Trilogy Newsletter Lead Story

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How Best to Work with a Spa Operator

When the Trilogy Business Development team sits down for initial discussions with a prospective new client, we certainly lay out our capabilities and experience. That is not our first priority, however.

What is crucial is that we gain a clear sense of the owner's strategic plan and how the spa can support that plan. As a result, the conversation must quickly shift to a partnership discussion- easy to say and difficult to achieve. What is the most productive way to work together? How can Trilogy marry our various business models and brands with a property based on its positioning?

Thereafter, the conversation will focus on choosing a business structure most appropriate for a given property, based on an owner's tolerance for risk and desire to maximize the bottom line. No matter what structure, brand or business model is chosen Trilogy's emphasis is squarely on flexibility and partnership.

One clear option in terms of a business structure is a traditional Management Agreement, similar to one the owner likely has in place with the brand or operator of the hotel. As part of such spa agreements, Trilogy will suggest a Basic Fee arrangement as a percent of revenues plus an Incentive Fee as a percent of incremental operating profits. This arrangement is the most profitable option for the hotel owner and aligns the owner with Trilogy as all of our profit comes from the Incentive Fee.

Some owners shy away from Management Agreements, however, as they feel their third-party spa operator must have more "skin in the game." Certain owners want and will forfeit a part of the profit to craft a lease arrangement so their spa operator's interests are even more closely aligned with their interests.

This brings us to our second option—a Partnership Lease. In this case the hotelier and Trilogy share in the expenses as well as the profitability of the enterprise and Trilogy offers a fixed rent payment to demonstrate our belief in the project. Trilogy is incented to drive the bottom line because if the spa doesn't prove successful, unlikely as that may be, we don't get paid. For our part, we're willing to bet that we can succeed in a very tangible way. Under a Partnership Lease if we win, the owner wins—and if for whatever reason we cannot win …the owner wins anyway. The risk shifts to Trilogy and the profitability is adjusted accordingly.

The third option is a traditional space lease, but it's the least attractive of the three for both sides. Why? Simply because a space lease doesn't ensure that the interests of the owner, the hotel operator and the third-party spa operator are aligned. If the spa company as tenant pays rent at the beginning of each month and controls the profit and loss statement, the owner is pretty much sidelined and the spa company will hesitate to do anything that doesn't benefit their P&L.

Furthermore, if a spa operator is simply paying rent and feels no larger connection to the hotel host, the hotel owner and its management company are less inclined to cooperate with the spa operator. The loss here can be felt most acutely in terms of continuity of Guest service and participating in the hotel's various marketing programs, including spa packages and special promotions, not to mention social media.

Whether the thinking is to proceed with a Management Agreement or a Partnership Lease agreement, there will always be an element of negotiation, reflecting the particulars of the specific deal. Neither format is better all the time. Deal structure gets a lot of attention from spa operators and hotel owners, but it's not where the real "difference" will take place.

The key to a successful spa operation is to make certain Trilogy is in line with the "big picture." What's the hotelier's strategic plan and how can we then create a spa operation to support that plan? The hotel's plan may call for an increase in group business. If so, the spa's plan must reflect this and a typical 30% local capture might be adjusted to 50% or more. Certain treatment and retail offerings and brand options we commonly develop will, as an example, help build the group segment.

Placing the emphasis on partnership is the kind of thinking Trilogy believes owners are looking for from a third-party operator. Realizing full partnership potential may entail broadening the presence of the spa within the hotel and to the larger community outside the hotel. The objective is to reach the local consumer with the right message, so they choose our spa over competing spas and, therefore, the hotel as a whole versus other options. This is true partnership.

If Trilogy's approach is executed properly the hotel will benefit in addition to the spa. The successful spa will serve as a magnet attracting more business to the hotel. The owner will sell more hotel rooms at a higher ADR, which translates into higher RevPAR.

Remember, the challenge facing a spa manager is always greater than the challenge facing a rooms manager. Both guest rooms and spa treatment rooms are disposable assets: when they go unsold, that opportunity is lost forever. But a hotel needs only to sell a guest room once a night; a spa has the opportunity to sell a treatment room 10 times a day.

That challenge can only be met in one way…partnership.