



SPA PERFORMANCE & PROFITABILITY: WHAT YOU NEED TO KNOW

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Spas were once viewed as an amenity to the hotel, with a purpose of commanding a premium on a hotel's ADR. The maturing of the hospitality (lodging and spa) industry, coupled with the challenging economic times, have caused the spa industry to become profit generating and incorporate revenue management strategies to maximize yield. In order for a spa to be an economically viable business, there needs to be a balance among:

- Providing spa services that guests want and need
- Creating a environment where the staff have a sense of personal and professional fulfillment
- Developing a business venture where the investors and owners achieve a healthy return on their investment

In this article, we are going to focus on the business side of spa operations. It is more important now than ever before that spas create or adopt a set of business skills that can maximize the spas' performance and profitability potential. HFD has created a simple-to-use, reliable software program of metric tools that can effectively collect, measure and monitor data on the financial reality of your spa so that you can maximize your spa's potential.

If you want a profitable spa, you need to identify the metrics that have the greatest impact, then find an easy yet consistent way to collect, interpret and use the information. HFD has identified 7 key metrics that a General Manager, Director of Finance, Asset Manager and Spa Director should monitor, measure and manage on a regular basis

1. **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. 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 value-added offers during periods of low demand while yielding higher rates at peak demand.



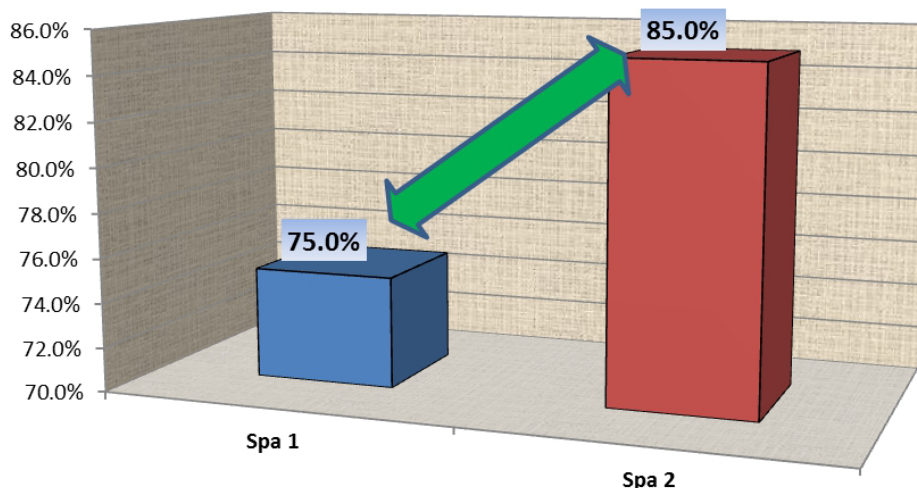
2. **Treatment Room Utilization** – Hoteliers should think of this as occupancy. A 1% point increase or decrease in treatment room utilization is worth about \$50,000 - \$75,000 in revenue per year in an average size spa. Treatment Room Utilization (TRU) is a critical measurement of demand against your 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. If a hotel operated at this occupancy level, it would go out of business.



Ben Campsey, MBA, CHAE

3. **Therapist Productivity** – Analyzing Therapist Productivity has several benefits often overlooked by spa managers. A high (>85%) Therapist Productivity generally means that there is not sufficient availability and guests are being turned away. Therapist Productivity below 70% signals over-staffing and can have a significant financial impact if therapists have any kind of hourly compensation. 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 while not over-staffing. It generally only takes a single treatment to justify the hourly payroll for an entire day for a staff member.

Therapist Productivity



For an average Spa, an improvement of Therapist Productivity of 10 percentage points results in an increase in profitability of \$40-\$60K



4. **Revenue per Available Treatment Room** – Revenue per Available Treatment Room (RevPATR) corresponds to the hotel's RevPAR. 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. Understanding the fixed and variable expenses of the spa can help calculate the Gross Operating Profit contribution per treatment room.
5. **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).
6. **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.
7. **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 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.

The lodging industry cannot afford to have the spa be a “lazy asset.” Business intelligence will become increasingly important. Spas need more business acumen ... they need to have the tools to gather information, but more importantly, they need to know what the information means and how to use it. Spa developers and operators will look for ways to have their spa be a **Significant Profitable Asset**.

HOW SPAS USE THE HFD FINANCIAL MAXIMIZATION PROGRAM

HFD has been providing operational and financial advisory services to spas throughout the world since 1983. One of the most common challenges that HFD recognized on a consistent basis is the need for spas to have a greater understanding of and tools for business management.

In response to this universal need and challenge, HFD created a unique, one-of-a-kind business intelligence program. This program includes the business tools coupled, with consulting/coaching aimed at educating operators on the intricacies of financial management for the industry. We have found that the coaching enhances the overall value of the software because of the one-on-one coaching that focuses on helping spas gain better business skills.

While this program was developed for lodging-based spas, it can be customized for the day spa market. This can be used for a single spa or for a chain of spas. Created in an easy-to-use EXCEL format, it takes about 10 – 15 minutes per day for the Spa Director or his/her designate to input



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some data points that are readily available from their appointment book or spa scheduling/financial management software. Once the data is input, they can view the key metrics that have the most impact on a spa's performance and profitability. These metrics include those in the USALI plus additional metrics that HFD has created to help them see a more in-depth and complete picture on how their spa is performing. In addition to the software listed above, HFD also provides tools for treatment profitability, labor control, expense control, and scheduling.

While it is important to have the metrics, it is even more important to know what they mean and how to use them. HFD has found that hotel managers as well as asset managers are very responsive to the HFD program because it helps put the spa and its potential in perspective as it relates to the spa being a profitable and tangible business center that helps the hotel to generate high occupancy, higher ADR, higher spend per guest, etc. With the HFD program, we "train" the spa director in hospitality-based business management skills that allow all parties to communicate better and gives everyone a practical, clean and concise understanding of how the spa is performing and what needs to be done to improve performance and profitability.

Most spas cost millions to build and operate. HFD's focus is to make sure the spa is a profitable business in and of itself, as well as a tangible asset to the hotel in terms of selling more rooms and/or real estate. HFD's role is to help spas achieve their potential as a tangible asset.

By-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 mixed-use developments. HFD was established in 1983 and has been the spa consultant to over US\$750 million of completed spa ventures around the world. HFD's focus has always been to create marketable and profitable spas that are tangible assets in and of themselves plus assets to a hospitality company's core business of selling rooms and/or real estate. Dr. Singer is a past chairperson of ISHC (www.ishc.com). She may be reached at judysinger@hfdspa.com or hfd@hfdspa.com.

Ben Campsey, MBA, CHAE, is HFD's financial maximization programs advisor. Mr. Campsey is the creator of numerous financial tools that help spas gather, measure and monitor data affects performance and profitability. He also coaches spa directors, asset managers, hotel managers and directors of finance in order to enhance their ability to maximize the spa's potential to be a tangible and intangible asset. In addition, he is highly experienced and responsible for overseeing hotel and spa financials for fine hotels and resorts. Mr. Campsey may be reached either through HFD (hfd@hfdspa.com) or directly at bencampsey@earthlink.net.

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