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The Non Revenue Producing Space Odyssey

The Role of Amenities in Revenue Creation

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“Non Revenue Producing” Space? That depends...



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Canyon Ranch SpaClub at the Venetian and Palazzo

Understanding NoRPS



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- How does non revenue producing space enhance your specific spa business model?
- How much do you need? How much is too much?
- What's the best way to measure its impact?



Nob Hill Spa at the Huntington Hotel, SF

Your physical plant: the revenue-creation machine



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- **What is the best allocation of space: the ideal balance between “direct” revenue-producing space, and spa amenities?**



Canyon Ranch SpaClub



Amenity space: Guest areas not *directly* tied to revenue production

- **Quiet Rooms, Meditation Rooms**
- **Lounges and relaxation areas**
 - **Coed**
 - **Men's and women's**
- **Locker rooms, dressing rooms**
- **Bath house facilities**



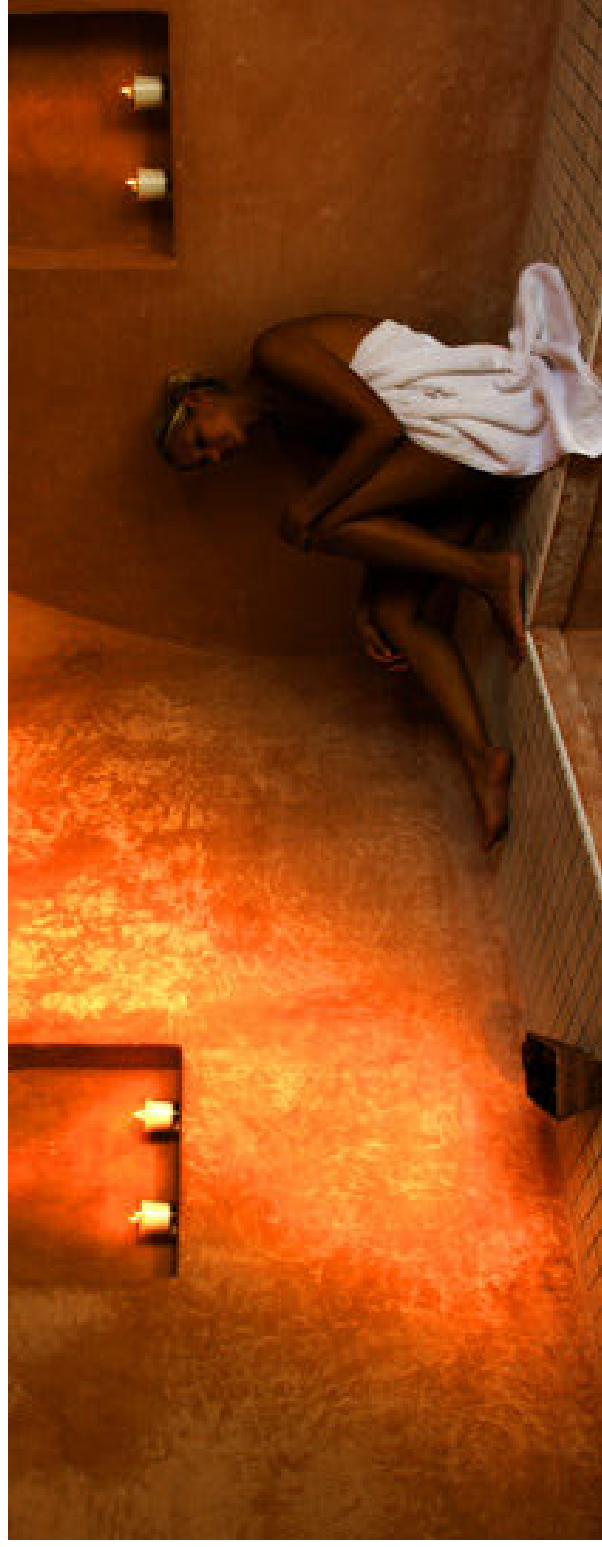
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Bathhouse or wet areas

- Steam rooms
- Saunas, hammams
- Ice fountains
- Snow caves
- Experience showers
- Whirlpools
- Cold plunges



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Water, water everywhere...



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- Basking pool
- Plunge Pools
- Cascades
- Relaxation, social and fitness pools

Water amenities have the highest cost to build, maintain, and staff

Lounges and Relaxation

Rooms

- Meditation or Quiet Rooms
- Coed lounges
- Social areas
- Party rooms/suites
- Separate men's and women's lounges
- Outdoor relaxation areas



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Lounge space is relatively inexpensive to develop and staff and adds flexibility to the facility

Different strokes! (Solus per what?)

- Different spa types have different requirements for return
- Non revenue producing space must deliver an appropriate return for your **specific spa type**
- That return is different for resort, hotel, day and medical facilities
- “Spa” is in the eye of the beholder!!



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Success? It depends!

- A spa that generates \$1.8M per year with 8 treatment rooms (\$225K sales per room)
- A spa that generates \$1.8M per year from 8 treatment rooms in 10,000 square feet (\$180 sales per square foot)
- A day spa that generates \$180 per square foot in a retail shopping district where rents are \$60 per square foot per year



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Return on Amenities

- Direct revenue enhancements:
 - Pricing premiums
 - Day use fees
 - Memberships
 - Group Event Fees
- Contribution to core business:
 - Hotel/Resort spa: Increased ADR and occupancy
 - Operating profit

NoRPS cannot just be a “differentiator”



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Key trends that are driving amenity demand



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- Expectation inflation
- Social spa-ing
- Millennials
- Couples

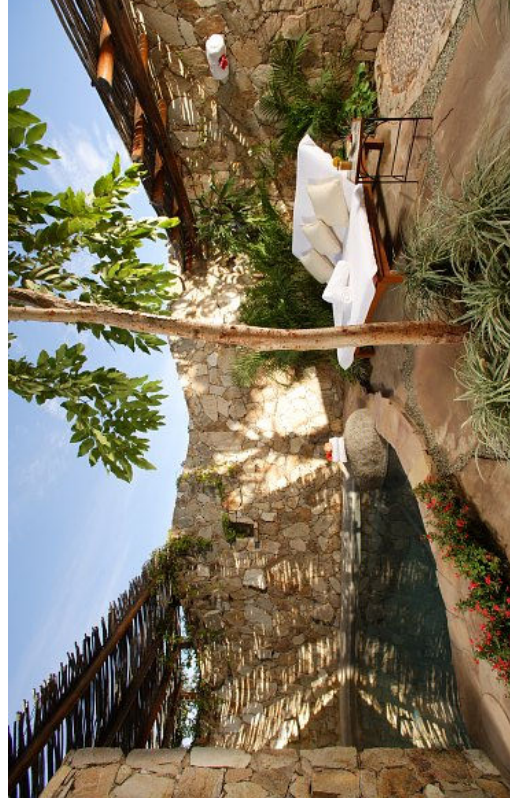


Remede Spa, St. Regis Aspen

“Expectation Inflation”



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- Consumers who have visited resort spas expect more from spa experiences in other settings
- You don't have to “overpromise” to disappoint them!
- The hotel/resort profit model is *different*...kids, don't try this at home in your day spa!

Social and Group Spa-ing



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- Spas are no longer just places for solitary getaways
- Groups need space to congregate
- Groups need unstructured (non treatment) time
- Events bring in new customers (“bring a friend”)
- Party demand is high



Millenials

- MM's not as affluent as Boomers, want a LOT of spa experience but don't want to pay for it.
- They buy day passes and minimize treatment purchases
- Use social networks to share their likes/dislikes (Yelpers)



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Couples

- Spa “dates”
- Special occasions
- Stress relief, reconnecting
- Demand good during stressful times



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Preston Wynne Day Spa, Bay Area

“The Spa Suite”:NoRPS Alternative?



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Mandarin Oriental Spa Suite

- Trend began in Asia
- Offers privacy and exclusivity
- Costly buildouts—no economies of scale
- Isn't necessarily more space efficient than communal amenities
- In or out of the room, amenities need to deliver target sales per square foot

Spa Suites

- Five star buildout cost \$700-800+ per sq ft.
- Harder to turn/clean
- Price must be based on time to treat AND turn the resource
- Work best in small, exclusive facilities
- Great for customizing/personalizing treatments: five star guest experience



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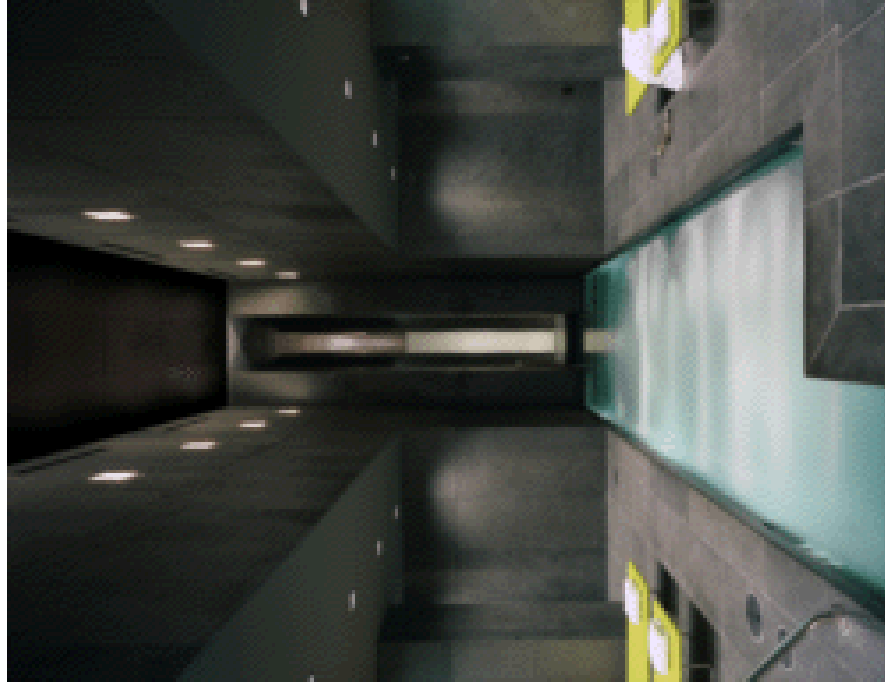
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Direct and indirect cost of amenities



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- Higher buildout cost (both overall and per square foot)
- Higher rent (requires more space)
- Cost of linen, supplies
- More staffing (more space requires more staff to maintain, patrol)

Bath House Spa, Mandalay Bay Hotel

Amenities gone wild!

- Longer stays...too long.
- Day pass guest overpopulation
- Do your amenities support your core offerings, or distract from them?
- Does your market want to pay for your amenities?



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Spa, know thyself!



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- You can't be all things to all people--get comfortable with the idea!
- Your mission: provide the amenities that matter most to *your* prime guest
- **Best metric: sales per square foot**

Manicure Bar, Preston Wynne Spa

Sales per square foot: some perspective



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- Retail stores in prime locations aim for revenue of \$500-600 psf
 - “Bath and Beauty” Retail Store Category (Bath and Body Works, L’Occitane, Body Shop, Sally Beauty) \$400-800 psf
 - “Dinner House” category (Outback, PF Chang’s, etc.) \$325-800 psf
- Apple store \$4032 psf



2006 study of 63 top hotel spas



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- Found wide disparity in revenue per square foot as well as wide disparity of spa size
- Revenue per square foot of \$250-300 annually in sample group
- 800-1000 square feet of total spa space per treatment room

2007 ISPA study numbers



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- **Resort/hotel spa median revenue per square foot \$350**
- **Day spa median revenue per square foot \$250**
- **Median day spa size: 3000 square feet**
- **Median stay spa size: 5700 square feet**



Voda Spa Relaxation Room

Day Spa Sales Numbers



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- \$400-600 per square foot is strong performance in (non startup) operation
- Below \$300 per square foot:
 - Not enough revenue producing space?
 - Weak retail program? Poor sales flow?
 - Wrong service mix?
 - Prices too low?



Voda Spa Locker Room

Operating profit is the ONLY name of your game!

Amenity program as marketing tool in resort spa



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- “Late checkout package”
- Too much to explore in one visit: guests return for multiple visits
- Coed spa experiences
 - More male guests
 - Longer visits and bigger tickets

“Case Studies” of amenities in different spa categories

- Day Spa: Avant Gard Spa and Salon
- Medical Spa: Calidora
- Resort: Canyon Ranch SpaClub
- Hotel: Nob Hill Spa at the Huntington

Amenities at Avant Gard Day Spa



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- The vision: bring spa's amenity program up to current market expectation
- Classic Bay Area day spa
- Expanded in 2006 from 1750 to 6750 square feet
- Spa owns its building



Avant Gard Day Spa: A conservative NoRPS plan



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- Locker/dressing room
- Lounge
- Spacious circulation

NEW REVENUE PRODUCING SPACE:

- Expanded retail store
- Makeup and brow bar

Avant Gard by the numbers

- **6750 square feet**
 - 1100 square foot nail spa
 - 5000 square foot day spa
 - 650 square feet of office space
- **\$1.7M annual sales**
- **\$251 per square foot without offices**
 - Spa is still in growth mode following expansion



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Calidora Medical Spa



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- **The vision: a highly efficient medical spa offering top quality treatments in a luxurious, contemporary atmosphere**
- **Results focused**
- **NoRPS: Attractive, straightforward waiting areas**



Calidora by the numbers



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- Sales per square foot goal: \$1000
- Facilities average 900 square feet
- Locations in Seattle and Southern California

NoRPS at the Urban Hotel Spa: Nob Hill Spa, SF



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- **The vision: enhance appeal and utility for groups**
- **Robust day guest business**
- **Superior investment in NoRPS infrastructure has kept spa at the top of market since opening**

Nob Hill Spa by the numbers



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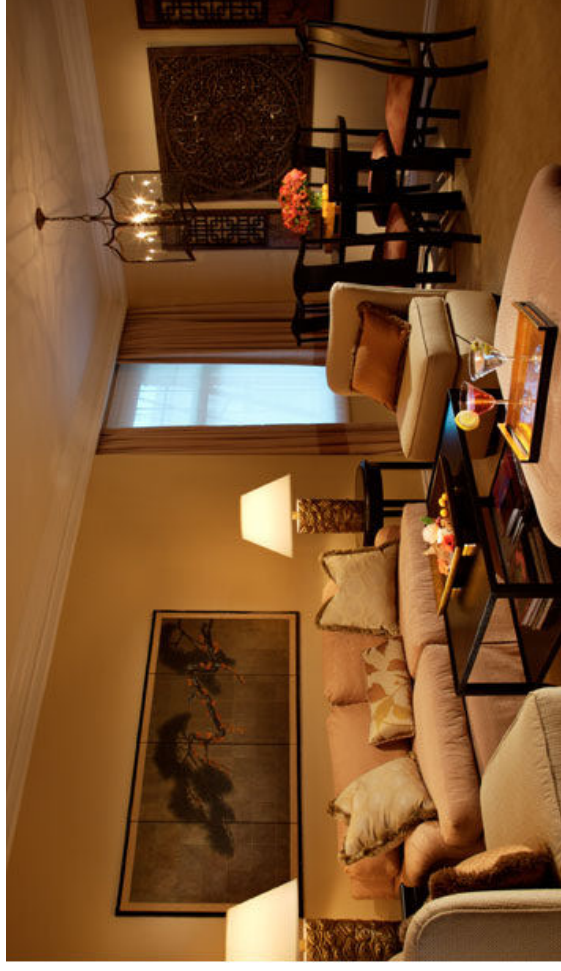
- \$275K per tx. room/resource annually (service \$ only, includes nail stations)
- \$338 per sq. ft. annual revenue (service + retail)
- Thriving spa store

Found Amenity Space: the Spa Suite



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- **Converted a hotel suite for spa use**
- **For groups, parties**
- **Separate area for up to up to two massages**
- **Two pedicure stations**
- **Lounge and dining area**
- **Ensuite restroom**
- **Dedicated lockers**



Making the most of amenity space



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- **Guests attracted by Nob Hill spa's seamless F & B program**
- **Is differentiator in marketplace**
- **Serious revenue production in "non revenue" space**



Canyon Ranch SpaClub at the Venetian & Palazzo



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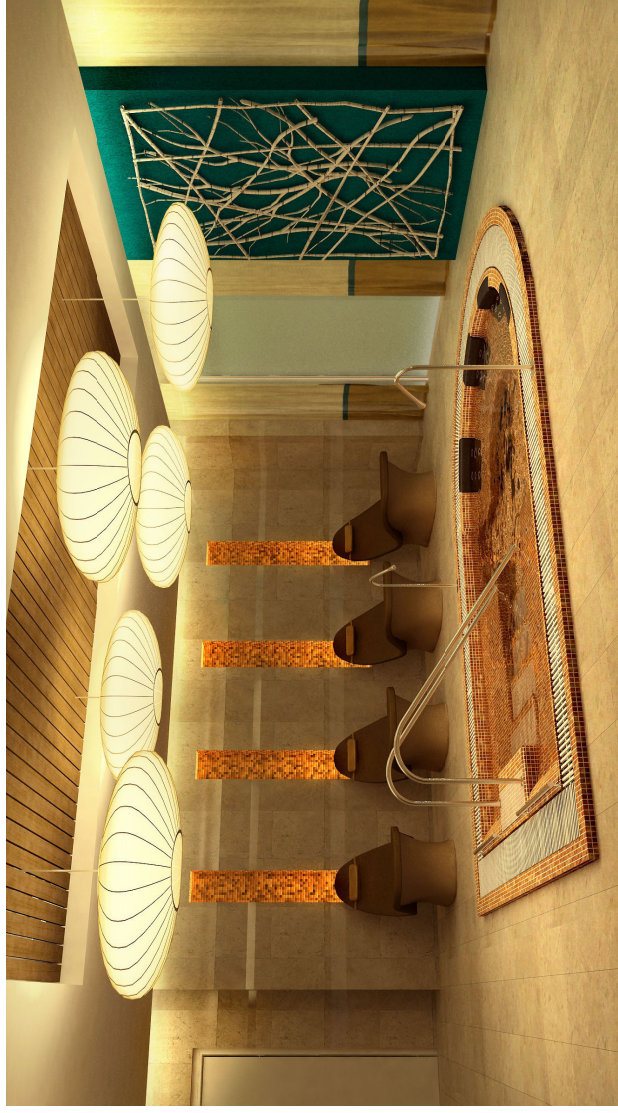
- Vision: Transform spa from “transactional” to “experiential”**
- **Removed 14 treatment rooms to increase amenity space**
 - **14,000 sq. ft. of amenity space**

Canyon Ranch SpaClub's 10,000 sq. ft. Aquavana



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- In men's and women's areas
- Igloo
- Snow Cabin:
- HydroSpas and heated loungers
- Experiential Rains
- Finnish Sauna
- Crystal Steam Rooms
- Herbal Laconiums



Canyon Ranch SpaClub's Coed Amenity Program



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- 4,000 square feet of coed amenity space
 - Conservatory
 - Wave Dream
 - Salt Chamber

Canyon Ranch SpaClub by the numbers



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- \$297 annual sales per square foot (134K sq ft)
- \$267K annual per treatment room (average of all rooms)
- \$450K per esthetics room (50% retail ratio!)
- Less than 10% of total square footage is amenity space



Summary: Amenities in the Upscale Day Spa



- Day Spas must stand alone on their operating profit: no “host” business to support
- Maximize revenue production in expensive retail locations
- Day guests don’t always want to get wet
- Multi purpose spaces maximize utility



Avant Gard Day Spa, Bay Area

Day Spa Summary, cont'd

- Elaborate amenity programs = infrastructure challenges (you don't have an engineering division!)
- Hotel-style amenities require hotel-style pricing (20-30% premium over your amenity-free competitors.)
- Focus on your most profitable customer
- Top amenity: lounge



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Medical Spa Summary: less is more



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- Privacy is prized
- Trend is away from elaborate amenities
- “have to have” vs. “nice to have” amenities
- Focus on core business: treatments and retail

Summary: Amenities in the Medical Spa



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- Amenities should support, not distract from, core
- Stay on message: amenities can muddle it
- Shopping: fun and relaxing
- Top amenity: luxurious, private waiting area



Skin Spirit, Palo Alto, California

Summary: Amenities in the Urban Hotel Spa



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- Space is always at a premium. Edit amenities to highest-impact offerings
- Leverage existing or required hotel amenities (pool, whirlpool, etc.)
- Create a strong retail interface or... “no sale”



Ladies Locker Room, Remede Spa

Urban Hotel Spa summary, cont'd

- 4 to 1 locker to treatment room ratio (more if wet area use is strong or day passes sold)
- Accommodate day guests, who may dominate (urban hotel guests make shorter visits)
- Top amenity: luxe locker room with steam



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Four Seasons Hotel, Seattle

Summary: Amenities in the Resort Facility



- **Comfort, variety for longer visits**
- **Amenity design must enhance guest flow**
- **Accommodate different guest “energies”**
- **Amenity program must interface with retail program**
- **Top amenity: wet areas**



New women’s relaxation area, Canyon Ranch at the Venetian

Resort Spa NoRPS summary, cont'd



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- Amenity-rich buildouts: \$500 per square foot total cost, and up
- Allow 800-1000 square feet of total spa space per treatment resource
- Outdoor amenities give you more bang for the buck
 - meditation garden
 - outdoor lounge space
 - outdoor showers off massage and body treatment rooms



Auberge du Soleil, Napa

Prescription: Sales per square foot too low?



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- Underutilized amenity space could be converted to group or party room
- Consider converting some NoRPS to retail program
- Intensify use for revenue production: add treatment resources
- Train employees in sales/retention skills



Preston Wynne Spa Manicure Bar

Prescription: amenities not meeting expectations?



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- Consider increasing NoRPS if you are unable to support higher prices and sales maxed out in current configuration
 - Look for “found” space (ex: hotel suite, outdoor space)
 - Least expensive, most workflow-friendly amenity: lounge space
 - Individual shower and change rooms can work in place of full locker rooms in smaller facilities or those without a lot of male guests

Prescription: sales per square foot lagging?

- Are there blocks or breaks in your retail salesflow?
- Are your prices correct for the value you offer?
- Is your spa effectively differentiated? Do people know (or care) about your amenities?



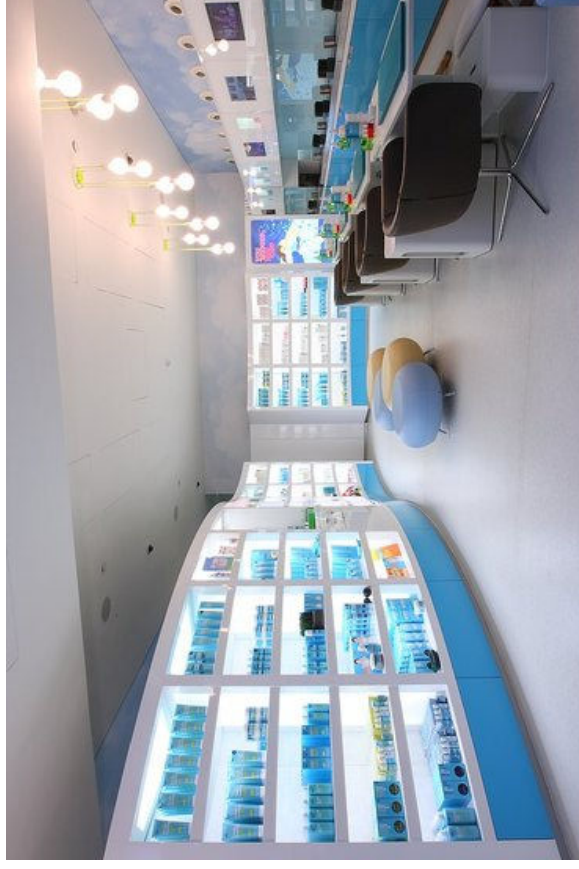
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Experiential shopping: the bridge between spa and retail



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Bliss Spa, London

- Relaxation and retail go together!
- Don't isolate spa retail. Make it part of the amenity experience
- Checkout Lounge
- “Play” stations near relaxation and waiting areas. Not everyone wants to nap.

The Winning Amenity Strategy



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- Supports, does not distract from core business
- Your amenity choices are valued ENOUGH by your guests
- Makes a measurable financial contribution
 - Higher price point from value-added experience
 - Memberships
 - Day Use Fees
 - Group Event Fees
 - Strong operating profit
- Enhances salesflow
 - improves retail performance
 - pre- and post-treatment “shoppportunities”

Enhances workflow

- facilitates smooth transitions between treatments
- doesn't require excessive staffing



**THANK YOU FOR YOUR
ATTENTION!**

**A copy of this presentation is posted
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