



Horwath HTL
Health & Wellness

INDUSTRY REPORT

Spa Profitability Handbook

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With the rise of wellness travel globally, spas are chartered for continuous future growth and marketability. In today's hospitality market environment, spas are no longer seen as a "nice-to-have" complementary facility but are established as a core element of the guest experience that not only drives demand but matures as an untapped source of profits.

Whether a spa is a cost or a revenue centre depends largely on how it is integrated into hotel marketing and whether it is actively managed to drive profitable performance.

For a spa to achieve its potential as a tangible asset, operators have to be committed to marketing and integrating spa models into the core business, actively growing revenue drivers and keeping costs under control.

In this article, we discuss what physical and operational attributes affect spa profitability and outline effective strategies for achieving a stronger bottom-line performance.

What drives the bottom line?

To assess the operational profitability of a spa, most operators look at net operating income which refers to the level of profits after cost of goods sold, operating expenses, undistributed operating expenses, and fixed charges have been subtracted.

Although every spa is unique and operating benchmarks can vary considerably, the business volume of a spa facility is generally determined by:

- Hotel guest capture rate;
- Size of the spa facility;
- Square footage allocation to revenue-generating spaces;
- Spa concept and specialisation (e.g. traditional vs. medical spa);
- Treatment mix and pricing;
- Share of retail revenue and product company partnerships;
- Retail sales strategy, set-up and skills of the spa team;
- Volume and pricing of membership programmes (if available);
- Commercial practices and dynamism of the Spa Director;
- Synergies with other departments within the hotel (in case of a hotel spa);
- Location of the hotel and of the spa within the hotel;
- Importance and integration of wellness throughout the property.

Some of these aspects should be considered at early stages of spa development or renovation, while those relating to commercial practices and management initiatives should be observed all the way from pre-opening throughout the spa operation.

How to assess profitability?

If the spa fails to achieve the desired performance levels, understanding where the problem lies is key. Driving spa profitability begins with a careful assessment and analysis of the metrics that most accurately reflect spa performance, helping to reveal pitfalls and areas for improvement. Below we outline some of the most important indicators that should be monitored, analysed, and managed on a regular basis.

Average Treatment Rate

Serving as an alternative to an Average Daily Rate (ADR) in a hotel, Average Treatment Rate (ATR) is determined by the mix of spa service offering, as well as its duration and pricing structure. As mentioned by HFD Spa, the analysis of ATR paired with treatment room utilisation has the potential to support dynamic pricing in the spa industry, by allowing value-added offers during periods of low demand and charging higher rates during peak periods.

Similar to airplane seats or hotel room nights, spa service is a perishable product that comes with certain inventory limitations, i.e. a fixed number of treatment rooms available. Once a treatment hour has passed, the opportunity to sell this treatment room has been lost, meaning missed revenue potential for the business.

For this reason, successful spas are increasingly adopting yield management strategies, implementing variable price points on weekdays and weekends, during high and low occupancy periods, and depending on whether a treatment was booked in advance or by a walk-in customer.

Treatment Room Utilisation

Treatment Room Utilisation (TRU) is an alternative to occupancy in a hotel. TRU is calculated by dividing the total treatment hours sold by the number of total treatment hours available (in all treatment rooms per day). For instance, consider a 10-treatment-room spa that sells, on average, 45 treatments per day. Assuming that a maximum of 10 treatments can be performed in one treatment room on a daily basis, TRU for this facility would average 45%.

This metric allows assessing actual demand for spa services against the maximum available inventory and can be measured on a monthly, daily, or even on an hourly basis. Most successful spas operate at treatment room utilisation of between 40% and 60%. It is noteworthy, however, that for most spa facilities (except those at dedicated wellness retreats), mornings are low-demand periods, with most treatments being sold from late afternoon until closing.

Therapist Utilisation

Calculated as a ratio of performed service hours over available therapist hours, therapist utilisation is another metric that can be used to measure demand in a spa. A high (over 75%) therapist utilisation may signal that current staffing levels are not sufficient and guests are being turned away. Therapists require sufficient time in between treatments to take breaks, refresh, clean and set up the rooms; this means that therapist utilisation of anywhere above 80% would not allow the staff any downtime, eventually leading to a drop in service standards.

A low therapist utilisation (below 50%) may indicate overstaffing, which has a significant impact on spa labour costs and thereby profitability. Optimal therapist utilisation should mean that therapists are working at capacity, which is achieved through effective scheduling and sales efforts. It is important to note, however, that this metric may vary depending on positioning and type of the spa. For instance, in a luxury hotel spa extra time may be allocated for a complimentary pre- and post-treatment consultation. While this may lower therapist utilisation, such value-added services ensure high guest satisfaction and add incremental value to the spa facility.

Another aspect that hotel spa management needs to consider is utilisation and cost allocation associated with the property's fitness facilities, which have a different pattern of attendance and staffing requirements. Unlike spas that see most of their demand after lunchtime hours, fitness centres are open early. They require manning earlier on during the day, which should be taken into account in the assessment of overall staff utilisation and facility usage.

Revenue per Available Treatment Room

Having a similar function as a hotel's Revenue per Available Room (RevPAR), Revenue per Available Treatment Room (RevPATR) is used to evaluate how much revenue has been generated within a given period of time and can help to manage time effectively, optimise spa pricing strategy, and compare the spa to the competition. Those businesses that do not rely on treatment rooms as a primary revenue driver (e.g. health clubs, wellness centres, onsen or hot spring spas) may also benchmark their performance on a membership basis or based on ancillary revenue per guest (i.e. admission fees, food and beverage, retail, etc.).

Spa Revenue per Guest

As the name states, revenue per guest is used to evaluate the average spend per guest and can help identify opportunities for up- and cross-selling.

Spa Revenue per Occupied Room

In case of hotel spas, Spa Revenue per Occupied (Hotel) Room is used to measure how many of the hotel guests are using the spa. This metric helps understand the ratio between internal and external spa utilisation levels, indicate a relationship between hotel occupancy and its impact on spa performance, and identify opportunities for in-house marketing and cross-departmental promotion.

Guest Capture Rate

In the case of hotel spas, another metric that should be tracked is the capture rate, calculated as the share of hotel guests visiting the spa to the total number of guests staying at the property. At large, capture rates should be regarded as a measure of relevance – the higher the capture, the greater the role of the spa in the hotel's overall positioning and service offering.

As a rule of thumb, resort spas typically record higher hotel guest capture rates compared to urban facilities, as in resort destinations, guests travel mainly for leisure purposes and are more likely to use the spa as a way to disconnect and unwind. While the capture rate in city hotels averages typically 5% to 8%, it may go up as high as 10% to 18% for urban resorts and 20% to 35% for beach destinations. In wellness retreats, where partaking in wellness programmes is the primary reason for booking, capture rates may reach 75% to 95%.

Other statistics that can be helpful in analysing spa performance trends are summarised in the following table.

Other Spa Profitability Indicators

Overall Performance	Revenue breakdown by source (treatments, retail, memberships, gift certificates); revenue per square foot; revenue per therapist; revenue per available treatment hour (RevPATH)
Guest Demographics	Gender; age; nationality; buying power; spending habits; visit frequency; distance from place of residence
Staff Performance	Retail product sales; rebooking rates; client satisfaction rates
Financial Performance	Profit margins (per treatment, per membership)
Hotel Guest Mix	Utilisation percentage by segment, i.e. FIT, Leisure, Group or MICE
Other Factors*	Property location (central or remote); proximity of tourism demand generators

(* In case of hotel spas, these factors impact guests' total length of stay and time spent on-property, ultimately impacting utilisation of services; location may also determine the share of external demand for the spa.

While a thorough analysis of these metrics would help develop a snapshot of spa operations and deploy targeted strategies to boost spa top line and optimise expenses, the ultimate key to the success of any spa lies in the offering (treatment mix and pricing) and the quality of the therapists.

If the spa's offering is not relevant to its target markets and their preferences, applying all the other listed tactics will not be helpful.



Improving revenue

Spa location, accessibility and visibility remain among primary factors affecting facility performance. Positioning the spa as a central and easy-to-find outlet will drive higher visitation compared to an outlet that is tucked away and hardly accessible. Moreover, knowing the competitive marketplace and accurately positioning the spa to address a certain market niche will make the property stand out and attract attention from potential customers.

Offering value-added services, such as consultation or complimentary access to heat and water experiences will also support the spa's premium positioning and differentiate it from the competition.

Although traditionally treatments are perceived as the major revenue driver for a spa facility, the share of treatment revenue may vary significantly depending on the spa type, its service platform, availability of membership programmes, food and beverage outlets, or activity offering.

For example, while in a downtown luxury hotel spa treatment revenue may make up 70% to 90% of the total spa revenue, it typically averages 30% to 40% in a standalone spa facility and may be even lower for a membership club or a thermal/mineral spring facility.

Therefore, the revenue generated from the auxiliary sources as well as from fees charged for access to the spa facilities and retail sales should not be overlooked but used as an opportunity to boost the spa's top line.

Boost Retail Sales

Averaging anywhere between 5% and 30% of spa revenue, retail sales can add meaningful value to spa financial performance. To boost product sales, operators need to maximise efficiencies in the retail space, making it an appealing high-acting outlet. Visibility, attractive design and accessibility within a spa is key. Incorporating tester stations can also make the retail experience more interactive and engaging.

Applying "educational upselling" is also crucial; the spa staff should be trained to know the products well and be able to not only recommend the best solution, but also educate guests about the product's benefits and suitability for their individual needs and concerns. Allocating sufficient time between consecutive treatments enables therapists to spend time with the guest and recommend and upsell best-suited products and services. Creating programmes, which include a therapist consultation and personalised home care recommendations can encourage consistent use of the products that can only be found at the spa.

Therapists can be incentivised through commissions or be offered complimentary products for their own use. It is also key to set measurable goals, particularly for beauticians and aestheticians, such as achieving retail revenue targets of 20% to 25% of total treatment revenue. Overall, engaging the staff, setting goals and tracking their performance can create higher product rotation and stronger retail sales growth.

Bring in More Customers

The top line can be improved by bringing in more customers through active marketing, client referral programmes, and local advertising. In the case of hotel or resort spas, both internal and external marketing strategies should be carefully considered. To boost hotel guest capture, it is crucial to identify strategic points of sale throughout the property to display the spa, such as reception, elevators, and dining outlets.

To capture guests upon arrival, the spa and its promotions should be integrated in the front office process, for instance, by sending spa offers with room booking confirmation or walking guests through the spa when accompanying them to their rooms. Additionally, having a spa phone button, including treatment menus in room compendiums, and featuring spa facilities on the hotel TV channel will ensure brand awareness among in-house guests and increase the likelihood of them visiting the facility.

Spa management should also consider creating event-based promotions and packages, which may be either calendar-related (e.g. summer promotion, Christmas or Mother's Day packages), event-related (e.g. in-town conference, sports event), or wellness or cause-related (e.g. Global Wellness Day, cancer awareness month). To further improve effectiveness of internal marketing, service offering and promotional efforts should ideally be customised according to the hotel's guest mix.

To get hotel guests acquainted with spa services and facilities, spa treatments can also be packaged into accommodation and dining to create day spa journeys or custom-designed programmes for each of the hotel's guest segments (e.g. honeymoon packages, MICE or corporate spa menus). Setting up a referral programme will encourage existing spa customers to bring or refer their friends to the spa, thereby broadening the customer pool and cultivating a word of mouth network among local guests.

Express spa sessions and demonstrations can also be organised to attract attention, both on-property and during external sales activities, such as trade shows and presentations.

Improve Customer Retention

Customer retention is considered among the top revenue drivers, yet is often overlooked. Improving customer retention is essential to growing spa sales and therefore the profit. It is cheaper to retain existing customers than acquiring new ones, and the success rate of selling services to them is much higher. Spa Executive (2018) reports that while the probability of selling to a new customer is only 5% to 20%, the probability of selling to an existing customer averages 60% to 70%. Therefore, just 20% of the existing customer base can generate up to 80% of future spa profits. Launching a loyalty programme, encouraging re-booking, personalising the guest experience, providing value-add offers, and rewarding and recognising staff can help improve repeat guest ratios. Empowering therapists to offer product testers, loyalty cards, and upgrade time of services for new customers will further support guest retention efforts.

Up- and Cross-Sell

Up-selling refers to a sales technique whereby the seller introduces the customer to services or products which add value to the client. Up-selling can lead to more premium and expensive items or items of higher quality, upgrades or other add-ons being bought in addition to the original purchase. Cross-selling refers to a technique whereby the seller introduces the customer to service or products which add value to the client apart from the original buying intention. Cross-selling may include purchasing an additional spa treatment, home care spa products, purchasing food and beverage items or meals in between treatments, and others.

To capitalise on this sales strategy, it is crucial to train the spa staff to up- and cross-sell, set realistic yet stimulating goals, and evaluate individual performance on a regular basis. It is also recommended for the spa team to have a customised "cheat sheet" of all services and products that complement, support and add benefits to all treatments on the menu. It would allow therapists to upgrade guests' experience with targeted add-ons or products, for instance, by offering special masks or serums during a facial treatment or upselling a muscle-relaxing gel or roll-on to guests suffering from muscle aches and pain.



Leverage the Use of Technology

Investing in spa software facilitates the management and assessment of the spa facility, offering a variety of tools to run and grow the business. A spa software allows to control bookings and scheduling, track customers' spending patterns, advertise open appointments to fill slow periods, manage inventory, facilitate reporting, drive email campaigns, communicate special offers to customers and many others in one place, making it a worthwhile investment for many industry players. Spa software will also help compute key performance indicators (as discussed earlier), allowing the spa management to remain up-to-date with the facility performance and adopt active revenue management strategies accordingly.

Strategise Sales and Marketing Efforts

In order to attract customers' attention, the spa needs to have a well-designed marketing and promotions plan in place to help reach the target audience and attract new clients. The marketing plan should include clear, realistic, and measurable targets that are monitored and used to track performance on a regular basis. Considering the objectives of the chosen sales and marketing strategy, the marketing plan should be as specific as possible, which would help to narrow down management options and follow the budget. The optimal spa marketing strategy should include social media and client promotions as key parts of the plan.

The spas should have a tracking system in place that would help identify potential sales opportunities and empower receptionists to upsell treatments and apply revenue maximisation strategies during low demand periods or in case of last-minute bookings (i.e. similar to airlines).

Consider Spa Configuration

At the development stage, square footage allocation to various uses within the spa should be carefully considered. In case of traditional spas, as the primary revenue-generating space, treatment rooms are the most important (in terms of their number and size). However, other facilities such as fitness and heat and water experiences should also be taken into account, especially if the spa intends to offer membership programmes or charge a fee for facility usage. As standalone day spas are catching up with hotel spas by offering high-quality services yet at a lower price point, unique heat and water experiences remain among the key points of differentiation a hotel spa can offer.

Controlling expenses

Careful assessment of the spa's actual performance may reveal that low profitability is not caused by low revenue, but rather by an inefficient cost structure. Unreasonable expense allocations may undermine the viability of some of the most demanded spas. Therefore, to achieve desirable profit margins, it is crucial to monitor and control costs. Spas may also consider engaging a specialised consulting company, which could help ensure appropriate assessment of performance, help with cost management, and provide innovative conceptual ideas and standards for implementation.

Payroll and Related Expenses

As a general benchmark, labour costs represent the highest share of spa expenses, accounting for anywhere between 30% and 60% of spa revenue and approximately 40% of total spa expenses. Therefore, managing payroll and related expenses by adjusting staffing levels, employee satisfaction, and turnover, is likely to have the most significant impact on spa profitability. As in any service industry, spa staff is the "heart and soul" of the business. Thus, all strategies implemented to minimise staff-related costs should not compromise employee satisfaction and thereby the guest experience. The spa should encourage a healthy working environment and guest communication to ensure high quality of service and high guests' satisfaction with their treatment of choice.

Another crucial factor (and often a challenge faced by Spa Directors) is employee retention and education. As good therapists can be difficult to find and difficult to keep, an extra amount of attention and guidance needs to be put in making sure that employees feel empowered, motivated, and maintain a sense of ownership in their work.

To reduce payroll costs, spa management should consider:

- (i) maximising staff productivity with the use of up-to-date technology and proper training;
- (ii) cross-training the staff to increase each employee's intrinsic value for the business, helping with coverage in case of sick leaves and unexpected departures; and,
- (iii) optimising scheduling through an accurate demand forecast to avoid under- and overstaffing. Typically, senior therapists should be made responsible for training an average of two to three new team members per year.

Overall, in high-cost countries, spa departmental profit margins range between 35% and 40%, whilst in low-cost countries, the margins may average 40% to 75%. In the United States, for instance, although base salaries may be low, therapists are entitled to a share of treatment sales. Such compensation strategy is directly linked to the therapist's level of experience, seniority, complexity of treatments performed, as well as operational know-how. The latter would commonly depend on the licenses therapists hold (e.g. anatomy training, training in body and/or facial treatments), which broadens the selection of treatments they can provide.

Engage a Specialised Consultant

To ensure that the spa reaches its potential and to avoid poor asset performance in the long run, spa operators and developers may consider seeking assistance from a specialised spa consulting and management company. It can help monitor facility performance, implement appropriate standard operating procedures and regular training, and improve spa positioning by analysing the competitive marketplace and reviewing conceptual and design solutions.

Both concept and design can make or break the success of a spa and, therefore, must be well thought through and professionally executed. A specialist spa consulting team can help create the concept that is unique and geared towards specific market segments and make sure the facility is designed, marketed, and staffed accordingly. Unlike other areas within the hotel, the design of the spa must focus on the ultimate guest journey and experience, ensuring proper flow and functional set up of various facilities, while also supporting the efficiency of operation.

Horwath HTL Health & Wellness specialises in a wide range of consulting services for hotel and day spas, medical spas, as well as lifestyle and wellness centres. The multidisciplinary team of spa experts will assess, explore, and make detailed recommendations on how to improve spa business performance while evaluating the internal processes against the regional benchmarks. Commencing with a "diagnostic" review of the facility, Horwath HTL Health and Wellness will provide on-going support to the spa management team focusing on strategic planning, financial performance, budgeting, product and service improvement to ensure the potential of the spa facility is maximised.

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Injecting fresh ideas and professional management into the rapidly expanding wellness hospitality sector, Ingo Schweder brings together more than 30 years of experience in the spa and hospitality industries. He leads the multidisciplinary teams at GOCO Hospitality and Horwath HTL Health and Wellness to strategise, conceptualise, design and manage the latest wellness developments for the world's top hospitality and real estate brands. From individual hotel spas to dedicated wellness resorts and master-planned mixed-use developments, Ingo's experience and insights have taken over 400 projects worth more than \$3.5 billion across upwards of 42 countries from initial idea to profitable realisation and on-going management.

The company manages GOCO-branded spas in Greece and the UAE and owns the Glen Ivy Hot Springs in Southern California, the United States' oldest and highest-grossing spa. GOCO Hospitality is currently developing several GOCO Retreats in strategic spots around the world. Ingo Schweder currently sits on the Advisory Board of AMAALA – one of the largest wellness projects in the world – and was formerly a board member of Mandarin Oriental and earlier Corporate Director of Operations for Oberoi Hotels & Resorts. Under his guidance, Ananda in the Himalayas, the globally recognised destination spa, was established.



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As the Manager of Horwath HTL Health & Wellness, Fabian directs the market research, development strategies, and feasibility studies – along with concept development – for

bespoke wellness-centric hospitality and mixed-use real estate developments. Before joining Horwath HTL, Fabian worked as the Assistant Manager - Hotel Development with Orascom Hotels & Development and was involved in the development of international luxury hotels and resorts in Oman, Montenegro, Morocco, Egypt, and Switzerland. Prior to his engagement in the development industry, Fabian began his hospitality career with the Ritz-Carlton Hotels in China and Thailand. Having graduated with two Bachelor's degrees in International Hospitality Management and Finance from Glion Institute of Higher Education and Les Roches-Gruyere University of Applied Science, Switzerland, and with a Certification in Hotel Real Estate Investments & Asset Management from Cornell University, USA, as well as a Swiss Restaurant License, Fabian brings multidisciplinary experience as an operator, developer, and researcher to his work.



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As a Consultant of Horwath HTL Health and Wellness, Krystyna is primarily responsible for the development of market research and feasibility studies, business plans, and client presentations for wellness-centric hospitality projects and mixed-use real estate developments. Before joining Horwath HTL in Bangkok, Krystyna worked in international hotels and resorts in Europe and the Middle East. Krystyna holds a BA in Hospitality Management with Real Estate Finance and Revenue Management from Glion Institute of Higher Education, Switzerland, and anticipates completion of MSc in Real Estate from Lucerne University of Applied Sciences and Arts, Switzerland, by September 2020. Krystyna has a Certificate in Hotel Industry Analytics from the American Hotel and Lodging Association and is a member of Eta Sigma Delta International Hospitality and Tourism Management Honour Society.



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