

Making Bank

From selling online to raising prices, Anderson and Associates gives suggestions for increasing profitability.

Q. Are my clients really on the Internet looking for spa services? How can a website increase my business?—*Skeptical Cyber Surfer*

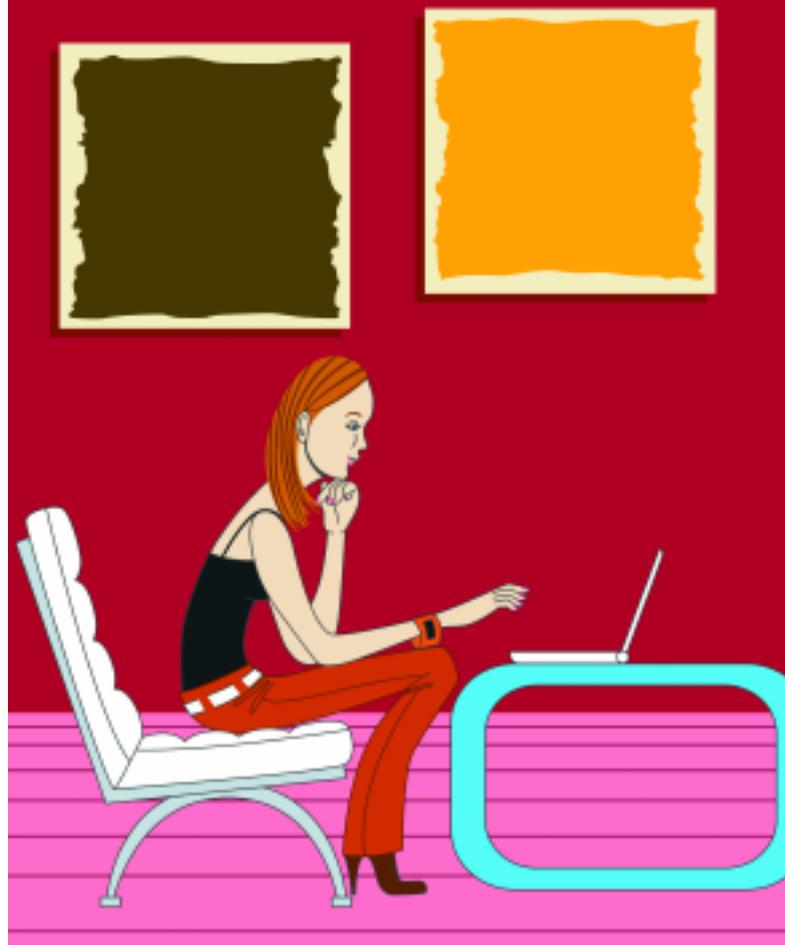
A. Dear Skeptical Cyber Surfer: The Internet is a way of life for virtually everyone in today's society. Consumers use the Internet to research and evaluate purchases and services of all types, including spa visits. Your spa's website is its calling card—don't skimp.

When creating or evaluating your website, you first want to be sure that it accurately reflects the tangible and intangible aspects of your business. Someone who has never set foot in your spa but has clicked on the site will judge your spa and its professionalism by what he or she sees. The site's quality is your first opportunity to elicit trust that may ultimately result in another loyal customer.

“Your job is to make your spa an inviting business where your guests can happily spend their money.”

Colors, graphics, and ease of use will be the first aspects newcomers to your site will notice. Unless you are a web designer, we suggest you contact a professional who can capture the essence of your business in a virtual environment. Have the designer meet you at your spa and be very clear what you want to convey about your business. It is the designer's job to translate that to your website.

The site should also support your ability to conduct business transactions on the web. Your job is to make your spa an inviting business where your guests can happily spend their money. What is more inviting than purchasing a last-minute gift certificate online and having the recipient receive an instantaneous e-mail that delivers the purchase? Your on-site staff can supplement the electronic gift with such high-touch gestures as sending thank-you cards or calling afterward to schedule the appointment.



In addition, arrange to have your spa-management software interface with your website so clients can book appointments online. It's convenient for your guests and can increase your bookings. Plus, make all of your spa's retail selections available for purchase on the website. How else can you sell eye cream at 2 A.M.? Establish a password-protected area for "members only." This is a good way to communicate directly with your clients, gather marketing data, and create a club environment.

One of the biggest operational challenges many spas confront is how to maximize revenue per square foot. While we have not yet figured out how to provide exfoliation over the Internet, we can recommend you fully utilize the potential of a high-functioning website. After the initial investment to set up the site and interface your reservation system, the virtual real estate is free. Your next best client may be surfing right now.

Q. What is the best way to raise treatment prices? I don't want to lose clients, but my expenses—compensation payments, utilities, insurance, etc.—are going up. I would also like to increase my spa's profit margin. How should I begin?—*Watching the Bottom Line*

A. Dear Watching the Bottom Line: Your question is especially relevant in these times of spiraling costs. Instead of focusing exclusively on raising prices to combat increasing expenses, you
continued on page 48

continued from page 46

are smart to look at your spa's overall profitability as a way to keep up with costs.

Total revenues minus total expenses equal profits. Simple enough. But not all expenses are created equally. To assess your business's true profitability, you must first separate your fixed expenses from your variable expenses. Fixed expenses are just that: They do not fluctuate with the volume of business. You pay the "whole nut" whether your spa serves one customer or operates at full capacity. Many people think of fixed costs as immutable and often pay less attention to them during flush business cycles.

“Evaluating monthly expenses can lead to savings. Is your telephone plan the most economical?”

Most likely, your greatest fixed expense is your lease. Unless your lease is near its end, market conditions in your area support a renegotiation in your favor, or another location has become available that will significantly enhance your business, it is unlikely you will move your spa or your lease payment will shrink. However, evaluating other monthly expenses can lead to cost savings. Is your telephone plan the most economical for your spa's usage? Are your insurance policies competitively priced, and is the size of the coverage appropriate for your business needs? Can you negotiate a lower interest rate for your business debt? If you lease equipment, have you performed a lease-versus-buy analysis?

After examining all of the fixed costs, it's time to consider the spa's variable expenses. The largest single variable expense is usually payroll. Although salaries are fixed, hourly employees are variable. A good question to ask is: Are you staffing in accordance with your business volume? If not, the time has come to pay closer attention to forecasting and scheduling.

Also, look at your compensation structure. We strongly recommend a flat-fee-per-treatment plan over one that gives

therapists a percentage of revenues. Compensation plans that are independent of treatment prices free the spa owner to address rising fixed costs, such as increasing ingredient prices. On the other hand, when compensation is tied to revenues, if treatment prices increase, monthly payroll automatically rises. For example, if your therapists get 35 percent of the price of each basic massage they perform and if you raise the treatment price from \$100 to \$120, each therapist will get \$7 more for every massage he or she performs. This structure also makes it harder to award merit increases to your staff.

When it comes to raising prices, first, a word of caution: Never surprise your clientele. Annual or periodic price increases are expected as long as they come with a warning. The best way to approach customers is to put increases in the context of your market. Start by identifying your competition. Is their pricing higher or lower than yours? Clearly, there will be a spread in price points among spas, but the big question is why? Here, you need to think like a spa-goer, not a spa owner.

Spa-goers care about service. However, that consideration only scratches the surface. Ease of access, location, parking, the size of the whirlpools in the locker rooms, the plushness of the towels, the size of the reception area, and other factors all merge in the spa user's perception of quality, price, and value. Where does your spa fall in the pricing spectrum? What amenities does your spa offer that justify price-point premiums? If you want to raise prices, rationalize the increases relative to what your spa delivers to your clients. If you find this task daunting, you may want to hire a consultant to assist. Not only are consultants skilled in this type of evaluation, but also, objectivity is priceless.—**Peter C. Anderson and Michele A. Chandler**

Peter C. Anderson is a principal at Anderson and Associates, a spa consulting firm based in Santa Monica, CA. He is also on the board of advisors for the Medical Spa Program at the University of California-Irvine and on the faculty at the Collins School of Hotel Management at Cal Poly Pomona. Michele A. Chandler heads up the Toronto office of Anderson and Associates. She brings 20 years of financial, operational, and water-treatment managerial experience to the firm. You can e-mail Anderson at peter@anderspa.com and Chandler at michele@anderspa.com.

WE WANT TO HEAR FROM YOU:

IS THERE A DEVELOPMENTAL, OPERATIONAL, EQUIPMENT, FINANCIAL, OR OTHER SPA QUESTION THAT IS TROUBLING YOU?

E-mail questions to q&a@americanspamag.com. Your question and the answer may appear in an upcoming "Problem Solvers" column.