

## **Spa Metrics: Criteria and Issues**

### **By Dr. Gary W. Matkin**

One of the liveliest sessions held at the inaugural Global Spa Summit in New York City, May 20th - 22nd, 2007, concerned agreement on universal measures of performance metrics for comparison and bench-marking purposes. The session was chaired by Anne McCall Wilson of Fairmont Raffles Hotels International, Inc., who presented models used by the hotel industry including average daily room rate per occupied room and occupancy rates. RevPAR (Revenue Per Available Room) data are collected and published each month for most U.S. hotels by Smith Travel Research, a contributor to the session. While the session was wide-ranging and somewhat inconclusive as to the outcome regarding the establishment of standard measures of industry performance, there were some broad areas of agreement. The topics resulting in disagreement or confusion prompted the following reflections on the issue. There was considerable agreement about criteria for acceptable metrics:

1. The metrics should be simple
2. The metrics should be readily available for reporting on a timely basis across the full spectrum of what are recognized as “spas”
3. The industry should be willing to provide data for collective reporting
4. Data must be gathered against a reasonable categorization or segmentation of spa types

There was also general agreement that one of the performance metrics should be Average Revenue Per Guest Visit, measured as total operations revenue divided by total guest visits. While some members of the session initially felt that this would not provide information about retail sales or other elements of spa operations, most acquiesced to the metric on the basis that it did, nevertheless, provide a sound, simple, and uniform measurement.

Average Revenue Per Guest is analogous to the hotel industry metric of Average Revenue Per Occupied Room. In comparison to similar operations and when measured over time, it tracks perceived market value versus the basic offerings of a particular spa.

Finding an analog to the hotel metric of occupancy rates proved more difficult. Hotel Occupancy Rate is a solid “surrogate measure” of overall profitability and effectiveness, especially when compared with Average Revenue Per Occupied Room. The more rooms occupied, the more people spending money on both rooms and related services, such as restaurants, bars, cabanas and spas. For spas, there does not appear to be such a significant surrogate measure.

Several people proposed a Revenue Per Treatment Room or Revenue Per Square Foot metric. Others responded by noting that often treatments might be done outside of treatment rooms, on the beach or by the pool. Others noted that the number of treatment rooms might not be a good measure because of peaks in operations, rather than as an asset used year-round. In other words, this metric seemed to be too varied across similar operations to be much help. Proponents of these measures argued that investors are very interested in the data. Yet even these proponents recognized that these metrics were important primarily in making investment decisions and in monitoring investment performance over time, and not something of importance every month. Measures of investment value are more reliably obtained periodically from published or certified financial statements, rather than by an industry reporting system.

Some participants in the session suggested that Revenue Per Employee or Per Payroll Dollar was a good measure. Yet others argued against this measure for reasons similar to those opposed to measures based on space, pointing out that labor costs vary so markedly from one area of the world to another that this would be a metric easily misinterpreted.

To an outside observer unfamiliar with industry sensibilities, it would seem that the spa industry metric closest to the occupancy metric in hotels would be the Percentage of Available Treatment Hours Used. It is similar to the Hotel Occupancy Rate in that it measures utilization against capacity. The argument in favor of this metric is that a key to financial success is through effective utilization of the technical core of the organization, the treatment specialist. Certainly this metric does not have the prediction power of the Hotel Occupancy Rate. First, while the total number of rooms in a hotel is fixed, available treatment rooms can vary tremendously. A very poorly performing spa might mask its performance by simply adjusting its workforce. Also, a very high percentage of utilization might mean that some clients are being turned away. And while the hotel measure bears some relationship to related services, utilization of available treatment hours has no relation to spa retail operations. Finally, members of the spa industry may not want to disclose this metric even though the majority of their organizations track it.

So, the search for at least one more industry-wide metric goes on. Perhaps it will be found at the next Global Spa Summit.

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