

Breakout Session: Let's Talk About Real Spa ROI

Monday, May 21st

3:15PM – 4:30PM

Lexington Suite

Moderator: Professor Mary Tabacchi, Cornell University, New York

Panelists:

Raj Chandnani, Director of Strategic Planning, Wimberly Allison Tong & Goo, California

Annbeth Eschbach, CEO, exhale enterprises, New York

Jamie Waring, Managing Director, Six Senses Resorts & Spas, Thailand

Anne McCall Wilson, Vice President Spas, Fairmont Raffles Hotels International, Inc. Canada

Discussants:

Cary Collier, Principal, Blu Spas Inc/Collier and Collier Spas, Montana

Brian Hunter, Partner, Spa Developments, Scotland

Ahmos Natenel, Founder & CEO, Lucrative Wellness, California

Jim Root, General Manager of Spa Operations, Sea Island Resorts, Georgia and Chairman of ISPA

Jeff Mathews, President & COO, Mandara Spa, Bali

Andrew Gibson, Group Director of Spa, Mandarin Oriental Hotel Group, Hong Kong

Other Major Contributors:

Mia Kyricos, Director, Spa Development, Operations and Marketing, Starwood Hotels and Resorts

John Korpi, Foundation President, ISPA

Karen Korpi, Vice President Spa Division, the Ritz-Carlton Hotel Company, Arizona

Susan Harmsworth, Founder & CEO, ESPA International, UK

SESSION SUMMARY AND CONCLUSIONS:

There is a lack of standardization in the spa and hotel industry. It is difficult at present to calculate Return on Investment (ROI) due to many variations on allocation of expenses and revenue across all corporations. It is necessary to set forth proforma from the ground up. All details must be included. There is a need to develop software and collect considerable data in order to answer the question as to how ROI should be calculated. Much more work needs to be done in the industry so that companies can compare their spa growth and profits among themselves. At present ROI can be used to track internal company growth only.

Questions:

What is ROI? How should it be measured?

What should really be included in a spa's P&L?

Do Spas truly make the profit they say they do when all expenses are included?

What incremental effect does the spa have on ADR, RevPAR, Occupancy, Guest satisfaction, hotel image?

Do spa goers spend more in a hotel property? For example, on F&B, gift shop, golf, etc?

Answers:

Investors need credible and reliable data. They need ground up Proforma.

So, what is part of Proforma?

(1) Staff

On the expense side we have to define scope of service, specific target market, market segmentation, where does the guest come from, competitive set, and global distribution channels. Then choose staff to meet the needs of this group of consumers.

(2) Spa Analysis

Who are the architects? What is the spa menu? What is the size of the spa? What is the configuration of rooms? Do we have a single reception for spa and fitness? Do we have a single locker room for spa and fitness? Do we accommodate both hotel guests and memberships?

(3) Ground up budget

What goes into the budget? Heating and air conditioning, rental space, revenue and non revenue costs? Advertising, marketing, human resources, supplies, products, cost of sales, staff, management salaries, cost of fitness equipment, cost of maintaining pool? What other part of the budget must be added?

So what is ROI?

Spas drive more business and financial performance than the revenue that comes from the spa itself. To be successful, we define profitability within the spa itself. From the real estate perspective there are two elements: the operational value from the spa and the property value from the operation should you sell the asset. Spas look for an 8-12 percent ROI and the spa needs to be financially accountable with no hidden or shared costs with the hotel. We look for an 8% ROI at the EBIDTA level. There is no standardization among hotels so we don't compare our work with others. Some hotel corporations factor in all unallocated costs and other companies simply show gross operating profit.

Return on Investment (ROI) = Net Operating Income (NOI) / Total Investments

ISPA wrote the Uniform Financial Reporting Systems for Spas. There are two schools of thought: (1) Make the spa independent and responsible for all of its expenses or (2) Each operating department (spas, golf, F&B) will attribute costs when they are easily identifiable to a particular department. ISPA believes that allocating costs may become problematic because rather than managing and improving the business, the business focuses on where to allocate expenses.

There are two difficult issues in the business development of hotel spas:

- (1) Get the General Manager of each property to believe that spas contribute significantly to the bottom line
- (2) Make sure everyone is following a uniform system of accounts.

There are two types of spas within the hotel business. The in-house managed spa and the 3rd party managed spa. Complete transparency is required of a 3rd party managed spa. If 3rd party managed spas can do it why can't the whole industry?

We need to consider the balance of local guests to hotel guests. If one does not track ROI, they lose the high end hotel guest as a result of having a lot of local memberships.

At the present we need more sophisticated software and data collection methods to track and analyze spa management operations. We have revenue management systems to handle hotel rooms but we do not have equivalent technology or data in place to measure mix for spas.

How do you know, when you're working with companies as an operator or consultant who is going to say "I want a 40,000 sq ft spa" and who is going to say "Let's scale back"? Companies have a habit of changing their minds.

It is paramount to have clarity of assumptions. As the operator you need to have those priorities determined up front. For some organizations, the spa is a show piece and return on equity is not a concern. However, this becomes of great concern regarding operations. ROI should be tracked at any rate. Often the problem is that you don't have the right people in the room when designing the spa, you need the marketing people and those who understand the market to be a part of the process early in the deliberations.

What is the effect of branding on ROI of hotel spas?

Research for the real estate business has shown that spas provide the greatest lift in real estate value more than golf courses or anything else. Branded spas contributed 25% to property values. A 10-15% increase in property values is a very conservative figure.

There is a significant benefit to collectively marketing and economies of scale from products and services. The cost of menu development is also defrayed.

From a consumer standpoint, there is the reliability and predictability of the brand across properties. Collectively marketed and branded spas (within one hotel company) exceed non branded growth by 7% year after year.

Where do we go next?

There is a panel on bench marketing later during this symposium. However, we have yet to fully define ROI? Is it ROI after EBIDTA? An increase in real estate value? Do we calculate ROI only from the direct revenue made from the spa? Or should we look at NPV, IRR, NOI? Do we look at RevPAR, occupancy, ADR, guest satisfaction? Hotel image, enhanced marketing of hotel or spa, positive effect on the mission of the organization, etc?

A clear definition is very important to the industry. Next year we should agree upon this.