



What do the Profit Numbers look like for Resort spas, Hotel spas, Day spas and Medical spas around the World?

Concurrent Breakout Session

Tuesday, May 19th 2009 1:30pm – 2:30pm

La Salle Rutchi, Victoria-Jungfrau Grand Hotel & spa, Switzerland

Moderator: James “Woody” Wade, Managing Director, Wade & Co., Switzerland

Panelists:

Alison Howland, President, spa Success Consultants, United States

Naim Maadad, Managing Director, Mspa International, Thailand

Tracey Sameyah, President, Murad Integrative Health Center, Murad, United States

Ingo Schweder, Managing Director, Spatality, Thailand

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Worldwide there is a great deal of confusion about the profitability of spas.

For example, some surveys show that 70% of the spa industry expects revenues to go up this year. The question though is, how could this be possible? Would the number of treatments increase? By 3 or 4 treatments a day? Or are there other planned revenue sources?

Let us turn to the wisdom that is in this room.

By show of hands, which type of spa do you think is the most profitable and the least profitable?

	Most Profitable	Least Profitable
Resort spa	1	0
Hotel spa	7	14
Day spa	8	1
Medical	8	9

Which type of spa will recover first after the recession?

	Will Emerge First	Will Emerge Last
Resort spa	0	13
Hotel spa	2	5
Day spa	20	0
Medical spa	9	1

What is the outlook ten years from now? Will these segments be more (+) or less (-) profitable than today?

	+	-
Resort spa	17	0
Hotel spa	22	0
Day spa	16	1
Medical spa	Majority	

Alison Howland

The current financial health of the spa industry can be described as follows

- 2008: gain
- 2009: 10-20% decrease in the day spa sector

Day spas do have an advantage at this point compared to hotel and resort spas. They can respond to the needs of an immediate geographic area on a short notice and they reflect the decisions and vision of an individual's creative entrepreneur. The measure of service is their ROI (return on investment). Training costs have to include measures for the retention of staff. I did a survey of my own and went to day spa owners. Grooming is extremely important for executives; they patronize day spas.

I asked the executives I interviewed approximately how much they spend in a spa per month:

+ 2x manicure
 + 1x pedicure
 + Waxing
 + Facial
 = US \$500 per month



These are good clients to have and should be every day spa's target market. My findings showed that day spas are very varied in their services and their business, there are no strong standards. The average check per client is \$200 from what I heard from the owners I interviewed. If their business was really down 40%, they would be bankrupt by now. What I was told is that they are seeing clients come in less frequently. They are not giving discounts.

The aim is to increase market share, which could be achieved for instance by having an open appointment system in the form of a free of charge lottery for current clients. It is vital to maintain brand awareness and to take care of staff during these times.

Excerpts from the general audience discussion:

- Demand for nails and waxing is down but facials are still going ok
- Overall, revenue from services is up and revenue from retail is down
- The #1 treatment is still the massage
- There is a feeling like post-9/11 in the air; in spite of the crisis, people still need to take care of themselves
- This is the time to run marketing promotions if for no other reason than to keep staff morale up, especially staff who are paid on a commission basis. This is a time to show strong leadership.
- This is the time to experiment with using Facebook and Twitter and learning how they can become marketing tools for you
- With unemployment as a consequence of this crisis, it is vital to keep customers who have been laid off, so they go back to their usual average check once they have a job once again.

Urban spas are en vogue. In 2008, in NYC, more than 22 new urban spas opened in hotels, four in Mumbai and four in Istanbul.

RevPar Change	Location
+18.3%	Abu Dhabi, Doha, Muscat
+5.0%	Panama, Buenos Aires
-5.7%	Europe, Turkey

In urban day spas in North America, we thought bigger was better, but this is not the case

- Hotel day spas with < 10,000 square feet make \$264/square feet
- Hotel day spas with >20,000 square feet make \$76/square feet

Length of stay

- The longer a hotel guest stays, the higher the capture rate (7-15%)
- The longer a hotel guest stays, the higher the spending (laundry, F&B, limo, etc. 30-50%)

Who is the real spender?

- The leisure traveler (not on a corporate rate)
- 11-20% suite utilizer
- The higher rate paying guest uses the spa

This is why hotels need a proper spa.

Total spa turnover

\$92 Million = 1 out of 6 guests arrived in a hotel with a spa

Destination turnover

- +5% Africa
- +11% Middle East
- +23% Turkey

We never have had delegates to the Summit from Turkey, and this year we have four: a clear indication of the growing importance of this market.

The outlook worldwide for the next ten years as per the World Travel and Tourism Organization: \$1.3 trillion investment in India, China, Libya, and Vietnam through sovereign funds.

2007 RevPar (revenue per available room) of hotels

- \$250 Moscow
- \$230 Abu Dhabi (up)
- \$231 Geneva (up)

ADR (average daily rate)

- \$374 Moscow
- \$300 Dubai

The hotel spa market is connected to real estate and is therefore in direct relation to what you can create in terms of ROI (return on investment). In urban locations, where each square centimeter counts, the big chain hotels want their own brand, both for the spa and for their spa products. The future is in branded products in the hotels.



[Tracey Sameyah](#)

I ran my own informal study and found that the medical spa is still the smallest segment but it is also the fastest growing. With the economic crisis, there is a slowdown in growth, though.

Beyond the first quarter, 2009 statistics show that we need brands in this segment and a solid strategy. The driver is consumer need. The consumer need is prevention to a great degree. Medical spas go beyond treating diseases. The medical spa business model is based on retail, retention, and the capacity to make maximum \$ per hour. With scientific evidence and increased credibility, medical spas will charge more aggressively and come up with more bundled services/packages. Business feeders for medical spas includes direct e-mail, marketing campaigns and corporate marketing.



Naim Maadad

The starting point in my opinion is that we need to better define our product to the industry. We know where we want to (and need to) make money. And we understand the educational aspects. Issues:

- Train our own people
- Most managers are former therapists
- We entrust our business to them
- What is the proper etiquette, dress code, standards?
- E-marketing is relatively low-cost; nevertheless, we still drive expensive

marketing campaigns

- Software is available but needs to be utilized better to yield better information and efficiency

Ingo Schweder

We are doing projects in the Middle East, in India and China. A project has to be master planned in all areas bringing the right specialist together so that they start to understand each other. Otherwise the spa will make no money. What I often see is people drawing up a master plan – yet they have no experience in retailing, are not hydro/thermal specialists. Yet people with one skill set become managers or marketers overnight.

Our industry is in danger of becoming an EGO industry. Any profit gets a bad name when it is not driven by enough profit. A spa manager definitely needs a good business sense. Training is a key issue, as we have seen from many of the discussions yesterday.

Discussion

There is a huge market out there for consultants to effectively run feasibility studies. No one does a particularly good job at this, however. It is a matter of educating the market regarding what to ask for when hiring a consultant. Often the future spa owner is given nice pictures to look at from a prospective consultant and the owner selects the consultant based on photos he likes. Yet the photos may not tell at all what aspect the consultant had to do with the project.



Alison Howland

When we look at the development time line (which is measured in years), a particular plan might have been drawn up over two years earlier and might therefore not fit the environment and the market any more.

There is no general worldwide percentage for what the contribution to the profit margin is in the spa industry because in Asia and India for instance, the cost of labor is low whereas in Europe, it is 15-35% of the GOP (gross

operating profit) of a hotel. Labor cannot be hugely influenced, but the *planning* of a product can, and therefore it can drive profitability, depending on how efficiently or inefficiently it is handled. Many outside of the spa industry have no understanding of what it takes to make a spa profitable; we need to de-mystify this aspect.

Discussion

We should compare the spa industry with the airline industry. When we look at the airline industry we see that with deregulation came changes in the way revenue was managed. We need to take revenue management more seriously in the spa industry. If we drive the analogy further, airlines get from A to B. Spa customers however want a wide range of options. We in the spa industry should widen our scope. We are selling minutes of a service but the customers for these minutes vary. The luxury traveler who needs a massage on Saturday afternoon at peak hour will have to pay!

Alison Howland

The personality of the therapist plays a big role. They are people who actually *like* to spend eight hours in a dark room! For the person selling retail, the opposite personality is required.

Q&A

Q: Can a spa be looked at like an F&B outlet? These all operate with different margins. Does the same apply to the spa?

A: Menu engineering defines the profit. Our offers need to be well defined. Regional associations could streamline margins for a geographic area.



The Global Spa Summit is an international organization that brings together leaders and visionaries to positively impact and shape the future of the global spa and wellness industry.