

# Soulful Compensation for Spa Teams

Presented by  
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# Taking stock of your compensation situation.

- ◆ The troubled history of spa comp
- ◆ Why it doesn't work
- ◆ What **does** work
- ◆ How to convert a comp plan
- ◆ Adding soul to your comp plan as an Employer of Choice



# The soul of spa profit and well-being is the comp plan.



- ◆ The spa comp model was inherited from the beauty salon industry.
- ◆ Forget your peers. Listen to your P & L
- ◆ Be prepared for everyone to tell you, "It'll never work!"



# Traditional spa and salon comp plans

- ◆ Independent contractors
- ◆ Booth rental
- ◆ Commission
- ◆ Salary + Commission
- ◆ Salary + Incentive or Bonus

# Commission: The most common form of comp

## PROS:

- ◆ Easy to manage, simple to understand
- ◆ You don't have to pay people unless there's a sale
- ◆ Encourages higher sales by ee's
- ◆ Typical range: 40-60% of service, 10% retail

# Commission CONS:

- ◆ Eats profit
- ◆ Forces clients to pay higher prices
- ◆ Only source of pay increases except higher volume or bigger cut
- ◆ You have to share price increases
- ◆ Does not reward teamwork



# REALITY CHECK:

## Spa Generica, an upscale spa

### SERVICE SALE: "BEFORE"

**\$100 Generica Signature Massage**

**(\$50) Commission Cost of Sale**

**(\$5) Payroll burden (10% of payroll minimum)**

**(\$5) Product Cost (varies with type of service)**

**\$40 GROSS PROFIT (Cost of Sales: 68%)**

**(\$40) Spa Overhead Expense\***

**\$ 0 PROFIT/LOSS**

\* overhead ratio for upscale spas can range from 40-50%

# REALITY CHECK: Retail Sale

## RETAIL SALE: "BEFORE"

\$100	Branded Product Sale
(\$50)	50% Product Cost of Goods
(\$1)	Cost of shipping, stocking
(\$10)	10% Sales Commission
(\$1)	Commission Payroll burden
<u>\$38</u>	<b>GROSS PROFIT (Total COGS: \$62)</b>
(\$40)	Spa Overhead Expense
(\$2)	<b>PROFIT/LOSS</b>

# The only way out: Reduce Cost of Sales

- ◆ Increase service gross profit to 50%+

**\$100 Generica Signature Massage**

**(\$35) Labor Cost of Sale**

**( \$7) Payroll burden (20% + of payroll)**

**(\$3) Product Cost**

**\$55 GROSS PROFIT (Total COGS: 45%)**

**(\$40) Spa Overhead Expense\***

**\$10 PROFIT/LOSS**

# Retail Sales drive different gross profit than service...

- **RETAIL SALE: "AFTER"**
- **\$100**      **High margin Product Sale**
- **(\$30)**      **30-40% Product Cost of Goods**
- **(\$15)**      **15% Sales Commission (a 50% raise!)**
- **(\$3)**      **Commission Payroll burden**
- **(\$1)**      **Cost of shipping, stocking**
- **\$51.00**      **GROSS PROFIT**
- **(\$40.00)**      **Spa Overhead Expense**
- **\$11.00**      **PROFIT/LOSS**

# Soulful Comp is Hands On!



**Rewards the right behaviors**

**Provides professional Career Management**

**Advancement with Accountability**

**Carefully controlled Cost of Sales**



# Professional Career Management



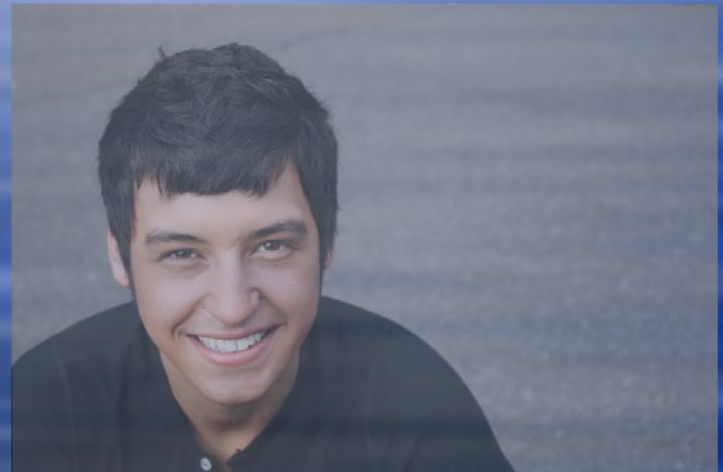
- ◆ *"I will pay part of my potential income to a spa who will take care of my career: educate me, improve my skills, respect me, increase my productivity; provide a fun workplace; hire great co-workers, trained managers and outstanding support staff."*

# The soul of spa success:

- ◆ **Productivity in the tx. room**
- ◆ **Retail Sales**
- ◆ **Customer Retention**...Study showed: customer's willingness to refer is greatest indicator of a company's profitability
- ◆ **"Good citizenship"**
  - Good communications skills = lower ee turnover, less refereeing by manager

# Soulful Comp is holistic.

- ◆ Employee perks
- ◆ Better management
- ◆ Top quality training and education
- ◆ Employee discount programs
- ◆ Benefits (just like a “real” employer!)



# The Core of Soulful Comp: The Treatment Rate Plan



- ◆ A treatment rate is a flat rate that is considered appropriate and fair pay, based on the time, skill, knowledge and effort required to deliver a given service
- ◆ Treatment rates are not directly tied to the service price.



# Sample Treatment Rates

60 minute services		<b>BRONZE LEVEL: 0-1 YR</b>	<b>SILVER LEVEL: 1-3 YRS</b>	<b>GOLD LEVEL: 3-5 YRS</b>	<b>PLATINUM LEVEL: 5+ YRS</b>	
<b>Classic Massage</b>	<b>\$85</b>	<b>\$25.50</b>	<b>\$27.20</b>	<b>\$28.90</b>	<b>\$30.60</b>	standard material cost
<b>Deep Tissue</b>	<b>\$95</b>	<b>\$29</b>	<b>\$30.40</b>	<b>\$32.30</b>	<b>\$34.20</b>	standard material cost
<b>Warm Rose Oil Massage</b>	<b>\$100</b>	<b>\$27.00</b>	<b>\$28.50</b>	<b>\$28.50</b>	<b>\$28.50</b>	\$5 supplemental material cost
<b>60 min Ocean Glow Body Treatment</b>	<b>\$105</b>	<b>\$30.00</b>	<b>\$30.40</b>	<b>\$32.30</b>	<b>\$34.20</b>	\$10 supplemental material cost

# Retail Profit Sharing



- ◆ Adjustable commission is based on gross profit of product
- ◆ The higher the gross profit, the higher the commission
- ◆ Begin with the end in mind: **PROFIT**

# Example: profit increases 25% after conversion

<u>BEFORE COMP CONVERSION</u>			TOTAL SPA REVENUE			
<b>\$90 1 hr. Classic Facial</b>	<b>50% service comm.</b>	<b>35% retail ratio</b>		<b>10% retail comm.</b>	<b>EE COMP PER HOUR</b>	<b>SPA GROSS PROFIT</b>
	\$45.00 (50% comm.)	\$48 Retail sale	<b>\$138 ticket</b>	\$4.80	\$49.80	<b>\$88.20</b>
<u>AFTER COMP CONVERSION</u>						
<b>\$90 1 hr. Classic Facial</b>	<b>treatment rate \$27 per hour</b>	<b>40% retail ratio</b>		<b>20% retail comm.</b>	<b>EE COMP PER HOUR</b>	<b>SPA GROSS PROFIT</b>
<b>Basic Esthetic Treatment Rate</b>	\$27.00 treatment rate	\$60 Retail sale	<b>\$150 ticket</b>	\$12.00	\$39.00	<b>\$111.00</b>

# Benefits in the Spa



- ◆ When you're paying 50% commission, you can't afford benefits
- ◆ Benefits attract a different type of employee
- ◆ Vacation and medical



# Adding value



- ◆ Employee and family discounts
- ◆ Buying clubs
- ◆ Top quality training
- ◆ Monthly treatments
- ◆ Random bonuses for top performers



# Your Company Culture: Valued or Worthless?



- ◆ If your culture stinks, no one will pay you for it
- ◆ Mutual respect between functional teams is key
- ◆ Excellent leadership skills required

# Advancement: Who Moves Ahead, and Why?



- ◆ Seniority: “Doing time” or building the company?
- ◆ Senior staff members must be held to a higher standard
- ◆ **Knowing what you know, would you enthusiastically rehire this person?**
- ◆ “She has 10 years of experience”: is it the same year repeated 10 times?

# Reward the right behaviors:

- ◆ Customer Retention + Spa Retention = TOTAL RETENTION
- ◆ Retail Ratio (define which ratio)
- ◆ Attendance, meeting attendance, on time performance
- ◆ Advanced Skills/  
Training/Certifications

# “What if they all freak out and leave?”

- ◆ Expect turnover; grandfather key ee’s
- ◆ Ee’s understand that they get a pay cut if you go out of business, too!
- ◆ Are your prices set correctly? You may be able to increase.
- ◆ You may have to treat conversion as a “mini startup”



# Take the first step...

- ◆ Get an accurate evaluation of your current financials. Can you ever make money with your pay plan?
- ◆ Determine an acceptable level of profit for YOU. Design a comp plan around a profit goal.
- ◆ *Get help* if you're doing a major conversion!

**Thank you for your  
attention!**

**Q & A with**

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**[www.pw success systems.com](http://www.pwsuccesssystems.com)**

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