

# Four Cornerstones of Spa Success

SWAA Network Kenya January '16  
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## Topics for Today

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

## 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.



## Money - Effective Financial Management

## Realistic Expectations

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



## Effective Financial Management

- Performance Benchmarking & Profit Formulas
- Financial Strategies



## Financial Framework

- Chart of Accounts
- Income Statements
- Department specific payroll
- Isolation of treatment costs
- 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 Sales  
 Massage Service  
 Sales  
 Skin Retail Sales  
 Massage Retail Sales  
 Other Income  
 Gift Certificate Sales  
**TOTAL REVENUE**

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	
<b>Total Retail Sales</b>	<b>\$ 404,711.66</b>	
Sales- Gift C.	\$ 267,129.83	
Events Income	\$ 5,892.84	
Interest Income		
Sales - Tax Discounts	\$ -	
Other Income	\$ 39.91	
<b>Total Revenues</b>	<b>\$ 2,296,297.28</b>	<b>100</b>

Cost of Goods Sold		
Sales Labor	\$ 719,086.20	
Professional Supplies	\$ 144,367.35	
Retail Products	\$ 168,785.06	
<b>Total Cost of Goods</b>	<b>\$ 1,032,248.61</b>	
Gross Profit	\$ 1,264,048.67	55%

## Income Stmt Rev detail

Revenues			Cost of Goods Sold		
Sales Returns and Allowances	\$ (576.00)	0%	COGS - Concierge	\$ 157,581.87	7%
Service Sales - Dental	\$ 7,226.88	0.4%	COGS - Esthetics	\$ 147,106.83	6%
Service Sales - Esthetic	\$ 392,167.29	17%	COGS - Hair	\$ 134,205.28	6%
Service Sales - Hair	\$ 359,610.50	16%	COGS - Makeup	\$ 9,702.66	0%
Service Sales - Makeup	\$ 14,256.00	1%	COGS - Massage	\$ 164,003.28	7%
Service Sales - Massage	\$ 806,761.50	22%	COGS - Medical	\$ 12,507.27	1%
Service Sales - Medical	\$ 64,206.27	3%	COGS - Nail	\$ 93,979.90	4%
Service Sales - Nail	\$ 284,970.60	12%	<b>Total Labor COGS</b>	<b>\$ 719,086.20</b>	<b>31%</b>
<b>Total Service Sales</b>	<b>\$ 1,618,523.04</b>	<b>70%</b>	Supplies - Esthetics	\$ 30,573.38	1%
Retail - Boutique	\$ 120,203.66	5%	Supplies - Hair	\$ 32,355.95	1%
Retail - Esthetics	\$ 165,422.00	7%	Supplies - Makeup	\$ 285.12	0%
Retail - Hair	\$ 47,815.00	2%	Supplies - Massage	\$ 15,202.35	1%
Retail - Makeup	\$ 24,991.00	1%	Supplies - Medical	\$ 46,002.11	2%
Retail - Massage	\$ 18,396.00	1%	Supplies - Nail	\$ 19,947.94	1%
Retail - Nail	\$ 27,894.00	1%	Supplies - Boutique	\$ 57,607.60	3%
<b>Total Retail Sales</b>	<b>\$ 404,711.66</b>	<b>18%</b>	<b>Total Back Bar COGS</b>	<b>\$ 144,367.35</b>	<b>6%</b>
Sales- Gift C.	\$ 267,129.83	12%	Retail Prod Boutique	\$ 48,081.46	2%
Events Income	\$ 5,892.84	0%	Retail Prod Esthetics	\$ 66,168.80	3%
Interest Income		0%	Retail Prod Hair	\$ 23,907.50	1%
Sales - Tax Discounts	\$ -	0%	Retail Prod Makeup	\$ 7,407.20	0%
Other Income	\$ 39.91	0%	Retail Prod Massage	\$ 9,188.00	0%
<b>Total Revenues</b>	<b>\$ 2,296,297.28</b>	<b>100</b>	Retail Prod Nails	\$ 13,942.00	1%
			<b>Total Retail COGS</b>	<b>\$ 168,785.06</b>	<b>7%</b>
			<b>Total Cost of Sales</b>	<b>\$ 1,032,248.61</b>	<b>45%</b>
			<b>Gross Profit</b>	<b>\$ 1,264,048.67</b>	<b>55%</b>

## Tracking Revenue – Typical Metrics

- Average ticket for spa or salon
  - Service \$ + Retail \$ / number of clients
- Average ticket for technician
- Retention vs Request
- Hotel ADR
- Capture rate



## Tracking Revenue - cont'd



- \$ sales per square foot
  - Annual Retail \$ + Svc \$ / total square feet
- Utilization/Productivity rate
  - # of appts avail / # of appts sold
- Retail ratios
  - svc sales/total sales



## Tracking Revenue



Recommended Retail to *Total Sales* Ratios

### Day Spa

### 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%       |

## Tracking Expenses



- Labor – Your Largest Expense
  - Technical Staff
  - Hourly Staff
  - Management/Salaried Staff
  - Taxes & Benefits



## Technician Compensation



- Consider gross margin FIRST
- New world compensation plans should include benefits, education, perks, just like a real job!
- Talk about annual earnings
- Try to avoid tying tech comp to client fees

## 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     | ■ Skincare & Waxing |
|                     | ■ Massage & Body    |
|                     | ■ Nails             |
|                     | ■ Hair              |
| ■ Inventory Expense | ■ Makeup            |
| □ Retail            | ■ Other             |
| □ Back bar          |                     |

## Ex. of Dept. 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 Strategies

- 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 Strategies – *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

## Team Building Overview

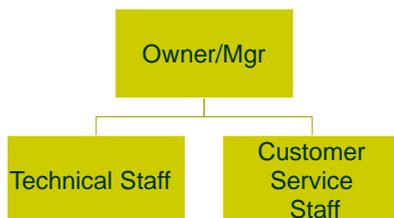
- Defined Management Structure
- Recruiting pipeline
- Interviewing process
- Practical Skills Assessment
- Reference & background checks
- Company Orientation
- Support Documentation
- Training & Education

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



## Sample Org Charts



## Recruitment & Application



- Market your business as an “employer of choice”
  - Renowned training program
  - Excellent career opportunities
- Word of mouth generates the most leads
- Applicants should have a resume and fill out an application
- You are ALWAYS looking

## Position Descriptions — Why?



- 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

## The A Player Job Description



- Job activities/responsibilities
  - **Basic job responsibilities** for technical and therapeutic staff include meeting attendance, sidework, client communication, daily work station prep and cleanup, team/staff meetings and meetings with supervisor.
- Team member responsibilities
- Qualifications and experience required
- Desired behavioral characteristics

## You're never in too much of a hurry to hire right.



- Job turnover destroys profit
  - Trainer wages
  - Trainee wages
  - Trainee errors
  - Customer dissatisfaction
  - Operations Disruption
  - Management time wasted
  - Recruiting costs

## Support Documentation



- Policy Handbook
  - Promotes fairness
- Job Descriptions
  - For all positions
- Service Protocols
- Department Manuals
  - Department specific info
- Operations Manuals
  - Front desk and customer service



## Department Manual



- Information specific to the department
  - Dept dress code, purchasing process
- Accessible – in tx rooms/personal copies
- 3-ring Binder
- Product knowledge from vendors
- Service Protocols
- Linen usage guidelines

## Training Protocols



- Don't overload them; spread it out
- Don't just train on technical duties
- Customer Service, Communications, Sales Skills
- Department Manuals should include space for note-taking

## Training Protocols cont'd



- Develop a training grid for each department
- Training by both inside and outside personnel
- Demonstration and hands on
- Role play where appropriate
- Quizzes and games

## 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

## 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????

- 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
  - Great style and leading edge design that's affordable
  - Timeless classic design
  - Our computers make everyone look like a genius
  - Hip, modern luxury

## Key Differentiators

- 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"

## 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



## Online Marketing

- Not just “having a web site”, but creating traffic
- Pay to play directories – Spa Finder, Spa Addict
- Associations – ISPA, Day Spa Assoc
- Your ads point consumers to web site

## 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

## Online Marketing - *cont'd*

- Online Reviews
  - Yelp, Citysearch
  - Constant monitoring
- Social Media
  - Facebook
  - Twitter



## Online Marketing - *con'td*

- Your online spa store
  - 24/7 sales, unlimited market area
  - Not necessarily less expensive
  - Design, photography
  - Which products?
  - Merchant account and shopping cart
    - Nexternal.com, Volusion.com

## Loyalty Programs

- Start with internal customer
  - Happy, motivated staff
  - Ethics and inspiration
- Existing customer base
  - 75% of consumers carry loyalty cards
  - American firms spent \$1B (2003)

## 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*

## Process Evaluation



- How are things done?
- Focus on
  - eliminating waste of time or product
  - efficient and effective service delivery



## 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

## Operations Manual - Why?



- Enable empowerment
- Provide consistency in customer service approach
- Understand “why”
- Stress importance of details
- Builds confidence

## Service Delivery Cycle

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



## Sales growth is simple. It's just not easy!

- Three Ways to Grow Revenue:
  - Increase no. of customers
  - Increase average spend
  - Increase visit frequency



## Increasing Number of Clients

## Where do new customers come from? It's complicated.

- WOM
  - Referral
  - Gifts
  - Social Media
- Web search
  - Search engine
  - Review sites
  - Deal sites



## Why do spa guests refer?



- To share something they love
- Referral incentives? Maybe.
- They often refer with gifts.

## The market is oversupplied. "Referrals" are layered.

- Potential guests have a lot to choose from
- They "triangulate" recommendations
- Online search + review site + WOM + Facebook + ?



## A great website is a fresh website



- Up-to-date, accurate and easy-to-use can trump pretty
- Updating is a constant, rigorous process. Someone on your team must be combing it continuously.

## Be findable!



- Search engine optimization (SEO) is a living thing
- Continuous updating
- If it's good for users, it's good for Google
- You can't cheat (for long)

## Social media: where?



- Pick a platform (e.g. Facebook, Twitter, Pinterest, etc.) and be GREAT
- Don't just distribute the same content on every platform
- Use it to converse, not to broadcast (it's a "cocktail party" conversation.)

## Upwardly mobile

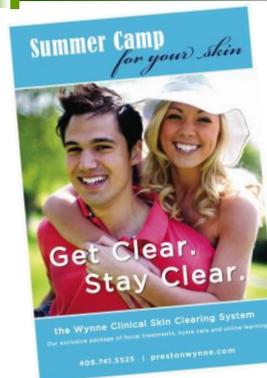


- Yes, you still need a great website
- Increasingly, you need a great mobile website
- Search and booking are going mobile

## Event marketing



- Multiplies your marketing efforts
- Private and corporate parties are growing
- Provide a venue for fundraising
- "Hybrid" no-host events at an attractive price point



## Keep it fresh



- Events and classes
  - Teen Skin Care
  - Seasonal makeup workshops
  - Client appreciation
  - DIY: infant massage, couples massage
  - Vendor events
  - "Top 100" recognition

## Get more customers by not *losing* customer

- Customer retention/reactivation is the most cost-effective form of marketing
  - 10 cents on the dollar
- Great customer service retains great employees and they retain customers



## Increasing Average Spend



## Successful spa businesses are NOT dropping the D bomb

**25% OFF**

There's always someone crazy enough to go lower! Stay out of this trap.



## ...but they ARE giving more value

- Offers that protect price points
  - They have to pay more to get more
- Offers that protect perceived value
- New guests "imprint" at the original price point
- GWP's rule



## Watch out for promos that drive high volume without retention



- Groupon, Spa Week, etc.
  - know what kind of business you need
- Monitor results closely to see if it's worth repeating
  - Repeat business or costly churn?



## For Increasing Average Spend and Visit Frequency, Nothing Beats Retail!



## Retailing Basics



Bask spa store, Revel Casino in Atlantic City, NJ

- Improve visual merchandising
- Make it easy to buy from you
- Be shop-worthy!
- De-clutter, edit, curate
- Create a checkout “experience” to slow guests down on exit
- Shop the national retailers for ideas

## Home Care Recommendations

- Improve home care recommendation tools
  - Prescription pads are so last decade



## Rusty Retail Skills?

- Continuously train (and retrain) your team in sales skills
  - They have to extend the invitation!
  - Clients are better informed, better supplied and not as easy to sell to.
- Build confidence with coaching
  - You can't just pay commission. You have to pay attention



## Good Vendors Make a Difference



- Beyond PK: continuously train spa teams in “generic” sales skills
- Event support and coordination
- Merchandising support
- Contents and giveaways for staff

You're paying them well. What are they doing for you?

## Treatment Menu Must Supply Upsell Tools for Therapists

- Skincare
  - Eye, Lip, Hand treatments
  - Specialty masks, serums
- Massage & Body
  - Sticks & Stones, Aromatherapy, Organic
- Hands & Feet
  - Anti-aging treatments
  - Scrubs & masks

## Create Add-ons That Drive Sales

- Price range 8-20% of original service price
- Add-ons CANNOT take additional time, must be incorporated into original tx protocol

Skincare Enhancers	
Younger Hands Treatment	\$14.00
RevitalEyez	\$12.00
Antioxidant Mask	\$11.00
Clear Skin Mask	\$9.00
Pucker Power	\$8.00

## Menu Pricing Strategies

- Most expensive, first
- Least expensive, last
- Pricing on the rest should vary across price-points



## Do you need to increase prices?

- Discount culture demands a higher base price
- You've probably waited too long. Your suppliers haven't.



## Increasing Visit Frequency

## Increase visit frequency with membership programs

### Let Us Reward You



Your purchases, referrals, and even pre-scheduled appointments will earn you Spa Rewards Points, to use as you please toward our services, products, and even gift cards.

**Guest Referrals** are rewarded with 20,000 points, with a cash value of \$20. Your account will be credited after your "refer-ee" has visited us for their appointment.

**Rescheduling** before you leave earns you 5,000 Spa Reward Points, with a value of \$5.

Your account balance is printed on your receipt every time you visit. Or simply give us a call at 408 741-5525 to check your balance.

- Massage Envy wrote the book on membership programs
- Reward frequency with price incentives
- It's about great VALUE, not having the lowest price

## Increase visit frequency through yield management

- Maximize pricing in high demand periods
- Drive demand for low periods
  - Segment your customer base/e mail marketing lists and save your most aggressive offers for a self-selected group ("The Hot List")
- Daily monitoring, JIT marketing



## Staff need to supply "cues"

- Therapist: "In order to achieve desired results, I'd like to see you again in x weeks"
- Reception: "Did Sonia say when we should book your next treatment?"



## Use contests to ignite excitement

- “Everyone can win”
- “Most improved”
- Create teams
- Celebrate progress



## Your “support” team is a sales team



- Incentives (pooled)
- Skills training
- Bridge the divide between the desk and service providers
- They're the cheerleaders. They lead the celebration of team wins, great reviews.
- Use a Pre-shift huddle to set intentions, celebrate success

## Focus promotions on one “lever” per month

- August: Increase average spend
- September: Increase visit frequency
- October: Increase number of customers



## 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

## Inventory Management

- Using software to create purchase orders
- Manual review
- Examine need, order, receipt, restock cycle
- Secure storage using Chart of Accounts categories

## 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 Protocol example *cont'd*



- Overall description of service
- Ideal target client for service
- Contraindications
- Service Time
- Supply and Product Checklist
- Procedure Outline
- Home Care Recommendations

## Quality Assurance



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



## Revenue Management



- Varying demand for commodity
- Limited or fixed supply of commodity
- Sold by reservation
- Infrastructure to manage multiple price points

## Revenue Management approaches



- *Dynamic Pricing* - Price varies based on demand
  - Weekday vs. weekend pricing
- *Dynamic Availability* - What is offered varies based on demand

## Dynamic Pricing



- Weekend pricing 12-20% higher
- Weekday pricing 12-20% lower
- Value added svcs in non-peak times
- Specials to attract specific audiences to low demand periods
  - Summer weekday teacher promotions
  - Future visit voucher for 1<sup>st</sup> & last appts

## Dynamic Availability



- No packages on weekends
- Treatment minimums during high demand
- No singles in couples' rooms
- High-margin, higher priced, or longer services only

## Revenue Management Principles



- Focus on expanding revenue, not cutting expenses
- Attract different market segments
- Bullpen or overstaffing for maximum utilization
- Fine-tuning strategy, not for start-ups

## 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



## Web Resources



- [spaassociationofafrica.com](http://spaassociationofafrica.com)
- [Spabusiness.com](http://Spabusiness.com)
- [HR.com](http://HR.com)
- [Workforce.com](http://Workforce.com)
- [Leadingresources.com](http://Leadingresources.com)
- [Emarketer.com](http://Emarketer.com)

## Four Cornerstones of Spa Success



THANK YOU FOR YOUR ATTENTION!

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