

## EVALUATING FINANCES, OPERATIONS AND GUEST SERVICE.

Implement Change  
to Be More Profitable



## Top 10 Profitability Areas that spas should evaluate

1. Guest Experience & Guest Results
2. Pricing
3. Cost Per Treatment
4. Menu of Services
5. Compensation, Payroll & Staffing
6. Optimizing the Appointment Schedule
7. Inventory Control
8. Purchasing
9. Retail
10. Marketing



## Guest Experience & Guest Results

Guests have options  
 Meet or exceed their expectations  
 Indifference = no guest  
 If it's not great, they are gone.  
 Price defines expectations, price accordingly



## Financial ABC's

You are completely capable of understanding the financials.

(minus) Sales  
 (equals) Direct Costs  
 (minus) Gross Margin  
 (equals) Overhead Expenses (Allocated)  
 (minus) Net Profit  
 (equals) Debt Service  
 (equals) Working Capital



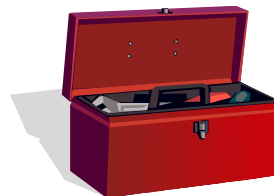
## 6 Numbers You Need to Know

1. Sales
2. Labor Costs
3. Direct Costs - Gross Profit Margin
4. Overhead Expenses
5. Net Profit
6. Debt Service



## Pricing

- How did you create your pricing ?
- Did you determine the costs?
- Should you raise or lower prices?
- Use the tools you have available.
- Average Treatment Rate
- Retail Products



## Direct Costs

- Examples

- Direct labor
- Subcontractor labor (1099)
- Front desk labor
- Payroll taxes
- Employee benefits
- Back bar, professional product
- Inventory purchases
- Gift Certificate commissions/paper etc.

– Keep them under 60-70% of Service + Product Sales



## Cost Per Treatment

- Cost all services
- Monitor the sales of all services to determine ranking.
- Input cost of your most popular services into your POS system to monitor sales mix and cost



# Pricing Services & Product

Add up all Direct Costs that goes into the providing the service.

A \$100 Selling Price for a Facial produces a 52.5% and 47.0% Gross Margin

		EMPLOYEE		SUBCONTRACTOR	
<b>Selling Price</b>		<b>\$100.00</b>	<b>100.0%</b>	<b>\$100.00</b>	<b>100.0%</b>
<b>Direct Cost</b>					
Labor for 1 Hour		30.00	30.0%	40.00	40.0%
Payroll Tax	12.0%	3.60	3.6%		
Employee Benefits	3.0%	0.90	0.9%		
Laundry	3.00	3.00	3.0%	3.00	3.0%
Product Cost	10.0%	10.00	10.0%	10.00	10.0%
<b>Total Direct Cost</b>		<b>47.50</b>	<b>47.5%</b>	<b>53.00</b>	<b>53.0%</b>
<b>Gross Margin</b>		<b>52.50</b>	<b>52.5%</b>	<b>47.00</b>	<b>47.0%</b>



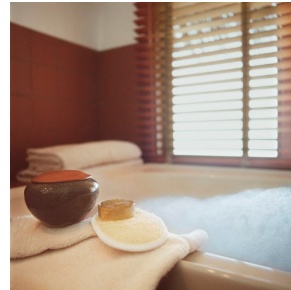
# Professional Product Cost

STEP	VOLUME (ml)	VOLUME PER TREATMENT (ml)	TOTAL TREATMENTS	WHOLESALE	SPA BACK BAR PRICING	COST PER TREATMENT	SELLING PRICE PER TREATMENT	PRODUCT COST PER TREATMENT
Step 1: Cleanser	150	4	38	\$ 17.50	\$ 8.75	\$ 0.23		
Step 2: Balance	125	2	63	\$ 17.50	\$ 8.75	\$ 0.14		
Step 3: Bioactive (serum)	30	1.5	20	\$ 22.50	\$ 11.25	\$ 0.56		
Step 4: Defend (moisturizer)	100	2	50	\$ 27.50	\$ 13.75	\$ 0.28		
Exfoliant	100	3	33	\$ 20.00	\$ 10.00	\$ 0.30		
Pro Vitamin Booster (back bar)	100	3	33	\$ 30.00	\$ 15.00	\$ 0.45		
Eye Gel	30	1	30	\$ 30.00	\$ 15.00	\$ 0.50		
Shaving Cream / Hydration Masque	150	4	38	\$ 25.00	\$ 12.50	\$ 0.33		
<b>Total Cost Men's Signature Facial =</b>						<b>\$ 2.79</b>	<b>\$ 65.00</b>	<b>4.3%</b>
<b>Total Cost Men's Express Facial =</b>						<b>\$ 2.46</b>	<b>\$ 60.00</b>	<b>4.1%</b>



## Menu of Services

- What is selling?
- Number of items
- Length of treatments
- Sales mix: Retail to Service.
- Add-ons, upgrades
- Menu Engineering



## Compensation

- How did you determine your compensation plan?
- Wages, Payroll Taxes, Independent Contractors, Retail Commissions & Benefits. Everyone but management.
- Evaluate your compensation plan - it absolutely cannot exceed 42% of Service + Product Sales
- Of this, Front Desk or Support labor needs to be less than 10% of Service + Product Sales
- Are tools in place to monitor them daily?



Fee Per Service Compensation Plan															
	PROFESSIONAL			EXCELLENCE			MASTERY			YODA			AVERAGE		
	Amount	% of Total Sales	% of Category Sales	Amount	% of Total Sales	% of Category Sales	Amount	% of Total Sales	% of Category Sales	Amount	% of Total Sales	% of Category Sales	Amount	% of Total Sales	% of Category Sales
<b>Sales</b>															
Service Sales	32,000.00	80.0%		30,000.00	75.0%		28,000.00	70.0%		26,000.00	65.0%		29,000.00	72.5%	
Retail Sales	8,000.00	20.0%		10,000.00	25.0%		12,000.00	30.0%		14,000.00	35.0%		11,000.00	27.5%	
<b>Total Sales</b>	<b>40,000.00</b>	<b>100.0%</b>		<b>40,000.00</b>	<b>100.0%</b>		<b>40,000.00</b>	<b>100.0%</b>		<b>40,000.00</b>	<b>100.0%</b>		<b>40,000.00</b>	<b>100.0%</b>	
<b>Labor</b>															
Service Labor	9,600.00	24.0%	30.0%	10,500.00	26.3%	35.0%	11,200.00	28.0%	40.0%	11,700.00	29.3%	45.0%	10,750.00	26.9%	35.0%
Sales Commission	400.00	1.0%	5.0%	1,000.00	2.5%	10.0%	1,800.00	4.5%	15.0%	2,100.00	5.3%	15.0%	1,325.00	3.3%	10.0%
<b>Service Labor Total</b>	<b>10,000.00</b>	<b>25.0%</b>	<b>25.0%</b>	<b>11,500.00</b>	<b>28.8%</b>	<b>28.8%</b>	<b>13,000.00</b>	<b>32.5%</b>	<b>32.5%</b>	<b>13,800.00</b>	<b>34.5%</b>	<b>34.5%</b>	<b>12,075.00</b>	<b>30.2%</b>	<b>30.2%</b>
Front Desk Labor	4,000.00	10.0%		4,000.00	10.0%		4,000.00	10.0%		4,000.00	10.0%		4,000.00	10.0%	
<b>Total Labor</b>	<b>14,000.00</b>	<b>35.0%</b>		<b>15,500.00</b>	<b>38.8%</b>		<b>17,000.00</b>	<b>42.5%</b>		<b>17,800.00</b>	<b>44.5%</b>		<b>16,075.00</b>	<b>40.2%</b>	
<b>Payroll Tax</b>															
Federal	1,183.00	3.0%	8.5%	1,309.75	3.3%	8.5%	1,436.50	3.6%	8.5%	1,504.10	3.8%	8.5%	1,358.34	3.4%	8.5%
State	490.00	1.2%	3.5%	542.50	1.4%	3.5%	595.00	1.5%	3.5%	623.00	1.6%	3.5%	562.63	1.4%	3.5%
<b>Total Payroll Tax</b>	<b>1,673.00</b>	<b>4.2%</b>		<b>1,852.25</b>	<b>4.6%</b>		<b>2,031.50</b>	<b>5.1%</b>		<b>2,127.10</b>	<b>5.3%</b>		<b>1,920.96</b>	<b>4.8%</b>	
<b>Total Labor &amp; Payroll Tax</b>	<b>15,673.00</b>	<b>39.2%</b>		<b>17,352.25</b>	<b>43.4%</b>		<b>19,031.50</b>	<b>47.6%</b>		<b>19,927.10</b>	<b>49.8%</b>		<b>17,995.96</b>	<b>45.0%</b>	

## Payroll & Staffing

- Work Schedules
- Treatment room occupancy
- Treatment Provider Productivity
- Cross Trained Staff, Modalities
- Defined Staff Expectations
  - Engaging, Hospitable, Caring
  - Sales & Merchandisers
  - Service Quality & Results
  - Guest Retention
  - Contributors to the profitability of the business



## Optimizing the Client Schedule

- Hours of Operation
- Front Desk
- Reservations
- Cancellations
- Filling Open times
- Daily targets
- Effective Booking & Re-booking
- Menu – length of treatment times



## Inventory Control

- Who does Monthly inventories?
- How many lines are too many lines?
- Inventory; Control and Buy appropriately.
- Yields and Usage
- Budget
- Theft & Breakage.
- Training.
- The tyrannical purchasing agent.
- Tools





## Purchasing

- Impulse or plan?
- Efficient
- Budget
- Return on investment
- Choosing the right vendor



## Retail



- Know your sales mix.
- Don't beat your clients over the head selling retail.
- Sell appropriately
- Retail products and boutique items available at various price points
- Retail Calendar



## Marketing

- Marketing Calendar
- Upgrades at the front desk at check-in.
- Special events
- Shoestring Marketing to fill your books
- Display advertising, yellow pages.



## The Pieces of The Puzzle

1. Sales = 100%
2. Direct Labor = 42%
3. Gross Margin
  - Total Direct Cost = 65%
  - Gross Margin = 35%
4. Overhead (Allocated) Expense = 30%
5. Net Profit = 5.0%
6. Debt Service = 2.5%



## BREAKEVEN

### BREAKEVEN

= Overhead Expenses (Allocated)  
 + Debt Service  
 ÷ Gross Margin

### Example

Overhead \$11,000

Debt \$1,750

Gross Margin 35%

Breakeven =  $\$12,750 \div 35\%$  or \$36,429



## BREAKEVEN

- Discussed in terms of number of treatments (services) required
- For \$36,429 in Breakeven sales
  - 85% Service = \$30,964
  - Average service is \$85
  - $\$30,964 \div \$85 = 364$  services per month

**No one is in business to breakeven.**



## SOME USEFUL STATISTICS

HOTEL - SPA INFORMATION							SPA DATA			
LOCATION	NUMBER OF TREATMENT ROOMS	SPA SQUARE FOOTAGE	NUMBER OF HOTEL GUEST ROOMS	ANNUAL HOTEL OCCUPANCY	NUMBER OF OCCUPIED ROOMS	TOTAL SPA REVENUE	SPA REVENUE PER OCCUPIED HOTEL ROOM	SPA REVENUE PER HOTEL ROOM	SPA REVENUE PER TREATMENT ROOM	SPA REVENUE PER SQUARE FOOT
MOUNTAIN WEST	6	7,000	173	49.6%	31,320	734,342	23.45	4,244.75	122,390.33	104.91
MOUNTAIN WEST	9	11,000	1,100	64.0%	192,192	899,694	4.68	817.90	99,966.00	81.79
NORTHWEST US	17	16,000	78	35.0%	9,965	1,336,881	134.16	17,139.50	78,640.06	83.56
NORTHWEST US	9	2,970	239	73.0%	63,682	786,000	12.34	3,288.70	87,333.33	264.65
SOUTHEAST US	6	1,500	220	75.0%	60,225	1,100,000	18.26	5,000.00	183,333.33	733.33
SOUTHEAST US	42	30,000	977	62.0%	221,095	4,198,822	18.99	4,297.67	99,971.95	139.96
SOUTHEAST US	8	2,000	200	55.0%	40,150	900,000	22.42	4,500.00	112,500.00	450.00
SOUTHEAST US	8	3,000	120	60.0%	26,280	600,000	22.83	5,000.00	75,000.00	200.00
SOUTHWEST US	20	20,000	300	60.0%	65,700	5,000,000	76.10	16,666.67	250,000.00	250.00
SOUTHWEST US	30	24,000	987	69.0%	248,576	3,380,000	13.60	3,424.52	112,666.67	140.83
SOUTHWEST US	9	12,780	107	65.0%	25,386	1,018,000	40.10	9,514.02	113,111.11	79.66
WEST	40	50,000	350	85.0%	108,588	5,500,000	50.65	15,714.29	137,500.00	110.00
WEST	22	33,000	305	45.0%	41,747	3,820,499	91.52	12,526.23	173,659.05	115.77
WEST	32	15,000	279	65.0%	66,193	3,700,000	55.90	13,261.65	115,625.00	246.67



## Management

- Your business and the culture you create is a reflection of you.
- How we treat our staff will be reflected in how our staff treats our guests.
- Is this an energized, positive environment that is organized and professional?
- Are expectations and standards clearly defined?
- Management is actively involved and is a visible role model of all teamwork, merchandising and hospitality standards.
- Is this a great place to work? Would you want to work here?



## Action Plan



1. Download this presentation.
2. Review information and your notes
3. Audit your business
4. Prioritize areas of focus that will impact profitability
5. Define goals in 3 areas: Financials, Operations, Guest Service.
6. Accurately cost your 3 most popular services
7. Detail your steps with due dates. Include your team.
8. Analyze your competition – revise your plan
9. Implement Action Plan prior to February 2012



## Thank You

*We will be happy to meet with you to discuss your business throughout the ISPA Conference.*

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