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SPECIAL REPORT
SPAS

INTERVIEW

QVC's Allen Burke
on TV shopping's
turnaround

REGIONAL REPORT

The US: is the worst
yet to come?

RETAIL

Rethinking sales
staff training

n°108

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Spas mean business



ICN investigates the potential and pitfalls of the spa business—from recruitment to product sales

by **Alissa Demorest**

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Making a profit: time to wise up

Of the 3,000 spas that opened last year in the US, 1,500 went bankrupt, say industry sources—profitable business models are not yet at the forefront of many spa operators' minds. "We are still in the 'anything goes' stage of the spa business," comments France-based MG Conseil brand strategy consultant Michel Gutsatz. He notes that 85% of spas in the US are 'micro businesses' with just one location and relatively low turnover. "This sector has experienced an incredible boom [and] everyone wants to get on the bandwagon, but not everyone understands that this is a business and it has to be profitable," says Milana Knowles, sales and marketing vice president day and medical spas at US company SpaFinder.

This is due in part to the fact that many spas are created by therapists who don't necessarily have a business background. "Those who run these operations have to be business-minded on the inside," La Prairie international director of training and The Art of Beauty Jo Jackson tells *ICN*. "[But we] don't associate having a relaxing and pampering experience with business." Like with any business, the spa operator needs a business plan and to define its client base and offer. This should be an ongoing process—treatments and products should be monitored on a regular basis to track what is selling well and what should be taken off the menu.

Getting spa brands on board early on in the creation process is also a big advantage because these companies can provide invaluable expertise and advice. Indeed,

why pay a spa consultant? "The product vendor becomes your partner and [should be] determined not only by the product itself, but by the support the brand offers you throughout the process," points out SpaFinder's Knowles.

Another key concern is the use of space. The cost per hour for a cabin treatment, for example, grosses more than wet areas or spaces featuring self-service machines. "A significant amount of capital is being underutilized [in the building stages]. A spa operator is better off under-building, as any spa that is operating at less than 65% utilization is not fully maximizing its investment," notes US consultancy Wuttke Group principal Mark Wuttke. (A recent Smith Travel Research study in the US found that there is just under 35% utilization of space in spas.) Decléor France director Dominique Le Carou adds: "There is no point in making a huge and original spa that costs a fortune to build when the services offered are free. There needs to be a balance between cabins, where the hourly rate more than makes up for construction costs, and other areas."

The spa business also needs to be treated as an individual profit center. In some hotel spas, for example, the spa and hotel utility and payroll costs are tallied together, which makes any breakdown of individual costs difficult. There is therefore a higher failure rate if and when the hotel tries to export its spas, as there is no base to work from. Having a single cost center also means that the all-important retail sales are not tracked for the spa. ▷▷▷



Personnel: power in the people

A spa's success hinges on its personnel. The spa manager is the lynchpin of the organization, and this position should integrate a marketer, personnel manager, retailer and a sharp eye for detail. The recruitment process is therefore key. Still today many owners hire hotel managers to run their spas, assuming that as they are both in the 'hospitality business' they can be similarly managed. "It's hard for [hotel] managers in a world that is totally alien to them. They have to know what it's like to do six body massages in a day [...], and be constantly following up [on staff] after a training session," La Prairie International director of training and The Art of Beauty Jo Jackson notes. While the growth of the spa business has engendered spa manager courses and degrees, many in the industry believe that in this sector, no diploma can make up for on-site experience. Therapists and estheticians must also be carefully chosen: they should boast both strong intrapersonal skills and the natural ability to sell treatments and products.

Training in treatments, brands and sales should be an ongoing process. "You need to constantly develop and teach [your staff],

offer incentives, and hold people accountable—you have to set goals," opines SpaFinder's Knowles. "But spa owners are still not investing enough time in training their staff. In surveys we have found that many of them rely solely on product training by vendors; they are not building their staff," she says.

Brands are more proactive in terms of training. Decl or, for example, created a module to break down the barrier some therapists have towards product sales, and to set realistic [sales] goals. "A masseuse has a harder time selling bodycare products, but her treatment is more expensive. A facialist, however, has cheaper services, so she needs to sell more products," notes Decl or's Le Carou.

The challenge is compounded by the fact that the industry is facing a shortage of qualified labor and the salary does not live up to therapists' expectations. "Some therapists are being told they should accept no less than 55% of the treatment price, while the operator is paying the rent, the products, the cleaning [...], so in the end the operators are making less than the person providing the treatment," Knowles notes.

Staff performance must also be benchmarked on a regular basis. "If you can't measure you can't manage. If [your staff] feels good about its productivity, they are going to feel better about the services they are offering," suggests Mark Wuttke. Compensation in the form of incentives, both individual and team-based, is a powerful motivating factor. US spa and treatment brand Pevonia offers a spa team rewards program. Pevonia regional sales manager east Cathi Castillo comments: "Cross training staff to link sell to their spa guest is the best way to maximize the effectiveness of [personnel]."

Other operators encourage therapists to vary treatments in order to alleviate boredom and reduce the risk of repetitive stress syndrome. A facial will be given between two body massages, for example. (In the US, however, there are regulations that prohibit therapists from having multiple specialties.) "Therapists' treatments should be split up as to not be so physical for them; they should be well-trained across the board. The industry has a duty of care to look after the therapist—there should be a limitation to the number of body treatments they do per day."



Differentiation: more than a name

Some operators argue that differentiation is not an issue, as "every spa is unique." "Spas have to stand for something, instead of watering down their position and trying to be everything to everyone," notes Wuttke. But creating a unique offer is becoming more of a challenge as new spas open at breakneck speed. One aspect that does set a spa apart is its level of service and professionalism. "Differentiation happens through the quality of service. 'Retail is detail,' but in a spa it's even more important as there are many more dimensions to take into account," states MG Conseil's Gutsatz.

Impeccable service should also be consistent in the spa experience from a staff point of view, from the receptionist to the therapist.

One pitfall in the quest for uniqueness is to partner with a small and unknown brand. This can be risky as many niche brands will not have the resources to support its products in the long term, and will not have the visibility to attract new clients to the spa. It could be a dead end in terms of retail sales, which is where the spa operator needs to excel in order to run a profitable business.

Product sales: backbone of the business

Given their high margins, retail sales should be the motor of a spa's business. However, selling products through spas is often an afterthought at best or ignored at worst. "Research shows that unless 30% of the spa's entire turnover is not generated in retail, its chances to be profitable are slim to none," points out SpaFinder's Knowles. She continues: "People do not understand the importance of retail, or the fact that [the retail offer] should be carefully chosen and monitored. You need to calculate your retail area and what it needs to produce per square foot and how much you need to generate [in sales]."

Mark Wuttke agrees: "Spas haven't yet quite identified themselves as skincare specialists, and many people are still currently buying their skincare outside of spas. Operators must measure the rev-

enue per linear meter on the return on investment they are getting, and most spas are not doing that." These calculations should really be done when the spa is still in the planning stages.

In most spas making the sale is the therapist's responsibility. "In this industry you have two types of therapists: those who can sell—and they are worth their weight in gold—and those who are good therapists, but have no interest in selling," explains La Prairie's Jackson.

Indeed, some therapists see product sales as an afterthought, with bodywork their main responsibility. It is up to the spa manager to communicate that sales are an integral part of the job, provide training and set out sales objectives.

This, according to MG Conseil's Gutschatz, is easier when the right staff has been recruited: "Spas need to break

down the barrier in terms of product sales [and with this in mind] they need to recruit people who can really connect with the client." He advocates an incentive-based pay system, with either individual or team commissions. This is a common practice in the US, but has been slower to take root in Europe and Asia.

Mark Wuttke, however, takes a different tack, and believes that it is not the therapist's duty to sell. He comments: "The main problem is that operators are [...] trying to get much more out of their estheticians and therapists, rather than having specialized retail staff on board. Retail and therapists should be kept separate. Although [hiring retail specialists means that] operational costs will go up, normally revenues and profitability will go up too." ▷▷▷

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Treatment offer and pricing: do your homework

Coherence is important when deciding on the treatment menu and price positioning. Not only must the treatments be in sync in terms of the brand or brands offered, but they must also be adapted to the spa's core competence and location. Like brands, treatments must follow the less is more rule—an endless treatment menu can intimidate and confuse clients.

When it comes to pricing, the cost of treatments must be broken down into price per minute. So-called 'alternative' treatments, such as shiatsu and hot stone massage, can be charged at up to 25% more per minute than the more traditional Swedish massage, Germany-based Rizzato Consulting manager Dagmar Rizzato tells *ICN*. Extra perks given along with a treatment

can also raise the value of what the client is paying for. Pevonia therapists offer "mini-enhancements," such as a scalp and neck massage along with a facial or light hand and foot massages to accompany body exfoliations.

Decléor's Le Carou states that given that most spas' pricing is in the middle to higher range (although lower-priced spas in urban areas are emerging in the US and Europe) spas should compete not through price, but through their marketing initiatives.

Spas should, however, be looking to offer specific reductions for specific periods or for certain customers. "Like the airline business, we offer special rates for off times. To clients in our database we also offer weekday packages," she states.

Brand choice: look for partnership

Choosing the right brand can make or break a spa, and a brand that is coherent with the spa's positioning helps build a strong identity. Successful spa operators concur that the brand should be chosen early on in the process as the two players can grow together to create a solid partnership. "My biggest gripe is with [operators] who build their spa and decide which brand to feature at the last moment. The first thing is to decide on the brand, which can then come on board and hold their hand, especially if they want the brand exclusively," opines La Prairie's Jackson.

Decléor's Le Carou adds that integrating the brand early on facilitates the balance of power between spa and brand partner. "The brand should be modest; it is integrating the spa and should not take a leadership position in the spa's image. The brand should accept to customize for the coherence of the entire spa," she comments.

Although brands are well versed in selling through traditional retail channels, doing business in spas is another game

altogether. "It's one thing to sell a spa a product," says SpaFinder's Knowles, "it's another to help them build their sales and make it a success." This means choosing a brand that can provide long-term support in terms of marketing, training and protocol creation.

The brand's own goals and positioning should also be discussed—do they want to be in a two-star or a five-star establishment? What are their retail sales expectations? "It's about talking before entering into a relationship. Many spas complain about a brand, but they haven't done their homework," Mark Wuttke states. He notes that operators should ask for specifics from their brand partner on the number of training sessions to be provided per year, the amount of testers supplied, collateral support, the number of visits from sales reps and the possibility of salary subsidies.

Without this information, spas can find themselves signing on with nascent brands looking for a channel to get their operation up and running, and who are more inter-

ested in "stitching up an opening order," says Wuttke, as opposed to building a long-term partnership. "Hotel and spa operators need to understand that it is better to offer a brand with some visibility who will accept to do a certain degree of customization," comments Decléor's Le Carou.

Spas should also keep the number of brands they offer to a minimum, ideally two at most. This not only builds a stronger identity, but cuts down on consumer confusion and reduces the legwork needed to ensure a good working relationship. Analysts say it's better to focus resources on a few strong brands than give piecemeal support to many different partners.

Indeed, taking on too many brands can also dilute the spa's concept or positioning. The risk of offering too many options, according to Wuttke, is that "spas tend to try to become everything to everyone and they end up being nothing to everyone."

Attracting the consumer: be unforgettable

A growing spa clientele is achieved through a strong concept backed by a coherent mix of décor, treatments, products and a high standard of service. "The only thing that will set you apart [from the competition] is either something completely unique, or your service," confirms La Prairie's Jackson. Clients will return to a spa if they have had a memorable experience, and a lasting impression often comes down to a well-trained and knowledgeable staff.

One spa consultant interviewed by *ICN* visited a renowned Paris day spa and bemoaned the time he spent waiting for his appointment in what he compared to a "doctor's reception area—six people crowded into a room waiting for their

names to be called." He did not book a second treatment.

Remaining true to the initial concept and clever positioning can also reap rewards. Spa operators need to avoid jumping on the bandwagon of the latest trend. Wuttke for example warns against "greenwashing," when a spa positions itself as being ecological, but it is later revealed to be a marketing ploy in order to attract consumers. Today's increasingly savvy clients can see through these schemes; it is not a risk worth taking.

Attracting new clients also means allotting a marketing budget not just for the opening, but throughout the life of the spa. "A lot of people build a spa, pick and train the staff, choose a brand

and treatments and then sit back and wonder, 'where are my clients?'" says SpaFinder's Knowles.

The spa has to be vocal and communicate with the local community and beyond. Communicating in on and offline travel, spa and well-being magazines should be coupled with regular mailings to the client database to cultivate return customers and partnerships with travel and wellbeing websites.

A successful spa is the result of careful planning and attention to detail. "It is no longer just about pampering; it is now primarily results driven," according to Rizzato Consulting's Rizzato. This goes both for the spa client, and for the business. ■

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