Four Cornerstones of Spa Success

Les Nouvelles Esthetique
South African Conference 2010

By Lisa M. Starr
Wynne Business

What is a spa?

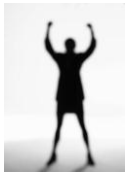
Businesses that are devoted to improving overall well-being through a variety of personal services that encourage the renewal of mind, body and spirit.

courtesy International Spa Association

Spa Statistics 2010

- Estimated number of spas worldwide: 80,000
  - Approx 24k each in Europe, AsiaPacific, N.A.
  - Approx 5500 in Latin America, 1100 in MENA, 425 in Africa
  - Approx 4700 are Medical Spas, or about 5.9%
  - 1665, or 2%, are Destination Spas or Health Resorts

What is Success?



- You are getting paid for your contribution to your business, whether as manager or tech.
- Your business can produce a profit on its sales.
- You are growing your staff and your clients continually.

Topics for Today

- Money- Effective Financial Management
- People- Human Resources
- Perception – Branding & Marketing
- Structure - Operations Management

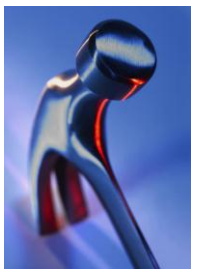
Money - Effective Financial Management

Realistic Expectations

- Start with enough money!
  - Start-up costs
  - Operating capital
- Your role in your business
- Expected profit margins

Financial Framework

- Income Statements
- Department specific payroll
- Isolation of treatment costs
- Industry ratios and benchmarks



Income Statement

- Revenue, with department detail for services and retail
- Cost of goods, with same department detail (costs related directly to sale)
- Gross margin
- Expenses
- Net Margin

Income Statement

Skin Service Turnover
Massage Service Turnover
Skin Retail Turnover
Massage Retail Turnover
Other Income
Gift Certificate Sales
TOTAL TURNOVER

Skin Service Labor
Massage Service Labor
Skin Retail Comm.
Mass Retail Comm.
Skin Tx. Supplies
Massage Tx. Supplies
Freight & Packaging
Concierge Staff
Credit Card Fees
TOTAL COST OF GOODS

GROSS MARGIN

EXPENSES
NET MARGIN

Income Statement General

Revenues			
Sales Returns and Allowances	$	(576.00)	0%
Service Sales	$	1,618,523.04	
Total Retail Sales	$	404,711.66	
Sales- Gift C.	$	267,129.83	
Events Income	$	5,892.84	
Interest Income			
Sales - Tax Discounts	$	-	
Other Income	$	39.91	
Total Revenues	$	2,296,297.28	100
Cost of Goods Sold			
Sales Labor	$	719,086.20	
Professional Supplies	$	144,367.35	
Retail Products	$	168,795.06	
Total Cost of Goods	$	1,032,248.61	
Gross Profit	$	1,264,048.67	55%

Income Stmt Rev detail

Revenues			
Sales Returns and Allowances	$	(576.00)	0%
Service Sales - Dental	$	7,226.88	0.4%
Service Sales - Esthetic	$	382,167.29	17%
Service Sales - Hair	$	359,510.50	16%
Service Sales - Makeup	$	14,256.00	1%
Service Sales - Massage	$	506,761.50	22%
Service Sales - Medical	$	64,206.27	3%
Service Sales - Nail	$	284,970.60	12%
Total Service Sales	***$***	***1,618,523.04***	**70%**
Retail - Boutique	$	120,203.66	5%
Retail - Esthetics	$	165,422.00	7%
Retail - Hair	$	47,815.00	2%
Retail - Makeup	$	24,991.00	1%
Retail - Massage	$	18,396.00	1%
Retail - Nail	$	27,884.00	1%
Total Retail Sales	***$***	***404,711.66***	**18%**
Sales- Gift C.	$	267,129.83	12%
Events Income	$	5,892.84	0%
Interest Income			0%
Sales - Tax Discounts	$	-	0%
Other Income	$	39.91	0%
Total Revenues	$	2,296,297.28	100

Cost of Goods Sold			
COS - Concierges	$	157,581.87	7%
COS - Esthetics	$	147,106.83	6%
COS - Hair	$	134,205.28	6%
COS - Makeup	$	9,702.68	0%
COS - Massage	$	164,003.28	7%
COS - Medical	$	12,507.27	1%
COS - Nail	$	93,978.99	4%
Total Labor COGS	***$***	***719,086.20***	***31%***
Supplies - Esthetics	$	30,573.38	1%
Supplies - Hair	$	32,355.95	1%
Supplies - Makeup	$	285.12	0%
Supplies - Massage	$	15,202.85	1%
Supplies - Medical	$	46,002.11	2%
Supplies - Nail	$	19,947.94	1%
Supplies - Boutique	$	57,697.76	3%
Total Back Bar COGS	***$***	***144,367.35***	***6%***
Retail Prod Boutique	$	48,081.46	2%
Retail Prod Esthetics	$	66,168.80	3%
Retail Prod Hair	$	23,907.50	1%
Retail Prod Makeup	$	7,497.30	0%
Retail Prod Massage	$	9,198.00	0%
Retail Prod Nails	$	13,942.00	1%
Total Retail COGS	***$***	***168,795.06***	***7%***
Total Cost of Sales	**$**	**1,032,248.61**	**45%**
Gross Profit	**$**	**1,264,048.67**	**55%**

Revenue Benchmarks

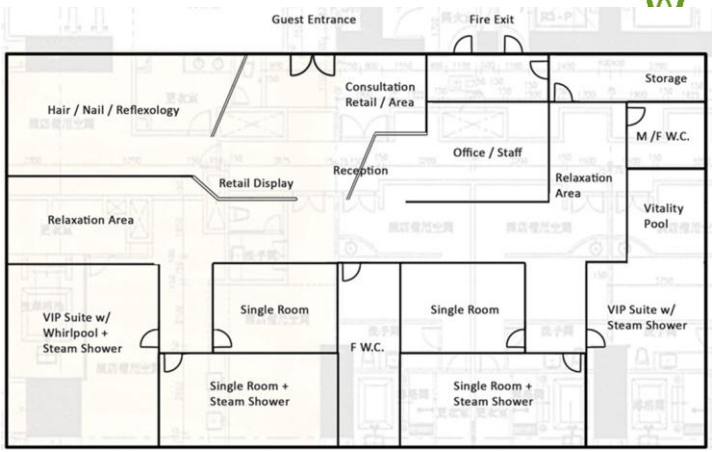
- Average spend for spa or salon
  - Service R + Retail R / number of clients
- Average spend for technician

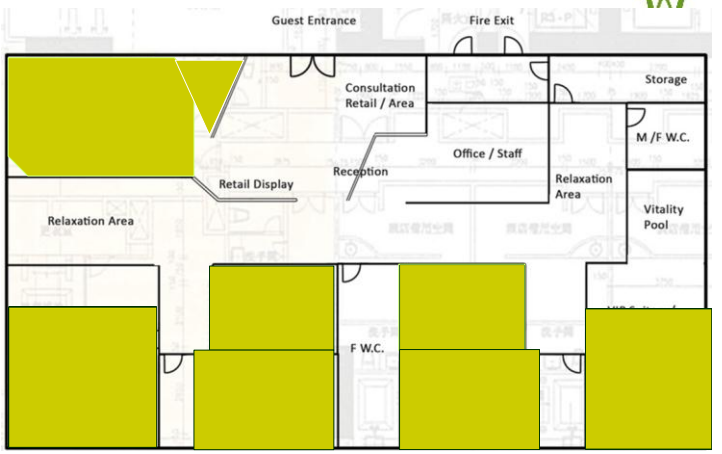
Average Spend *example*

- Daily schedule for therapist Becca:
  - 5 clients, service sales of R2370
  - Accompanying retail sales of R165
  - R2370 + R355 = R2725 / 5 = R545

Revenue Benchmarks - *cont'd*

- R turnover per square meter
  - Annual Retail R + Svc R / total square meters
  - Use all space in the facility, not just treatment areas





Revenue Benchmarks - *cont'd*

- Utilization/Productivity rate
  - # of appts avail / # of appts sold

SERVICE	Svc Price	$ per hr	Hrs/wk	# rooms	$ wk	100% month	25% Prod	40% Prod
Facial Room	85.00	85.00	50	4	$17,000.00	$73,100.00	$18,275.00	$29,240.00
Massage Room					0	0	$ -	$ -
Manicure Station					0	0	$ -	$ -
Hair Styling Station					0	0	$ -	$ -
TOTAL SERVICE REVENUE							$ 18,275.00	$ 29,240.00
+ RETAIL	15.00%						$ 2,741.25	$ 4,386.00
TOTAL SALES Rev/Month							$ 21,016.25	$ 33,626.00
Labor - Commissionable	35.00%						$ 6,396.25	$ 10,234.00
Labor - Hourly	8.00%						$ 1,681.30	$ 2,690.08
Labor - Management	4.00%						$ 840.65	$ 1,345.04
Labor - Taxes	9%						$ 802.64	$ 1,284.22
Back Bar Supplies	7.00%						$ 1,279.25	$ 2,046.80
Labor - Retail Commissio	10%						$ 274.13	$ 438.60
Retail Product - COGS	40%						$ 1,096.50	$ 1,754.40
Rent & Utilities x $sq ft	6%						$ 3,000.00	$ 3,000.00
Debt Service Monthly	2000.00						$ 2,000.00	$ 2,000.00
Advertising & Marketing	5.00%						$ 1,050.81	$ 1,681.30
Insurance	1.00%						$ 210.16	$ 336.26
Cleaning/Repairs/Mainte	2.00%						$ 420.33	$ 672.52
TOTAL EXPENSES							$ 19,052.01	$ 27,483.22
PROFIT MARGIN $							$ 1,964.24	$ 6,142.78
PROFIT %							9%	18%

Revenue leverage points

- Hours per week
- Number of rooms
- Treatment timing
- Treatment price

Retail Ratios

- $100 service sales plus $25 retail sales
  - Retail/service ratio – 25%
  - Retail/total sales ratio – 20%

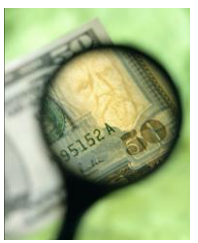
Retailing Ratios - *cont'd*

Recommended Retail to *Total Sales* Ratios

Day Spa	Hotel/Resort Spa
Hair - 10-15%	Hair - 5-10%
Skincare - 35-50 %	Skincare - 15-30%
Massage/Body 1-5%	Massage/Bdy - 0-5%
Nails - 5-15%	Nails - 0-10%
Cosmetics - 40-100%	Cosmetics - 25-50%
Gift - 10-40%	Gift - 5-15%

Other Benchmarks

- Retention vs. Request rate
- Hotel ADR
- Capture rate
- Value of comps/discounts
- Charity/donation budget
- Gift card redemption



Tracking Expenses

- Labor – A large investment
  - Technical Staff
  - Hourly Staff
  - Management/Salaried Staff
  - Taxes & Benefits

Treatment Rate plans

- $ per service, not a %
- $ amount depends on skill and knowledge needed to perform the treatment
- Tiered plans provide advancement path
- Move up based on clearly defined performance metrics

Structuring Technician Compensation

- Ideal plans have levels that provide advancement path
- Retail commission is an important source of income
- Reward behaviors that drive business growth, not necessarily longevity
- These plans require sharing of progress

Tracking Expenses

- Professional inventory costs, by department
  - Skincare 5-8%
  - Nails 4%
  - Massage/Body 1 - 2%
  - Makeup 1%
  - Hair 6-7%

Analyze and compare for departmental COGS

- Labor Expense
- Inventory Expense
  - Retail
  - Back bar
- Skincare & Waxing
- Massage & Body
- Nails
- Hair
- Makeup
- Other

Model depart. analysis

	Esthetic	Wax	Nails
Services Revenue	$ 42,334.37	$ 133,683.55	$ 50,082.31
Retail Revenue	$ 31,314.16		$ 756.00
Total Revenue	$ 73,648.53		$ 50,838.31
Labor COGS	$ 31,777.00	$ 47,277.15	$ 22,698.13
TX Supply COGS	$ 2,383.48	$ 10,050.25	$ 6,003.00
Total COGS	$ 34,160.48	$ 57,327.40	$ 28,701.13
COGS % of Rev	81%	43%	57%

Other Expenses

- Rent, Utilities & Debt Service
- Advertising & Marketing
- Cleaning, Repairs & Maintenance
- Training & Education
- PROFIT!

Financial Strategy ?'s

- Does your compensation plan drive the right behaviors?
- Are your ratios aligned with benchmarks?
- Does your menu reflect an ability to upsell and increase average tickets?
- Are your performance appraisals tied to financial behaviors?

Financial Strategy ?'s– *cont'd*

- Is each workstation staffed for maximum productivity?
- Do operating hours reflect demand?
- Is there an inventory management program in place?
- Is there a retail sales program in place?

People - Human Resources

You have two sets of clients

- External customers
- Internal customers

The Challenges

- “Nobody ever told me.”
- “It’s not my job.”
- “I don’t know who to ask.”
- “When is my next break?”

Having a top team is your most important responsibility

- You can’t do everything yourself
- You’re not touching all of the clients
- You’re only as strong as your weakest link
- Clients are attracted to a calm, professional atmosphere for personal care services

Documentation and Structure create . . .

A Strong Foundation

↓

Empowering Staff Members

↓

Shortening the Decision-Making Process

↓

Happy Customers

Team Building Overview

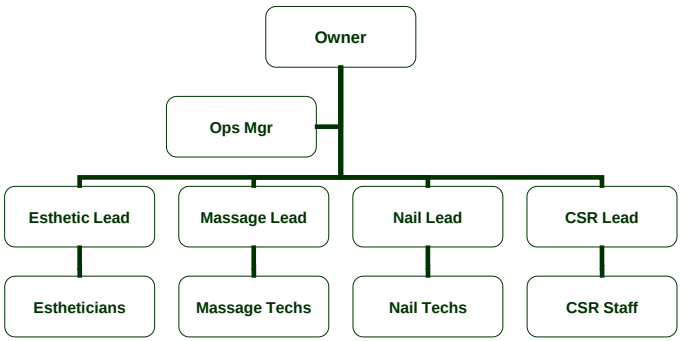
- Defined Management Structure
- Recruiting pipeline
- Interviewing process
- Practical Skills Assessment
- Reference & background checks
- Company Orientation
- Support Documentation
- Training & Education

Create a vital company culture!

Organizational Structure

- Your Org Chart
  - Your management structure should support the business in all areas without duplication of efforts
  - Should be clear and shared with all staff

Sample Org Charts



Recruitment

- Market your business as an “employer of choice”
  - Renowned training program
  - Excellent career opportunities
- Word of mouth generates the most leads
- You are ALWAYS looking
- Happy internal customer is key

Position Descriptions

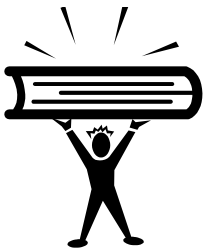
- Attract the **right** candidates
- Be clear from the beginning
- Setting standards avoids accusations of favoritism
- Ensures that staff knows who and what
- Don’t start compromising already

Company Orientation

- Performed by a spiritual and passionate leader
- Welcoming and company overview, indoctrination
- *Not* reading to new hires!
- Assign a mentor or buddy

HR Support Documentation

- Policy Handbook
  - Promotes fairness
- Service and Training Protocols
- Department Manuals
  - Department specific info
- Operations Manuals
  - Front desk and customer service



What Is Leadership?

- The process of mobilizing people, their ideas, and their energy.

Leadership vs. Management

- Management is getting people to do what needs to be done
- Leadership is getting people to want to do what needs to be done
- Managers push. Leaders pull.
  Managers command. Leaders communicate.
- Management: creating an environment for performance
- Leadership: creating an environment for fulfillment and growth

Leadership Attitudes

- Don't treat people the way you would like to be treated, treat them the way they want to be treated
- Build a climate of trust by encouraging freedom
- Communicate, communicate, communicate
- Keep it fun
- Remember, leadership is an art, not a science

Leadership Styles

STYLE	DEFINITION	EXAMPLE	WORKS WELL IN…	DOWNSIDES
Coercive	**Demand immediate compliance**	"Do what I say"	Crises, problem employee situations	Inhibits flexibility, dampens motivation
Authoritative	**Mobilize people toward a vision**	"Come with me" but do it your own way	When business is adrift	Team that is more experienced than leader is
Affiliative	**Create emotional bonds and harmony**	"People come first"	Building harmony and morale	Focus on praise can allow poor performance to remain uncorrected
Democratic	**Build consensus through participation**	Give staff a voice	Building flexibility and responsibility, generating fresh ideas	Endless meetings and employees who feel leaderless
Pacesetting	**Expect excellence and self-direction**	Set and exemplify high standards	When employees are self-motivated and competent	Can be overwhelming, and build resentment
Coaching	**Develop people for the future**	Personal development	Staff are aware of their weaknesses and willing to improve	Not good for staffs resistant to change

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

Perception – Branding & Marketing

So you're a spa. Now what?

- Who is your target client?
- Why should they patronize you?
- The fallacy of, "If we build it, they will come"

Branding

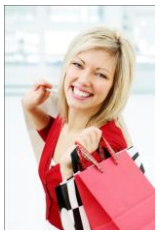
- Who are you?
- What is your brand promise?
- What's in it for the customer?

Essence of the Brand

- Summed up in one sentence:
  - "A delicious ritual that energizes your day"
  - "It pays to go green"
  - "The ultimate driving machine"
  - "Our computers make everyone look like a genius"
  - "Go beyond"

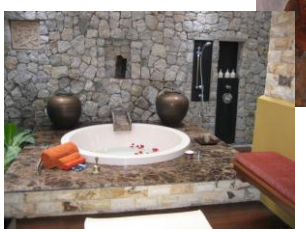
Brand Style

- Distinctive Logo or Identity
- Tagline or motto
  - PW – "Superb skin and body care"
- Branded Visuals
  - Typefaces, images, design & color
- Branded Design
  - Décor, signage, uniforms, color



Key Differentiators – your USP

- Unique and compelling
  - Process
  - Design
  - Product
  - Experience



Mission Statement

- The promise to the customers, short and sweet
  - "To help our customers feel absolutely wonderful, whether calling on the phone or spending the day"
  - "Ladies and Gentlemen serving Ladies and Gentlemen"

Components of Marketing Plan

- Advertising
- Public Relations
- Events/Community
- Internal Marketing
- Website & online
- Your brochure

Online Marketing

- Not just “having a web site”, but creating traffic
- Directories and Associations – South Africa Spa Association, SpaFinder, Health Spa Guru
- Your ads point consumers to web site
- Social media presence and monitoring

Online Marketing - *cont’d*

- Search Engine Optimization
  - High page-ranking in natural search results
  - Constant attention and maintenance
  - Behind-the-scenes design & programming
  - Number and quality of links
  - Popularity and freshness of content

Loyalty plans - start with internal customer

- If they don’t believe your company deserves loyalty, they won’t convey that to customers
- Ethics start at the top
- Management team that inspires and motivates
- 70% of lost business can be traced to staff turnover

Loyalty Programs – *cont'd*

- Use it to drive behaviors
  - Certain days, products, services, techs
  - Geared to target client, not everyone!
  - Can your software manage this?
  - Give regulars what they want; they spend more and cost less!

Structure - Operations Management

Operations Management

- Two key components
  - Employee Empowerment
  - Management Support & Business Leadership
- Firm, fair and friendly
- Constant, gentle, pressure*

**Danny Meyer, Setting The Table*

Operations Manuals

- Oriented to Customer Service staff
- Daily tasks and objectives
- Loss Prevention outline
- Opening and closing procedures
- Detailed "how-to" on software transactions
- Contact info
- Separate daily log book

Scripting

- The biggest complaint from spa employees: “I don’t know what to say!”
- Assumptive language vs. passive language: “I’d like to give you another treatment before your trip is over” vs. “Would you care to make another appointment?”
- Script-sharing round table sessions

Software – can you use yours?

- Many spas use 50% of the capability of their software
- Create a training plan – who, when, what
- Participate in online forums
- Update regularly

Service Protocols

- Step by step how-to
- Specific for each service on the menu
- Include timing of each step
- Supply consult language
- Include recommended product and laundry usage guidelines
- Establish home care tie-ins

Service Delivery Cycle

- Are you turning phone calls into appointments?
- Appointments into repeat customers?
- Maximizing efficiency?

Retailing

- Retailing doesn't just happen!
- Understand the basic concepts
- Ensure a profitable retail mix
- Communicate opportunity
- Home care prescriptions

Inventory management

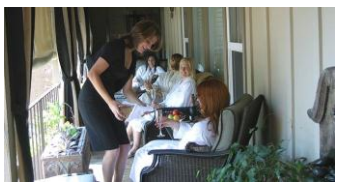
- Consistency with brand image
- Replenishment processes
- Speed of cycle
- Measuring inventory turns
- Minimizing shrinkage
- Secure storage recognizing Chart of Accounts categories

Dangers of Discounting

- Discounts don't drive loyalty
- Discounts call into question the worth of the service
- Discounts drive prices down

Quality Assurance

- Client Evaluation Cards
  - For all clients, not just new ones
- Secret Shopping Service
- Testing
  - Inspection
  - Quizzes/Exams



Growth Strategies

- Operations AFTER sales
- Don't compete on price
- Know who your customers are, and who they aren't
- Existing core customer base is best source of new customers

Action planning

- Identify under-performing areas
- Develop an action plan
- Pick a few key focus points

- Both revenue and expense-side strategies
- Involve the staff

Action Planning - *cont'd*

- Are you good at the basics?
- Do you have the right people on your team?
- Prioritizing

Wynne Business Reading List

The One-Minute Manager, *Ken Blanchard & Spencer Johnson*

The Seven Habits of Highly Effective People, *Stephen Covey*

The Handbook of Coaching: A Comprehensive Resource Guide, *Frederic M. Hudson*

Who Moved My Cheese?, *Ken Blanchard & Spencer Johnson*

Good to Great, *Jim Collins*

The Tipping Point, *Malcolm Gladwell*

Why We Buy, *Paco Underhill*

The Big Book of Customer Service Training Games, *Carlaw & Deming*

Wynne Business Reading List – *cont'd*

The Experience Economy, *James H. Gilmore, B. Joseph Pine*

Customers.Com, *Patricia Seybold*

The Starbucks Experience, *Joseph Michelli*

Experimental Marketing, *Bernd Schmitt*

Mastering the Rockefeller Habits, *Verne Harnish*

Topgrading, *Bradford Smart*

Setting the Table, *Danny Meyer*

Web Resources

- Spatrade.com
- Saspaassocation.co.za
- HR.com
- Workforce.com
- Spabusiness.com
- Retailwire.com
- Leadingresources.com
- Accountingcoach.com
- Emarketer.com

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