

## **THE GROWTH OF SPAS AS HOTEL PROFIT CENTERS**

*by: Peter Anderson*

“Making guests feel at home” has long been one of the missions of hotel managers. Early on, this simply meant offering a clean room with a comfortable bed. Yet, as home amenities and lifestyles have changed, hotels have reacted by adding to their facilities and services. Air conditioning, remote control television, pay-per-view movies, and internet access are all examples of household trends that have become commonplace in hotels.

Following this line of thought, a quick look at current homes and lifestyles might foreshadow facilities and services that will need to be included in tomorrow’s hotels. If you tour today’s model homes, you’ll frequently find an oversized whirlpool tub and/or exercise room. Follow a commuter and you’re likely to find them stopping at “the gym” before or after work. Once considered an extravagance, massages and facials are now booked as routinely as haircuts.

Further, progressive spa facilities often acknowledge the mind/body by providing a menu of services designed to do everything from overcoming jet lag to restoring “personal balance and harmony”. The tranquil spa environment is also a trend mirrored in many homes, as evidenced by the

proliferation of books and consulting services designed to ensure that a home has healthy “chi” and is properly “feng sui’ed”.

### **Spas And Lodging**

The term “spa,” once reserved for European destination resorts where guests went to “take the waters” to restore a healthy balanced life, has become to be used to describe many different types of facilities in the U.S. lodging industry. At one end of the “spa spectrum” there are dedicated destination resort spas that have a market orientation aimed primarily at those seeking a specialized regime of health, fitness and pampering. Modalities and treatments include special diets, massages, lectures, and adventures which can include, but are not limited to an array of activities ranging from non-surgical facelifts to helicopter skiing. At the other end of the spectrum there is the ubiquitous three-star commercial hotel that has added “...and spa” at the end of their name as a result of sub-contracting a massage therapist and converting the guest room closest to the swimming pool into an exercise room.

Somewhere in between these two extremes you have resorts and other large hotels that have spa operations within their facilities. At these hotels,

the spa has historically been another component in the “other operated-department” line-item similar to a restaurant, gift shop, or golf course.

The popularity and demand for all types of spa operations has risen in recent years. People seeking (or needing) a concentrated specialized health experience use their vacation time for a visit to a dedicated destination resort spa. But for others whose travel plans dictate they stay at a conventional hotel, the offering of true spa services is becoming an important criterion for hotel selection and satisfaction.

### **Profitable Operations**

Historically, spa operations were treated by management as similar to other revenue departments like food and beverage or telephone. These departments were simply perceived to be amenities needed to attract guests to the hotel. As long as these departments broke even, or didn't lose too much money, their ability to increase occupancy was deemed sufficient justification for their existence. However, in recent years, hotel spas have followed the path of the other operating departments and transformed from support facilities to profit centers.

From the *Trends in the Hotel Industry* database of The Hospitality Research Group, we identified 30 hotels that had extensive spa facilities and analyzed the financial performance of those properties and their spa departments. Dedicated destination spa resorts were not included in this analysis due to an insufficient sample.

While spas are a relatively small source of revenues for the sample properties, spa revenues are growing at a relatively strong pace. In 1999, spa revenues for the subject sample represented just 3.3 percent of total sales. However, from 1998 to 1999, spa revenues grew 16.6 percent. This compares to revenue growth rates of 5.2 percent for rooms, 12.2 percent for food, and 3.2 percent for telecommunications, and a 0.3 percent decline in revenues for the beverage department.

During 1999, the spa departments in our sample of hotels averaged a departmental profit margin of 30.7 percent. Please note that this does not include a deduction for such unallocated expenses as marketing, utilities, and maintenance. Again, spa profits represent only a small portion (1.9 percent) of operated department income. However, spa department profits did grow a very strong 51.3 percent from 1998 to 1999.

### **Personal Treatment**

Like other department managers in the hotel, spa managers struggle to attract and retain employees and control their labor costs. In 1999, labor costs comprised 48.5 percent of revenue, or 70 percent of all direct operating expenses.

The effort of spa managers to control labor costs should only intensify in the future, as competition, technology, and market expectations evolve. Spa services, while becoming more commonplace, are still perceived to be a luxury, and guests expect to receive a high level of personal service. In addition, a lot of the most requested services require a qualified individual to deliver the treatment. This specialized one-on-one treatment challenges a manager's ability to maintain service expectations while minimizing payroll expenses.

Given the fact that labor costs will undoubtedly remain high, spa managers will be challenged to retain their strong profit margins by finding new ways to enhance the perceived value of the spa experience. Future gains in pricing will need to be justified by improvements in the overall ambience of the spa, including the physical facilities, equipment, fixtures, and extent of the menu of services offered.

## **A Spa In Every Hotel?**

In the future, look for existing hotel spa operations to grow, while other properties will figure out a way to include some level of spa facilities and services in their operations. Already, we have seen almost every large resort, convention, and casino hotel either build a spa facility or lease out the operation to a “brand name” in the spa industry.

We realize that all hotels cannot afford to construct and operate a full spa operation. However, some accommodation will need to be available either on-site or off. For those hotels that currently operate spas, look to the dedicated destination spa resorts to set the trends in the types of spa facilities and services offered to guests. To some degree, the larger hotels will mimic these operations.

Hotel owners and operators have already displayed their ability to increase the profits of their food, beverage, and telecommunications departments, and use these departments to improve the competitive positioning of the property. Look for these owners and operators to treat spa operations the same way in the future.

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