

TRILOGY

Spa Holdings

How to make the spa work for guests and the hotel operator



Given the rebound in the luxury-lodging sector in the past few years, it's easy to assume full-service spas that are typically a featured amenity in these hotels are thriving as well. Unfortunately, that assumption is rarely the case. Certainly, luxury spas can be profit-able, but the disturbing irony is-more often than not-they lose money, fully allocated. Hotel owners have a tendency to deceive themselves when it comes to profitability by not bothering to re-cord any number of expenses directly attributable to spa operations, which can be significant. Only by taking a cold, hard look at the reality of their business model can property owners and spa operators begin to undertake a turnaround.

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Beyond P&L issues, return on invest-ed capital (ROI) must be a primary focus of spa operators. Breaking down the ROI calculation, owners invest in-and consultants recommend physical facilities that are generally too big and finishes that are too grand. Owners invest in bells and whistles, the cost of which can't be justified, particularly when dealing with an in-creasingly value-conscious consumer with a multitude of spa/wellness/fit-ness choices.

Driving the top line

The blueprint for turning around the situation starts with limiting the "I" (investment) and focusing on the "R" (return). Specifically, spas must learn how to better drive the top line. More often than not, owners and op-erators struggle to come up with the right brand for their spas. The right spa brand can be a powerful lever in increasing sales. Spa brands must be carefully chosen to align with the brand promise of the property they are a part of. Operators also tend to be unsure about the right mix of beauty treatments and wellness program-ming, and don't always know how to maximize the use of their facilities.

Increasing revenues starts with maxi-mizing each of the spa's target custom-er groups. Spas generally have three customers, two of whom are guests at the hotel: the leisure guest and the group guest. The third is the local, who is a resident of the community.

In today's market, if a spa isn't play-ing the "locals market" particularly well, it's going to be in trouble. The leisure business coming out of the recession is increasingly value-driven and not so much pampering, as it is health and wellness focused. At the same time, the group business is still adjusting to the norms of a "post-A JG world," where spa buyouts are few and meetings last all day.

Consumer relevance is key

Great spas today must align them-selves with brands that are consumer relevant and offer the best revenue-producing opportunity. My experi-ence as co-founder of La Prairie and CEO and principal of the Red Door Spas under the Elizabeth Arden trade name taught me the importance of branding using an international beau-ty brand or a highly developed "pri-vate brand"-or both.

Spa operators have tended to stick to the traditional spa-pampering model. My personal sense is the traditional hotel spa is dead. On the other hand, when operators look to alternative programming, they tend to over-em-phasize wellness with its focus on stress reduction, general relaxation techniques, nutrition and fitness in a desperate effort to supply critical incremental revenue streams. Sim-ply put, successful spas can't be all wellness. The best balance in terms of sales tends to be 25% wellness, 75% traditional spa services. While wellness provides a vital additional David Stoup revenue stream, more importantly, it differentiates the spa and makes its core offering more relevant.

While other aspects of the hospitality industry increasingly seem obsessed with the emergence of the Millennial generation, our sense is demand for spa services doesn't necessarily skew on a generational basis. The uber-lux-ury spa attracts financially well-off Millennials, as well as Baby Boomers. Everyone seems to enjoy luxury, as-suming it's executed at a high level. I don't see either luxury spa or wellness being generational. Quite to the con-trary, demand seems well distributed, and we must learn to speak to both the Baby Boomer and the Millennial. Each requires a different message. Both de-mographics, however, must contribute to make a spa more successful today.

Consider pricing policies Regarding customers' willingness to pay for luxury spa services, pricing policies continue to be an issue, even with the rebound in the economy. Great spa operators realize that lux-ury consumers, like any demographic group, have their own value proposition when it comes to pricing. When working with a spa, you need to look at the hotel's ADR. The thinking is that a basic massage shouldn't cost more than two-thirds of the nightly ADR. In other words, a \$300 nightly ADR means the revenues from a massage should not top \$200, and in the case of a far-more-common \$225 ADR, a good spa management firm must find a way to make a \$140 massage profit-able. This is where yield management becomes relevant. As critical as yield management has become in the pricing strategy of hotel guest-rooms, it may be even more

critical in the pricing of spa services. After all, the spa operator isn't simply selling each guestroom once a day, it's selling spa treatment rooms 10 to 12 times a day, as the typical luxury spa is open 70 to 84 hours a week.

The lodging industry doesn't hesitate to yield-manage the guest room rate, so why should spas hesitate to yield-manage the spa services component? If anything, it's as important to get people into the spa Tuesday morning as it is Saturday afternoon. Too many spas are utilized less than 20% of the time, when utilization should be 30% or more at a minimum.

Spa directors know their high-demand periods, though these periods inevitably vary by location. With digital marketing techniques so pervasive today, why not use dynamic pricing to help generate reservations in the periods of low demand? The local market in particular tends to be responsive to discount offers, as day-spa pricing tends to be less than hotel spas.

Turning around a luxury hotel spa that's not living up to its potential is hardly an easy fix. Rather, it's a multiple-step process that in the hands of capable managers can eventually lead to profitability. And, that road to profitability can start as early as ... Tuesday morning.

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