Hotel Spas Recession Overload

As we enter 2010, words like, “economic downturn” and “recession” are still lingering in everyone’s minds. The service industry among others was significantly impacted by the events commencing in the fall of 2008 and unfortunately, hotel spas were not immune. Hotel spa operators reported that they began to feel the impacts of the economic events early on in 2008, especially those within the luxury hotel segment.

To examine how the economic recession has impacted hotel spas, we analyzed the 2008 operating results presented in the 2009 edition of Trends® in the Hotel Spa Industry produced by PKF Consulting and PKF Hospitality Research. The pre-recession financial data presented in the PKF Trends® report offers an early indication of various recession-influenced revenue and expense movements, which in turn provides hotel spa operators with guidance regarding where expenses can be cut, what treatments stand the test of time, and what areas might be overlooked.

The 2009 Trends® in the Hotel Spa Industry report analyzes the 2008 financial performance data of 128 spas operated by hotels located throughout the United States, and includes comparisons made to the 2007 performance of the same hotel spas. In aggregate, the 128 hotels that voluntarily submitted their data for the survey averaged 384 guest rooms in size and in 2008 achieved an average occupancy of 66.1 percent and an average daily room rate of $259.44. Both urban and resort hotel spas were included in the research, while day spas, medical spas, destination spas, and hotel spas that independently lease space were excluded.

Revenues

For the hotels that participated in the Spa Trends® survey, spa department sales represented 4.3

percent of total hotel revenue in 2008. As expected, the spa sales to total hotel revenue ratio was higher for resort hotels (4.8 percent) versus urban hotels (2.9 percent). These relative ratios have been consistent year over year given the core differences between resort and urban hotels, such as size of facilities, rate structure, amenity base, and guest mix.

Total department revenue for the spas in the survey declined 6.6 percent from 2007 to 2008, which is reasonable given the overall performance of the hotel industry during the same time period. Given the negative perception of luxury hotels and decreases in group travel, resort hotel spas were impacted more than urban hotel spas at 7.4 percent and 2.4 percent declines, respectively. Urban hotel spas may have been sheltered given the participation and support of the local community.

At 55.6 percent of total revenue, massage continued to be the greatest source of revenue for hotel spas. Skin care and body work (19.3 percent) and salon services (9.8 percent) also contributed significantly to spa sales.

Retail sales, at 9.3 percent of total spa department revenue, still represent a significant portion of revenue; however in 2008 this line item declined by 8.6 percent. In recent past spa retail sales have enjoyed the greatest growth, yet the United States retail industry has deteriorated during this downturn and spa retail was no exception.

For those hotels that reported membership fees, this revenue source made up 8.7 percent of total revenue in 2008 and increased 1.7 percent from 2007. This is another indicator of hotel spas reaching out to the local community in order to offset the loss of revenue attributable to lower guest counts.

Items such as fitness and personal training and health and wellness fell to a great extent in urban hotel spas at 19.9 percent and 47.0 percent, respectively. Yet in resort hotel spas these fields dropped by 4.7 percent and grew by 24.8 percent, respectively. While people are still visiting spas, they are re-prioritizing and avoiding what they may consider to be frivolous expenditures. However, as the economy returns to normal operations, it should be these areas that see the greatest improvement. Wellness is a clear trend for the long-term and as consumer confidence rises, people will begin reinvesting in their lifestyle.

Expenses

Like all departments within a hotel, labor related costs are the biggest operating expense for spas, representing 58.1 percent of department revenue in 2008. Included in this amount are the costs associated with leased or contracted personnel. In 2008, both urban and resort hotel spas were effective in lowering salaries, wages and bonuses by a combined 3.9 percent. The economic downturn forced operators to eliminate staff and reduce hours. It is interesting to note that while jobs are being cut, the amount spent on employee benefits still increased a slight 0.5 percent.

Outside of growing labor costs, spa managers were effective in containing department operating expenses. Non-labor related costs actually declined 6.7 percent from 2007 to 2008 with the greatest savings achieved by controlling operating supplies (16.5 percent).

The Bottom Line – Profit

The average departmental profit margin for the spas in the survey sample was 25.1 percent in 2008 with more operating efficiency exhibited by resort spas (26.2) compared to urban spas (19.8 percent). It is important to note that hotel departmental profit margins are calculated before deductions for administrative and general, marketing, maintenance, and utility expenses.

From 2007 to 2008, the average hotel's spa department profits fell by 13.9 percent. However, we did note a difference in performance by type of hotel. Urban hotel spas enjoy a 3.7 percent growth in department profits, while resort hotel spas suffered a 16.1 percent decline. Urban spas, with local contribution, smaller spaces, and more stable demand levels, were able to manage expenses more effectively allowing them to post positive results.

Looking forward

Although the final results have yet to be tabulated, it can reasonably be assumed that hotel spa revenue 2009 will be down compared to 2008. Historically, the most successful hotel spas tend to exist within luxury hotels. Unfortunately, this was the segment which suffered the most in 2009 due to cuts in discretionary spending and poor perception.

The current challenging operating environment should encourage operators to spend more time reviewing key items, such as managing inventory, service levels, and overall appearance. While the year 2008 served as a preview for the depressing performance that took place in 2009, the outlook for 2010 looks a little brighter and with any luck words like recession and downtown will start to fade away.

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