

Resort Trades

MANAGEMENT OPERATIONS

The Resort Manager's Guide to Effective Resort Management

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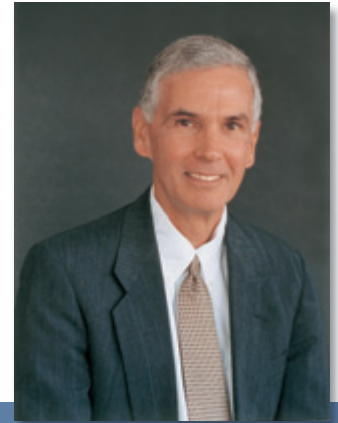


Hotel Spas: If you build it, will they come?
Gail Boles of Lake Tansi Resort, Tennessee
Designing in the green
Secret in the Smokys
Embracing technology
Resales – bring back the smiles

Hotel Spas: If you build it, will they come?

(Part I)

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An ever increasing demand from consumer expectations continues to fuel spa growth, both domestic and international. In particular, spas have continued their geometric growth spurt in hotels, resorts and in luxury real estate developments throughout the world. The number of spas in the U.S. alone has proliferated to about 14,500 which is up by over 6% from the previous year. That said, the growth rate is beginning to slow in the U.S. but not abroad. Of all the spas totaled in the U.S. market, the hotel and resort sector accounts for about 8-10% of this number, club spas about 3% and destination spas only about .5% of the total. Revenue for all U.S. spas has been relatively flat, weighted down by the decrease in day spa income, but hotel and resort spa revenue has continued its growth curve upward and now approximates \$2.5 billion in annual sales. Today, the spa business is the fourth largest leisure industry in the U.S. with well over \$11 billion in annual sales.

According to a recent PKF Hospitality Research study, the increase in revenue for hotel and resort spas (a 9.7% increase) resulted in an 11% gain in departmental profits; this has come from gains generated from typical spa services but includes revenue generated from such areas as local membership fees, merchandise and clothing sales and others. The study also indicated that more traditional services (massages, body wraps and skin care) still represent the lion's share of departmental revenue for hotel spas with massage at just over 50%, wraps and facials at about 22% and salon treatments at about 7%. Merchandise sales, membership fees, club use and other areas made up the additional mix. The per square foot revenue for hotel spas, according to the study, averaged about \$130 or about \$115,000 per revenue station (2006 estimates). It also showed that expenses for spa departments may vary and that the greatest one year to the next gains in expenses were attributable to labor costs and cost of goods sold. As salaries

and wages continue to grow, labor costs and how they are managed become a key factor in any spa's potential for financial success. This also puts a premium on efficiencies related to the scheduling of therapist time. Higher profit margins were attributable to resort spa operations than their counterparts within urban environments. The study concluded that a spa which is well promoted and managed can enhance the hotel's performance in such areas as rate occupancy levels and guest demand.

With the tremendous uptick in spa growth over the past five years, there has also been a tendency on the part of hotel/resort and real estate developers to want to fulfill their vision as to how large and sophisticated the spa should be, what delineative features it should have, and how it should be designed, managed, etc. This can be a built-in trap door which can potentially stand in the way of a spa's operational and financial success. This is not to suggest that the "vision" for the spa which enhances the overall quality and customer perception of the property isn't beneficial; indeed, it is. Instead, making certain assumptions about the potential impact from the addition of a spa, in absence of a circumspective approach can cloud the waters for financial success. We have seen this all too often in which an assumption is made on the part of an owner/developer that "if I build it, they will come." In other words, if the spa is developed the market (both within the hotel and externally) will support it to drive profitability. This is a flawed assumption in today's extremely competitive marketplace where the

The Alluvian Spa -
Greenwood, Mississippi



options for guests and spa consumers are numerous. Thus, it is essential to effectively marry the owner's vision to the practical reality of including a spa in the departmental portfolio for a hotel, resort, club or mixed-use real estate project. A runaway or grandiose vision from a well intentioned developer, architect or builder can ultimately bode ill tidings for the facility, particularly if the spa is expected to offer a viable financial return. Making the assumption that if the spa is built, it will automatically produce a viable return on investment unto itself is one of the more critical mistakes being made in the spa market.

Ask The Right Questions

Before embarking on the development and finalization of the spa concept and design elements, it is always helpful to pose a number of questions and to look in the mirror when addressing them. A few of these (in no particular order or importance) are: Will the addition of my spa impact perception and lead to a more satisfying guest experience? Can the spa attract from a non-guest populace around the hotel, and if so, to what degree? Will it potentially contribute to increased guest spending and a higher yield? Could it potentially impact the frequency of guest stays over time? Is my vision for the spa going to allow for a practical and prudent approach to design, operations and marketing of the facility and will it impede these areas in any way? Am I best served by commissioning a study to assist in the determination of the most appropriate size and scope for the spa prior to commencing the design process? What type of concept for the spa might be most appropriate? How important is it to have a brand associated with the spa that has consumer recognition and appeal? Should I contract with a spa consultant to work with the project team? These are but a few of the many questions that should be posed prior to going down the road to develop a spa which may or may not adequately address the hotel or resort's needs in meeting guest/consumer expectations.

The Big Six

There are numerous errors that are often made in the planning and/or



The Alluvian Spa - Greenwood, Mississippi



The Spa at Shingle Creek at Rosen Shingle Creek Resort - Orlando, FL

operational phases for a spa. A few of the most prevalent are listed below, but there are certainly others. These will be defined and discussed in the next issue of this series on spa development.

1. Jumping off the high board without knowing if there is water in the pool. The old phrase "look before you leap" is surely applicable here as many owners embark on the spa development journey without any rhyme or reason. They will all too often make the assumption that just having a well designed spa automatically ensures guest satisfaction and a positive bottom

line. Don't take a "dart throw" approach when thinking about spa development. Consider having a study commissioned (needs analysis/feasibility) which will help significantly in the determination as to the most appropriate size and scope for the facility and whether the project is ultimately viable. It will help the owner to determine whether the spa makes sense and at what size and sophistication. It should also identify local and regional competition, offer a preliminary space program, recommend the most appropriate size for the spa, develop a multi-year operating pro forma with revenue and expense assumptions and recommend whether to proceed or not. If the decision is then made to move forward, the planning and design process can begin and the

"leap off the high board" can be made with a significant degree of confidence.

2. Assumptions about spa development can put your foot squarely in the tar baby. As mentioned the single most prevalent and misguided assumption which pervades the hospitality and real estate development industries is that "if I build my spa, my guests and other consumers will support the spa, and it will automatically produce black ink to the bottom line." The assumption that any spa will, unto itself be profitable, is a mistake in today's highly competitive environment. Lack of forethought in advance about how the spa will need to open, staff requirements, product selection, marketing/promotion issues and day to day operations can create a black hole for a developer unless these areas are addressed well prior to the pre-opening phase for the spa. Thus, DON'T ASSUME! Approach the development of a spa in much the same way that you would any other business unit, and you will be well served. The glamour and cachet of having a spa wears off quickly if the facility is underperforming.

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3. Designing without a concept can be problematic. In many instances, spas are being designed in a vacuum of ideas related to concept development. Often, design will proceed without first thinking through the concept which should include the story or theme, delineative signature elements, products, etc. that should help define the spa prior to (or during) the design process. At the end of design, an owner will often too late ask the question "what is unique or delineative about my spa?" By this point, it may well be too late to address this important question.

4. Bigger is better! Many developers and owners have started with the notion that more space for the spa is a good thing and that the larger the spa, the greater is the potential for user involvement and profits. We have consistently reminded our clients that "bigger just means bigger, not necessarily better." A successful spa doesn't have to be the proverbial 800 pound gorilla to make a clear statement about quality, consistency and delineation. Some of the world's best and most elegant spas are under 10,000 square feet. The areas that distinguish these spas from their larger counterparts can include: innovative conceptual and design features; an interesting treatment menu which isn't overdone or intimidating to the consumer; an inviting and creative product mix; standards of operation and guest/consumer service ethic which are delineative and dozens of small touches that create a truly memorable experience. The lesson here is to think through the implications of build out costs and whether your spa needs to be bigger to exude the kind of experience your guests will require. It is always better to have to expand your space for the spa than to contract it due to lack of utilization.

5. Think about bringing on a consultant in the early days of planning. Spas are not inexpensive to design, build and operate. There is a significant price tag associated with the creation of any spa, and it should not be taken lightly. In many instances, developers seem to wake up a bit late to this fact and questions arise later in the process (either in design

or pre-opening) which should have been addressed earlier. A consultant can help in preparing for a successful design and launch for the spa in working in tandem with the architectural and interior design firms of choice and with the owner's project team (usually comprised of architect, general contractor, engineers, marketing associates, hotel executives, asset managers and others). Consultants can also assist in the pre-opening and post-opening process to ensure a smooth and successful launch and that the spa is operationally sound once the doors open for business.

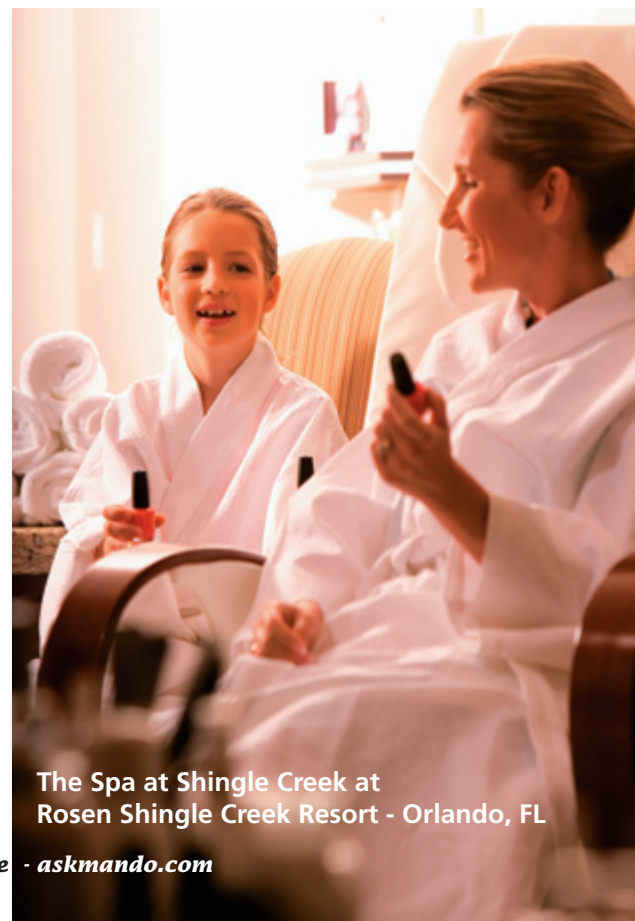
6. Be innovative when you can. There is a built-in reticence on the part of hotels, owners and property firms to allow the spa operator or Spa Director to try on new ideas for size. "Innovation is the engine that drives economics" is a phrase that is attributed to The Economist publication, and this is certainly true for spas. Unfortunately, there isn't as much innovation in the industry as there should be, and spas all too often are perceived to be unremarkable or very much alike. It is a mistake not to try new ideas and not just in concept or design features but also with regard to marketing, promotion and operations. Don't just "play the hand that you're dealt." Allow the operator or Spa Director some latitude to try out some new and creative ideas and navigate, at least on occasion, away from the "same old-same old" approach which seems to pervade the industry at large. Think out of the box and allow your operator and staff to do so- you won't be disappointed with the results.

In summary, don't assume that just because the spa industry has exhibited rapid growth during the past several years that this automatically ensures that your spa will be profitable and meet your guest/consumer expectations. Creating a spa and operating it

to produce both a positive net operating income while meeting guest demands isn't "a slam dunk" by any stretch. Indeed, if you do decide to develop a spa, there must be a high degree of positive consumer perception and a value proposition which is the residue of careful planning, a circumspective approach and significant due diligence up front.

In the next in our series, we will address issues related to trends and operative issues that can make or break your spa's financial success. We will also focus on the differences and challenges associated with spas located at urban sites versus resorts and destination properties.

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