

# Spa Compensation Trends

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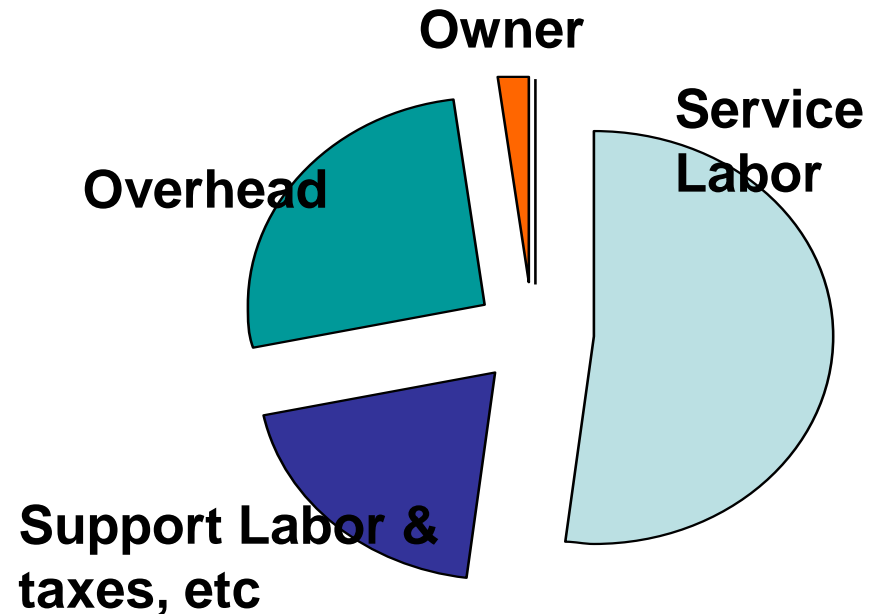
# Taking stock of the compensation situation

- The troubled history of beauty industry comp
- Why it doesn't work
- What does work
- How to convert a comp plan
- Adding value to your comp plan as an Employer of Choice



# Your service comp plan will make or break you

- We have a 40+ yr old compensation model
- 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 techs**
- **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
- Prices increases are automatically shared
- Does not reward teamwork

# REALITY CHECK:

## Salon Generica, an upscale spa salon

### SERVICE SALE: “BEFORE”

**\$100 Generica Signature Massage**

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

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

**(\$7) Product Cost (varies with type of service)**

**\$38 GROSS PROFIT (Cost of Sales: 68%, GPM 32%)**

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

**(\$2) PROFIT/LOSS**

\* typical overhead ratio for upscale spas & salons

# The only way out: Reduce Cost of Sales

- Increase service gross profit to 50%+

<b>\$100</b>	<b>Generica Signature Massage</b>
<b>(\$35)</b>	<b>Labor Cost of Sale</b>
<b>(\$3.50)</b>	<b>Payroll burden (10% + of payroll)</b>
<b><u>(\$7)</u></b>	<b>Product Cost</b>
<b>\$54.50</b>	<b>GROSS PROFIT (COGS: 46%, GPM 54%)</b>
<b>\$40</b>	<b>Spa Overhead Expense*</b>
<b>\$14.50</b>	<b>PROFIT/LOSS</b>



# REALITY CHECK:

## Retail Sale

### RETAIL SALE: “BEFORE”

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

# 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!)**
- **(\$4.50)**      **Commission Payroll burden**
- **\$50.50**      **GROSS PROFIT (COGS 49%)**
- **(\$40)**      **Spa Overhead Expense**
- **\$10.50**      **PROFIT/LOSS**

# Medical Spas

- Hourly pay vs. treatment rate or %
- Nurses, NP's, Estys
- Valuing the environment
  - Set hours
  - No call
  - Positive, upbeat environment

# The Compensation Prescription



A comp plan that rewards the right behaviors

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.”*

# Reward the keys to profit:

- **Productivity**
- **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 tech turnover, less refereeing by manager

# Comprehensive Comp Plans

## Include



- **Employee perks**
- **Variety of earning opportunities**
- **Top quality training and education**
- **Employee discount programs**
- **Benefits (just like a “real” employer!)**

# Win-Win 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 30% mass, 28% esty	SILVER LEVEL: 1-3 YRS 32% mass, 30% esty	GOLD LEVEL: 3-5 YRS 34% mass, 32% esty	PLATINUM LEVEL: 5+ YRS 36% mass, 34% esty
Classic Massage	\$85	\$25.50	\$27.20	\$28.90	\$30.60
Deep Tissue	\$95	n/a	\$30.40	\$32.30	\$34.20
Classic Facial	\$85	\$21.00	\$24.00	\$27.20	\$28.90
Micrdrm Trtmt – 45 min	<b>\$105</b>	n/a	\$24.70	\$29.40	\$31.50

# 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 increase of 28% after conversion



BEFORE COMP CONVERSION				TOTAL SPA REVENUE					
<b>\$90 1 hr. Classic Facial</b>	50% service comm.		35% retail ratio		10% retail comm.	Product COGS	EE COMP PER HOUR	SPA GROSS PROFIT	GPM
	\$45.00 (50% comm.)		\$48 Retail sale	<b>\$138 ticket</b>	\$4.80	\$ 24.00	\$49.80	\$64.20	46%
AFTER COMP CONVERSION									
<b>\$90 1 hr. Classic Facial</b>	treatment rate \$27 per hour		40% retail ratio		20% retail comm.		EE COMP PER HOUR	SPA GROSS PROFIT	
Basic Esty Tx Rate	\$27.00 treatment rate		\$60 Retail sale	<b>\$150 ticket</b>	\$12.00	\$ 22.00	\$39.00	\$89.00	59%

# Professionally Licensed Occupations



Occupation	Average Years of Education	Educational Investment	% of revenue generated paid to license holder	Typical benefits
Cosmetologist	1	\$6K-\$8K	40%-50%	None
Medical Doc.	8	Approx \$200K	40-45%	Full
CPA	4	\$100K	33%-40%	Full
Dental Hygienist	2	\$20-\$30K	33%	Full
Attorney	7	\$100K-\$150K	25%-30%	Full

*Information from Salary.com and 2004 National Compensation Survey*

# 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**

# Added 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/knowledge/certifications**

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

- **Expect turnover; grandfather key techs’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?**
- **New spas, create detailed, realistic projections**
- **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!**

# Spa Compensation

Q & A with  
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