week and hour of the day will allow you to increase revenues by applying discounts at points of low demand while yielding higher rates at peak demand.

• Treatment Room Utilization

Hoteliers should think of this as occupancy. A 1% point increase or decrease in room utilization is worth about $50,000 - $75,000 in revenue per year in an average size spa. Treatment Room Utilization (TRU) is a critical measurement of demand against your maximum available inventory and should be looked at on a service-by-service and day-by-day basis. Spas that do a large volume of treatments should even consider evaluating this information on an hourly basis. Most spas operate at 35% - 40% treatment room utilization with the best performing spas offering discounts, longer services/upgrades and added value at low demand periods.

• Therapist Productivity

Analyzing Therapist Productivity (Service Hours Performed/Therapist Hours Available) has several benefits often overlooked by spa managers. Therapist Productivity can be used as a measurement of demand. A high (>85%) Therapist Productivity over time generally means that there is not sufficient availability and guests are being turned away. Management should not assume that higher Therapist Productivity is better. Maximizing Therapist Productivity requires a delicate balance of ensuring that you have staff available for short lead bookings and not overstaffing. It generally only takes a single treatment to justify the hourly payroll for an entire day of a staff member. Therapist Productivity below 70% signals over-staffing and can have a significant financial impact if therapists have any kind of hourly compensation.

As an example assume the following:

- 14 treatment rooms
- Opened 12 hours per day, 365 days per year
- 40% Treatment Room Utilization (12 hours/day x 365 days x 14 treatment rooms x 40% Treatment Room Utilization = 24,528 service hours per year)
- The spa pays therapists $10/hour for all hours worked plus a productivity incentive (commission) when a service is booked
- Payroll taxes and benefits are 30% of payroll
- ATR (Average Treatment Rate) is $100

If we targeted an 80% Therapist Productivity, we would allow for payroll hours of 30,660 (24,528/80% target Therapist Productivity) per year. If we did not manage effectively and only achieved Therapist Productivity of 70%, we would have used 35,040 hours for the year. This is an increase of 4,380 hours and $56,940 in gross operating profit! (4,380 hours x $10/hour x 1.3 payroll taxes and benefits)

As a further example, the chart below depicts a spa's performance over a period of time. The Therapist Productivity A (shown by the solid blue line) increases and decreases along with the Room Utilization (in red). At first glance the relationship makes sense, perhaps even seeming optimal. However, it is actually Therapist Productivity B (dotted line) that is optimal as it is evident that staffing levels are being adjusted based on business levels on a consistent hour-by-hour basis. Under Therapist Productivity B there is always someone available to capture the impulse buy.

Treatment Hours	14	Spa Sq. Footage	15,000
Hours Opened/Day	12	Direct Fixed Expenses	$ 400,000
ATR (Average Treatment Rate)	$ 100.00	Variable Exp %	50.0%
Occupied Hotel Rooms	50,000		

Normal Operating Range

Treatment Room Utilization	20%	30%	35%	40%	45%	50%	60%	70%	80%	90%
Gross Treatment Revenue	$ 1,226,400	$ 1,839,600	$ 2,146,200	$ 2,452,800	$ 2,759,400	$ 3,066,000	$ 3,679,200	$ 4,292,400	$ 4,905,600	$ 5,518,800
SRevPOR	$ 24.53	$ 36.79	$ 42.92	$ 49.06	$ 55.19	$ 61.32	$ 73.58	$ 85.85	$ 98.11	$ 110.38
RevPATR	$ 87,600	$ 131,400	$ 153,300	$ 175,200	$ 197,100	$ 219,000	$ 262,800	$ 306,600	$ 350,400	$ 394,200
Rev/Sq. Ft.	$ 81.76	$ 122.64	$ 143.08	$ 163.52	$ 183.96	$ 204.40	$ 245.28	$ 286.16	$ 327.04	$ 367.92
Fixed Expenses	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000
Variable Expenses	$ 613,200	$ 919,800	$ 1,073,100	$ 1,226,400	$ 1,379,700	$ 1,533,000	$ 1,839,600	$ 2,146,200	$ 2,452,800	$ 2,759,400
Gross Operating Profit	$ 213,200	$ 519,800	$ 673,100	$ 826,400	$ 979,700	$ 1,133,000	$ 1,439,600	$ 1,746,200	$ 2,052,800	$ 2,359,400
GOP %	17.4%	28.3%	31.4%	33.7%	35.5%	37.0%	39.1%	40.7%	41.8%	42.8%
GOP Contribution/ Occ Room	$ 4.26	$ 10.40	$ 13.46	$ 16.53	$ 19.59	$ 22.66	$ 28.79	$ 34.92	$ 41.06	$ 47.19
GOP Contribution/ Treatment Rm	$ 15,229	$ 37,129	$ 48,079	$ 59,029	$ 69,979	$ 80,929	$ 102,829	$ 124,729	$ 146,629	$ 168,529

As a general rule, if your spa does not pay an hourly rate, you should be focusing on Therapist Productivity solely as demand measurement and concentrating on ensuring service availability. If your spa does pay an hourly rate, managing to a Therapist Productivity rate of 75% - 85% by treatment category strikes a good balance between profitability and availability.

* Revenue per Available Treatment Room

Revenue per Available Treatment Room (RevPATR) corresponds to the hotel's RevPAR, taking the total amount of service revenue generated divided by the number of treatment rooms. RevPATR can be used to easily understand the revenue impact of building a spa, adding additional treatment rooms to a property and helping developers and asset managers compare their property to the competition. Taking it one step further, understanding the fixed and variable expenses of the spa can help calculate the Gross Operating Profit contribution (GOP is Revenue less COGS and Direct

Operating Expenses) per treatment room. For example, assume 14 treatment rooms are generating gross operating profit of $300,000 per year. We forecast that adding 2 rooms will generate an additional $250,000 in revenue per year, and we believe our variable cost on this revenue is 50%. Therefore, our gross operating profit on these rooms is $125,000 or $62,500 per room.

* Revenue Per Guest

Hotels and resorts calculate the Average Revenue per Guest for all outlets on a property. This helps evaluate the average spend per guest and, over time, helps determine whether adding new outlets will result in new revenue or displacement (guest spends the same money they would have otherwise, just in the new outlet).

* Revenue Per Square Foot

Revenue per Square Foot is used to understand the revenue contribution of different assets to the property on a square foot basis. For example, a developer would evaluate the cost per square foot to add a spa and the on-going revenue per square foot versus a restaurant, retail outlet, etc. When using this metric, it is important to define whether or not this is indoor, air-conditioned space.

* Spa Revenue Per Occupied Room

Spa Revenue per Occupied Room (SRevPOR) is a high-level metric easily reviewed alongside the same term (RevPOR) in the hotel. SRevPOR is calculated by taking direct spa revenue divided by occupied hotel rooms. For the basis of this calculation, spa revenue should only include revenue derived from treatments, product sales, facility fees and other ancillary sales (spa revenue should not include any lift or allocations from room revenue, resort fees or membership dues). SRevPOR in the spa industry generally falls in the range of $40 - $70; however, it can vary greatly depending on the size of the spa and magnitude of local business among other factors. An effective chart to help determine the range of SRevPOR as well as many of the metrics previously described follows:

Treatment Hours	14	Spa Sq. Footage	15,000
Hours Opened/Day	12	Direct Fixed Expenses	$ 400,000
ATR (Average Treatment Rate)	$ 100.00	Variable Exp %	50.0%
Occupied Hotel Rooms	50,000		

		Normal Operating Range									
Treatment Room Utilization	20%	30%	35%	40%	45%	50%	60%	70%	80%	90%	100%
Gross Treatment Revenue	$ 1,226,400	$ 1,839,600	$ 2,146,200	$ 2,452,800	$ 2,759,400	$ 3,066,000	$ 3,679,200	$ 4,292,400	$ 4,905,600	$ 5,518,800	$ 6,132,000
SRevPOR	$ 24.53	$ 36.79	$ 42.92	$ 49.06	$ 55.19	$ 61.32	$ 73.58	$ 85.85	$ 98.11	$ 110.38	$ 122.64
RevPATR	$ 87,600	$ 131,400	$ 153,300	$ 175,200	$ 197,100	$ 219,000	$ 262,800	$ 306,600	$ 350,400	$ 394,200	$ 438,000
Rev/Sq. Ft.	$ 81.76	$ 122.64	$ 143.08	$ 163.52	$ 183.96	$ 204.40	$ 245.28	$ 286.16	$ 327.04	$ 367.92	$ 408.80
Fixed Expenses	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000
Variable Expenses	$ 613,200	$ 919,800	$ 1,073,100	$ 1,226,400	$ 1,379,700	$ 1,533,000	$ 1,839,600	$ 2,146,200	$ 2,452,800	$ 2,759,400	$ 3,066,000
Gross Operating Profit	$ 213,200	$ 519,800	$ 673,100	$ 826,400	$ 979,700	$ 1,133,000	$ 1,439,600	$ 1,746,200	$ 2,052,800	$ 2,359,400	$ 2,666,000
GOP %	17.4%	28.3%	31.4%	33.7%	35.5%	37.0%	39.1%	40.7%	41.8%	42.8%	43.5%
GOP Contribution/ Occ Room	$ 4.26	$ 10.40	$ 13.46	$ 16.53	$ 19.59	$ 22.66	$ 28.79	$ 34.92	$ 41.06	$ 47.19	$ 53.32
GOP Contribution/ Treatment Rm	$ 15,229	$ 37,129	$ 48,079	$ 59,029	$ 69,979	$ 80,929	$ 102,829	$ 124,729	$ 146,629	$ 168,529	$ 190,429

We as an industry have developed to the point where optimal growth can only occur by fully understanding the specific drivers of the spa business model. Furthermore, in order to be able to evaluate performance, we must adopt a uniform set of performance metrics. The metrics listed above can be used by investors, asset managers and hotel operators to assess the performance of their spa, as well as determine areas to focus on to reach maximum profit potential.

The Spa Report: The Answer to Financial Benchmarking

Several financial, hospitality, spa and software programming experts have gathered together to develop a comprehensive spa financial benchmarking program. Several spas have already gone through a preliminary beta test and more are currently participating in a pilot test group. The feedback has been excellent.

As a result of this, an independent research company has been formed to launch a real-time, web-based data analysis program which will be known as The SPA Report... The Spa Industry's "Spa Performance Analysis".

Conclusion

The spa industry needs more economic accountability. Spa directors need to be able to accurately and consistently measure, monitor and manage the spa's performance and see how it compares to that of other spas within their chain and the spa industry. Asset managers, lenders, hotel operators, etc. need reliable and realistic information regarding the spa's economic viability as a business and its contribution to the "core" business.

Accurate spa metrics will help many spas go from being under-performing "lazy assets" to business-oriented "profit centers." If the spa industry is to grow in terms of either more development or more economic contribution, it is necessary to "de-bunk the mystery of spa metrics" and to focus on the "business of spas."

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 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. Dr. Singer can be contacted at 954-942-0049 or judysinger@hfdspa.com