# THE BUSINESS OF SPAS....STILL NO METRICS

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In 1983, HFD became the first full-service spa consulting company in the US. Our mission was to develop, plan, market and manage spas primarily for up-scale hotels, resorts and mixed-use developments. Our focus was to create spas that appealed to guests, staff, lodging operators, developers and investors. We created the blueprint for what we called the *"business of spas."* We wanted all our clients to have spas that would be profit centers in and of themselves as well as tangible assets to the company's "core" business of selling hotel rooms and real estate. We always told our clients that they do *not* want to be in the "spa business"... if the spa cannot enhance their "core" business don't build it. It is very difficult to market and manage a profitable spa.

HFD has consulted on almost US$800 million of completed spa ventures throughout the world. As I reflect on the growth of the industry, there are certainly a lot more spas; they are more opulent and grandiose than ever; they are charging exorbitant facility and treatment fees; they are challenged to find and retain staff and appropriately compensate them; and they are having to be more accountable yet the spa directors are not being trained in the "business of spas." While the spa industry has grown in many ways, *spas are still in their infancy when it comes to understanding some of the basic financial metrics and working as an industry to improve their economic viability.* Spas might generate more revenue, but this does not mean they are more profitable.

While there are lots of financial management reports in every spa software program, it's important to know which reports have the highest value in helping the spa director, the director of finance, the director of marketing, the general manager and the asset manager to understand some of the basic financial realities of spas and their contribution to the "core" business.

Individual spas typically challenge themselves on a daily, weekly, monthly, etc. basis to increase revenues, decrease payroll and operating expenses and increase profits as per their budgets and historical analysis. While this is important, there is a bigger picture that is being missed, actually ignored, e.g., evaluating a spa's performance within its competitive set and the establishment of industry benchmarks. It continues to amaze me that spas *still* do not have a benchmarking program similar to what STR does for hotels. It's very easy to micro-manage your spa, but how are you REALLY doing compared to industry norms? The problem is no one is collecting, measuring, monitoring and reporting data to establish reliable benchmarks so spas can see how well they are doing or are not doing. A few companies, including mine, have tried to develop an industry-wide benchmarking program, but we have all met with resistance in terms of getting spas and hotels to participate. Spas do NOT want to share their data in the same way that hotel data is shared with STR. It totally bewilders me why lodging operators aren't supportive of a spa benchmarking program. Their properties have multi-million dollar spa facilities with million dollar operating budgets, yet they aren't curious or even insistent on knowing if they are really being operated for peak performance.

In 2003, HFD conducted a landmark economic research study. I have since written numerous articles on spa economics and benchmarking. In 2008, I wrote a benchmarking article with Ben Campsey, currently the Chief Financial Officer at Nemacolin Woodlands Resort in Pennsylvania. It was widely published and became the platform for discussion on the viability of an industry-wide spa benchmarking endeavor. Ten years later, we are still talking.

In this article, I invited Ben to up-date his 2008 recommendations on what are the key metrics that could help individual spas, chains of spas and also be used in an industry-wide spa benchmarking program. At that time, he identified and described 7 metrics. Now, in 2016, he says there are 9 metrics (the 2 additions are noted with an *):

- **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** – The corresponding metric in hotels is occupancy. 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. To maximize return, this metric can be measured by hour as it is typically highly variable. Most spas operate at 35% - 50% treatment room utilization with the top performing spas implementing strategies including discounts, value ad, and product/treatment add-ons at low demand periods.

- **Therapist Productivity** – Analyzing Therapist Productivity (Service Hours Performed/Therapist Hours Available) has several benefits often overlooked by spa managers. While hotels manage occupancy with a single constraint (# of Rooms), spas must manage dual constraints. Just because a room is available, doesn't mean it can be booked. Having therapists on standby is costly, and this is why monitoring therapist productivity is so important. Given the nature of spa bookings, the most successful spas have a structured approach to staffing their providers and understanding when they should have them available for walk-ins.

- **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.

- **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:

- **Contribution Margin of Treatments ***- Contribution margin is defined as retail price minus direct variable costs. Determine the contribution margin of a treatment by subtracting the direct labor cost (provider compensation), direct product cost and any other direct variable cost from your retail price. This metric makes analysis significantly easier when evaluating discount and promotional strategies.

- **Spa Capture Rate *** – The most useful form of this metric is calculated by the number of resort guests that book one or more spa treatments divided by the total number of resort guests. This metric provides a clear indication of how the resort is driving guests to the spa. It is also an excellent metric to build a spa forecast off. If the data is available, separate these capture ratios by the market segment that is used in the resort.

As you can see, there are only a few pieces of information, all of which are or could easily be available, that are needed to establish a spa benchmarking tool that can help the spa and the lodging/mixed-used industries to focus more on the spa as a tangible and intangible asset as well as a profitable and marketable business venture. I don't think there is anything terribly difficult or complicated about the above metrics. I believe that if industry leaders want a benchmarking tool, it will happen. I predict that with such a tool, spas and the spa industry as a whole will be better business ventures in and of themselves and the lodging industry will be in a stronger position to maximize the spa's contribution to the economic value of its "core" business.

In a 2006 article, I wrote that "the lodging industry cannot afford to have the spa be a 'lazy asset.' There are simple-to-use, reliable metric tools that can effectively collect, measure and monitor data on the financial reality of your spa so that you can maximize its potential. When you 'think spa,' think **S**ignificant **P**rofitable **A**sset." I hope that another 10 years does not go by without addressing the "business of spas" and that there is a **S.P.A.** benchmarking program to protect and enhance your investment in the spa as well as the lodging/mixed-use property.

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Judith L. Singer, Ed.D., ISHC, is the President, Co-Owner & Founder of Pompano Beach, Florida-based Health Fitness Dynamics, Inc. (HFD/HFD Spa). HFD is an internationally recognized and respected full-service 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. In addition to being the consulting company to almost US$800 million of global spa ventures, HFD has been actively involved in conducting economic and consumer spa research and establishing industry benchmarks. HFD is unique in terms of its focus on creating spas that are viable business ventures. Since its inception in 1983, HFD has been the consulting firm to such renowned projects as The Omni Mount Washington Resort, The Umstead, The Allison, Monte-Carlo Bay Hotel & Resort, Banyan Tree Mayakoba, Rosewood Mayakoba, Canyon Ranch in the Berkshires, Little Dix Bay, Four Seasons Hulalai, Four Season Biltmore, Four Seasons New York, Miraval, Malliouhana, Cranwell, Pinehurst, The Homestead, The Greenbrier, Bacara, Silverado, and *agua* at the Delano and The Sanderson. In HFD's 30 plus years as an international spa consulting/advisory company, its focus has always been on how to help investors, developers and operators create and operate marketable and profitable spas that are stand-alone businesses as well as assets to their "core" business of maximizing the hospitality and real estate venture. Dr. Singer is the past chairperson for 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*. She speaks at numerous international hotel and investment conferences and is a guest lecturer at several hospitality schools. Dr. Singer can be contacted at 954-942-0049 or judysinger@hfdspa.com. For more information on HFD, go to www.hfdspa.com.

**Ben Campsey, CPA, MBA, CHAE**

Ben Campsey has nearly 20 years of experience in hospitality finance and is currently the Chief Financial Officer at Pennsylvania's 2,000 acre Nemacolin Woodlands Resort. Prior to joining Nemacolin Mr. Campsey was the Chief Financial Officer at Hilton Head Health, a weight loss and wellness facility in South Carolina. Mr. Campsey was a member of the opening team at North Carolina's 5 Star, 5 Diamond Umstead Hotel where he spent 8 years as Director of Finance. Prior, Mr. Campsey held various roles in Finance at Canyon Ranch Health Resorts. Mr. Campsey is a licensed Certified Public Accountant and holds a Master's degree in Business Administration of the Eller School of Management at the University of Arizona.