

Hotel Operators Massage More Profits From Their Spa Operations - By Robert Mandelbaum and Gabrielle Lerner

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It is commonly understood that spas were once an afterthought for operators of hotels and resorts. Yet as living a healthy and better lifestyle has become one of the population's top priorities, spas have grown in popularity and are viewed as essential elements to a hotel or resort's success rather than being just a luxury.

While we have become accustomed to seeing spa services as a standard hotel amenity, the spa landscape is extremely dynamic and hotels must adjust accordingly in order to remain competitive. The new generations of spa goers are 'spa-wise' and demand an authentic spa experience during their hotel stay. The growth of destination spas, medical spas, and nutrition and wellness centers imply that travelers are living a healthier lifestyle and are embracing the enhancements to both body and mind that come from a visit to a spa. These core spa consumers view their spa treatments and experiences as part of a larger wellness lifestyle while others still consider 'spaaing' a special occasion and are tantalized by the luxury and pampering of a spa experience. These consumers look mainly to hotels to provide that service.

While developers of new full-service hotels will build a spa without hesitation, owners of existing hotels lacking this amenity have felt compelled to add spa facilities to their properties. For resorts, the addition of a new recreational facility is not that dramatic a decision. However, for corporate and convention oriented properties, the decision to invest in an expensive amenity that is not a guaranteed profit center is less straightforward.

To aid hotel owners and operators during the spa investment decision process, as well as assist spa department managers benchmark their operations, PKF Hospitality Research (PKF-HR) has analyzed the 2006 financial performance of hotel spa departments. The sample was divided into two categories, resorts and urban hotels. The data comes from PKF-HR's Trends in the Hotel Industry database. It should be noted that our analysis did not include statistics from day spas or destination spas.

Ahhh...

From 2005 to 2006, total hotel spa revenue grew from \$2,886 per available room (PAR) in 2005 to \$3,166 PAR in 2006. This 9.7 percent increase compares favorably to the 8.2 percent increase in total hotel revenues and 5.9 percent gain in sales from all other operated departments.

While the average urban hotel spa operation earns just \$1,207 PAR in revenue, these facilities did enjoy a 12.4 percent gain in revenue in 2006. Urban hotel spas are becoming a popular alternative to the large fitness facility due to their quality level and elements of personalized service. Also, due to the locational nature of an urban hotel spa, people consider a spa an after-work retreat that is more than just relaxing. It is both convenient and practical. Urban hotel spas should continue to experience growth as long as they can maintain relationships with their local communities.

Resort spas are much larger operations and benefit from a larger base of leisure demand. In 2006, the average resort spa earned \$4,368 PAR in revenue. This represents a growth rate of 9.3 percent from 2005.

Treatments such as massages, body wraps, and facials are the largest sources of revenue for hotel spas. Together, they comprised 73.0 percent of the revenue generated by hotel spa departments in 2006. Due to use of the facilities by local residents, membership fees made up 15.2 percent of the total revenue earned by urban hotel spas, but were only 3.9 percent of total revenue at resort spas.

Being the largest sources of spa revenue, the 9.6 percent growth in spa treatment and massage revenue drove the overall 9.7 percent increase in total departmental revenue. While spas offer a wide range of services, massages remain the top revenue generator for several reasons. First, most consumers are unaware or may be intimidated by unique spa treatments and therefore, tend to gravitate towards the norm. Second, nothing beats a massage when you are seeking a relaxing and indulgent experience. Third, as more men are taking advantage of spa services, they tend to be drawn to massages as their treatment of choice.

Clothing and merchandise sales exhibited the greatest gains of all revenue sources during the year (20.4 percent) and represent 6.6 percent of total departmental revenue. As more hotels guests are becoming educated spa consumers, they are incorporating elements of the spa experience into their every day life by purchasing items that can enhance the home spa experience such as candles, clothing, music and literature. Thus, spa boutiques have become an integral component of the spa business model as they provide products that relate specifically to individual treatments and thus, contribute positively to the bottom line.

Lagging in growth were the revenues generated from the salon. Hair and nail treatment sales grew just 1.4 percent in 2006, although they still represent 7.4 percent of total spa department revenue. The limited growth in this area can be attributed to guests' decreased usage of the hair salon. More times than not, salons are utilized for their manicure and pedicure services, while hair stations sit empty. Most consumers opt to visit their neighborhood stylist for services and on occasion, will resort to the hotel's salon for special events. Further detracting from a salon's success, is the payroll structure typically associated with hair stylists.

Ouch...

In an effort to provide truly hands-on, personal levels of service, hotel spa departments are labor intensive operations. Salaries, wages, and benefits combine to comprise 73.6 percent of all spa department operating expenses. It is apparent that the battle of increasing labor costs still persists in the spa industry. As treatment prices continue to rise, the spa therapist's percentage of revenue closely follows. The lack of efficient therapist scheduling also results in lower profit margins. To counter, spa directors should cluster appointments under one therapist rather than providing guests with ultimate flexibility in booking appointments. Furthermore, spa managers need to become more aware of low demand periods and adjust scheduling to reflect these times, which will prevent staff from sitting idle.

Other major operating costs include contract services (5.3 percent of total expenses), cost of merchandise and clothing sold (4.8 percent), professional products and supplies (4.8 percent), and operating supplies (3.6 percent).

Since hotel spa departments are managed as an other operated department within the property, it should be noted that they do not get directly charged for such overhead expenses as accounting, marketing, maintenance, and utilities. These costs are shared among all hotel departments and classified as undistributed expenses on a hotel financial statement.

As the spa department is not directly burdened with its overhead costs, the majority of spa department expenses are variable in nature. Therefore, it is not surprising that the increase in operating expenses paralleled the 9.7 percent gain in revenue. In 2006, total spa department operating expenses grew 9.0 percent. Exhibiting the greatest gains were labor costs (9.6 percent) and cost of goods sold (9.0 percent). Combined, all other operating expenses grew 6.6 percent during the year.

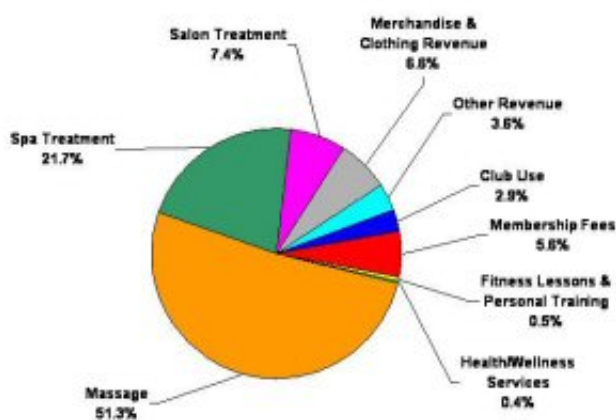
Mmmm..

Due to the extensive labor requirements, spa departments achieve profit margin ratios less than the average for all other operated departments. In 2006, the average hotel spa department achieved a profit margin of 31.1 percent. This compares to a 40.8 percent profit margin ratio for all other operated departments combined. Due to greater revenue streams and an enhanced ability to cover fixed charges, higher profit margins were achieved by resort hotels (33.3 percent) compared to urban hotels (17.9 percent).

Yet as the spa industry continues its evolution and revenues increase U.S. hotels are enjoying more profits from their spa operations. From 2005 to 2006, hotel spa department profits increased 11.3 percent. This is greater than the 9.9 percent average growth in profits for all operated departments during the same period. Although the profits for the average urban hotel spa (\$216 PAR) are just 15 percent of the typical resort spa (\$1,456), urban spas did enjoy a healthy 45.1 percent gain on the bottom-line from 2005 to 2006. Resort spa profits increased just 9.1 percent during the same, however, it should be noted that this still represents a \$54 PAR profit growth premium over urban spas.

With a stronger focus on staffing and a better understanding of the local community, both urban and resort spas have an incredible opportunity to increase their profit margins. Further, a properly operated and marketed spa facility can enhance the overall hotel's performance in terms of rate potential, occupancy, and guest demand diversity.

MIX OF REVENUES All Hotels – Spa Department 2006



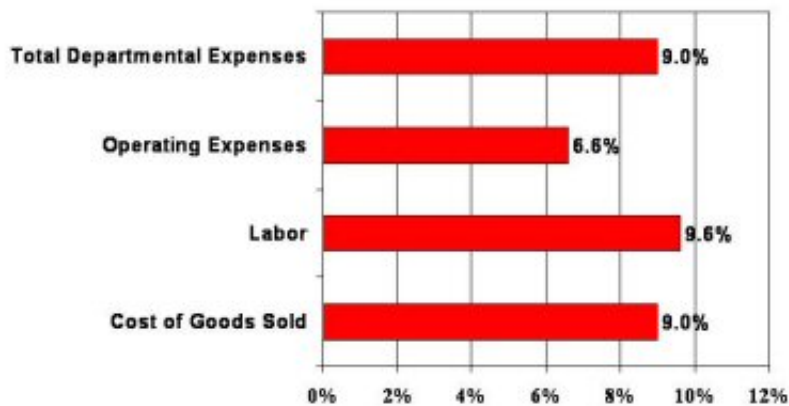
Source: PKF Hospitality Research

SELECT HOTEL SPA REVENUES Change from 2005 to 2006



Source: PKF Hospitality Research

SELECT HOTEL SPA EXPENSES* Change from 2005 to 2006



Note: * Does not include undistributed or fixed charges of hotel.

Source: PKF Hospitality Research

SPA DEPARTMENT PROFITS* Change from 2005 to 2006



Note: * Before deducting undistributed and fixed charges of hotel.

Source: PKF Hospitality Research

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