

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>	GROSS PROFIT (Total COGS: \$62)
(\$40)	Spa Overhead Expense
(\$2)	PROFIT/LOSS

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



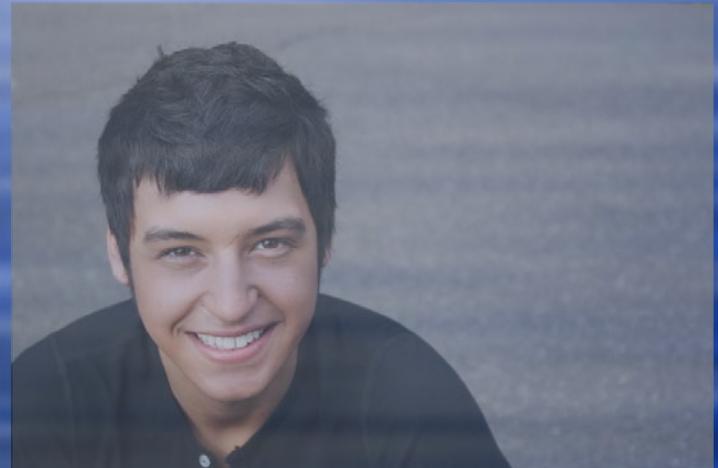
- ◆ *"I will pay part of my potential income to a spa who will take care of my career: educate me, improve my skills, respect me, increase my productivity; provide a fun workplace; hire great co-workers, trained managers and outstanding support staff."*

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		BRONZE LEVEL: 0-1 YR	SILVER LEVEL: 1-3 YRS	GOLD LEVEL: 3-5 YRS	PLATINUM LEVEL: 5+ YRS	
Classic Massage	\$85	\$25.50	\$27.20	\$28.90	\$30.60	standard material cost
Deep Tissue	\$95	\$29	\$30.40	\$32.30	\$34.20	standard material cost
Warm Rose Oil Massage	\$100	\$27.00	\$28.50	\$28.50	\$28.50	\$5 supplemental material cost
60 min Ocean Glow Body Treatment	\$105	\$30.00	\$30.40	\$32.30	\$34.20	\$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			
\$90 1 hr. Classic Facial	50% service comm.	35% <i>retail ratio</i>		10% retail comm.	EE COMP PER HOUR	SPA GROSS PROFIT
	\$45.00 (50% comm.)	\$48 Retail sale	\$138 ticket	\$4.80	\$49.80	\$88.20
<u>AFTER COMP CONVERSION</u>						
\$90 1 hr. Classic Facial	treatment rate \$27 per hour	40% <i>retail ratio</i>		20% retail comm.	EE COMP PER HOUR	SPA GROSS PROFIT
Basic Esthetic Treatment Rate	\$27.00 treatment rate	\$60 Retail sale	\$150 ticket	\$12.00	\$39.00	\$111.00

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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