

Spa Compensation and Profits
By Dori Soukup
as seen in...



INSPARATION
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Prosperous Innovation

AS A SPA ENTREPRENEUR ARE YOU LIVING YOUR DREAM?

Spa Compensation and Profits



A Performance Based Innovation

Remember how happy you were when you first decided to go into business for yourself and act upon your entrepreneurial spirit? You had big dreams and a vivid vision on how your spa was going to be...delivering great guest experiences while operating a successful, profitable business. Are you living your dream? Or is the pressure of running and sustaining your business clouding your dream? Whatever ambition drove you to open or operate a spa, an important factor for your business is profitability. Is your spa as profitable as it can be?

There are two significant challenges facing Day Spa owners and operators:

1. High compensation rates
2. Low profit margin

Many spa operators are caught in the status quo. For over a decade, most spa compensation plans pay between 40 to 65% commission on services. This structure has many pitfalls and should be replaced with a motivational compensation plan based on targets and performance.

IS THE PRESSURE OF RUNNING YOUR SPA CLOUDING YOUR DREAM?

The following compensation model provides a fresh start and repositions your profit potential.

Introducing VPG Compensation

VPG stands for Volume Per Guest. As a spa operator, VPG is a valuable financial tool used for measuring spa performance & profitability. VPG reveals the average revenue generated per guest.

VPG Formula

$$\text{VPG} = \frac{\text{Service Volume}}{\text{Number of Guests}}$$

Service VPG

Susie's service volume for the month is \$7,000

She serviced 70 guests

Her service VPG is \$100

Retail VPG

Susie's retail volume for the month is \$1,000

She serviced 70 guests

Her retail VPG is \$14.29

Calculate your spa's total VPG, then determine each therapist's VPG for services and retail to discover where you stand...

In Bradford D. Smart's book *Top Grading*, Smart outlines the importance of discovering who is on your team based on job performance. Every organization has A, B, C, and some D players.

When creating a compensation plan, it is important to pay the A players what they are worth. As performance delivery increases, so does compensation.

Why pay everyone equally if performance is not equal. The VPG compensation plan is based on the Volume Per Guest ratio and an escalated commission scale.

VPG Commission Structure

The first step is to set a VPG target for your spa. Let's assume your spa's target is to reach and exceed \$85.00 VPG. Your spa's VPG target needs to be understood by therapists, incorporating it into their

own personal target. The VPG commission structure is based on the spa's VPG target. Commission will vary depending on whether therapists reach their target or not. The structure is based purely on performance. When a therapist reaches the VPG target, a high commission is earned. If the VPG target is not achieved, less commission is paid out.

Commission Structure Sample

Determine the highest amount of commission you are willing to pay for spa services and for retail, then customize your escalating commission rate and structure. The scale rewards different levels of performance at different commission rates. The commission scale increases as performance increases. See below:

Service Commission Scale

- 20%
- 25%
- 30%
- 40%

Target \$85 VPG

- 80% of target
- 90% of target
- @ target
- 10% above target

Retail Commission Scale

- 0%
- 5%
- 10%
- 12%

Target \$20 VPG

- 75% of target
- 90% of target
- @ target
- 10% above target

WHAT KIND OF AMBITION DROVE YOU TO OPEN & OPERATE YOUR SPA?

VPG Structure Benefits

- Provide targets and goals to focus on and strive towards
- Encourage upgrade opportunities, resulting in increased service VPG
- Increase retail sales
- Promote performance, stretching to reach the highest target
- Reward exceptional performance
- Reduce payroll cost
- Performance awareness to spa leadership and team
- Foster a motivational environment
- Great management & recruiting tool

Compensation Per Service

The 'compensation per service' diagram illustrates the Spa's payout of compensation per service performed. Using the escalating commission scale, the service commission paid at target will be 30%. Let's assume taxes/benefits total up to 9%. Assuming a Cost of Sale of 5%, there will be a 56% gross profit per service. (Please Note: Gross profit % only reflects the spa's payroll and cost of sale, not the spa's operating expenses.)

Compensation Mix

1. Independent Contractor vs. Employee Status

Spa operator point of view

Over the past several years, the independent contractor status has been the most popular within day spas. A shift to employee status is now developing. Laws and guidelines for independent contractor status have changed, making it difficult to manage independent contractors. Employee status provides the ability to manage and lead the spa team.

Therapist point of view

Employee status provides the therapist a sense of ownership and belonging. It indicates the spa ownership is serious about their business and cares about the team. It provides tax and other advantages.

2. Salary Parachute

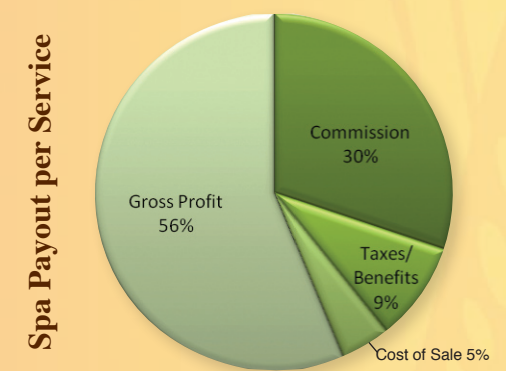
A salary parachute is compensation the operator pays only when a certain amount of income is not reached during a pay period. For example, an operator will commit to paying the therapist \$7.00 per hour when the commission is not greater than the hourly rate. It is an income parachute for the therapist.

3. Employee Benefits

Benefits may include: medical insurance, 401K plan, taxes, profit sharing, vacation, education. The benefit program rate will vary depending on the percentage of compensation designated for benefits.

Compensation Reflection in Overall Budget

Prior to developing your compensation plan, it is essential to determine your budget ratios including all the compensation mix components you offer.



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IS YOUR SPA AS PROFITABLE AS IT CAN BE?

Adjust the commission scale to meet your desired ratios. The Overall Budget Ratios chart is a sample ratio model. Of your spa's gross revenue, about 42% should represent your operating expenses, 43% in payroll; leaving a 15% profit. To illustrate the 43% payroll cost, the pie chart indicates the compensation mix rates.

(Please Note: These rates reflect the overall budget, not just service volume.)

The Spa Industry and Gratuity Philosophy

Normally, people in the service industry earn very small salaries with a large portion of their income based on gratuity. In the spa industry, extremely high commissions are paid on services (anywhere from 40 to 65%) while also allowing therapists to make additional 15 to 20% in gratuity! Take a waiter or waitress for example, they earn minimum wage plus their gratuity. The restaurant does not pay the employees 50% for the all the tables they served + salary + gratuity. Why is it that the spa industry does? This is the reason so many spas suffer from profititis. Show gratuity as part of the entire income opportunity you offer your employees and elevate your profit margin!

Caution:

If your spa is exceeding an overall compensation payout of 43% including gratuity, it is time to make financial adjustments and reconsider your compensation plan.

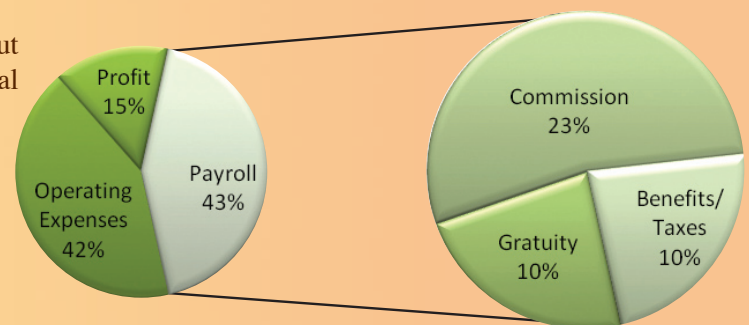
Compensation Pitfalls to Avoid:

- A compensation plan paying all therapists a flat rate (not based on performance)
- Hiring independent contractors and expecting them to behave like employees
- Believing money is the most important factor to therapists
- Not accounting for gratuity and other benefits as part of the compensation package
- A compensation plan not based on targets
- Unawareness of your overall compensation plan pay out

It's essential to offer a compensation plan that attracts and retains professional individuals. Currently, our industry is experiencing a human capital shortage. Retaining employees and investing in them is less costly than operating with a high employee turnover rate.

Creating the right compensation plan will produce a motivated, professional spa team. It increases profitability while enhancing guest and employee satisfaction.

Overall Budget Ratios



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