

## Massaging returns



**Is now the right time to invest in a spa? In recent months, it seems as if, wherever one turns, hotel owners and operators are adding spas to their package of products and services.**

**From the most luxurious hotels such as Mandarin Oriental and Four Seasons all the way to Butlins and Centre Parks, everyone is getting in on the act.**

Hotel branding companies such as Starwood have added spa brands to their portfolio and we've got hotel brands like Six Senses which have a spa as a core element of the offer.

### Following the trends

In the 1980s, every hotel seemed to feel the need to add waterbeds, faxes and a mini-bar into the bedrooms and in the 1990s every hotelier felt obligated to add a fitness room, outsource food and beverage, implement branded breakfasts and later internet connectivity and game joysticks.

In this decade, we've seen a headlong rush to add flat screen TVs and free WiFi - and now spas. As the historic examples illustrate, sometimes such fashionable elements of product or service become embedded in the core expectation of guests and remain permanent features in brand standards. But some trendy items prove an expensive side show in the long term.

Are spas here to stay as a core element of hotels or are they a passing fad?

### Adding a spa

Some recent assignments have allowed us to research the matter and to form some tentative conclusions. Adding a spa typically represents a very considerable capital expense and usually considerably more per square meter than the investment in an equivalent space devoted to bedrooms. The treatments that are sought are subject to quite rapid change as fashions come and go making the requirement to frequently change and refashion the treatment rooms.

This is a business that needs a large capital injection up front and the ability and willingness to inject further capital fairly frequently.

At the same time, the service that is being offered is very labour intensive. There is typically a one-on-one relationship between the customer and the treatment provider and with service being offered seven days a week for ten hours a day or more; the staffing cost implications are considerable.

The spa business can be characterised as one that has both a high capital and high operating cost.

### Increasing value

So the first question that needs to be asked is whether adding a spa to the hotel will better enable the hotelier and the brand to add to the lifetime value of existing guests and segments and/or significantly attract new segments either from competitor hotels or competitor locations. We believe that this can only be answered by robust research.

Our experience is that there is a lot of 'noise' but actually not a great deal of valid research findings available in the public domain. There is no shortcut and a serious investor needs to commit time and energy to researching the specific market under analysis.

While in many situations, the spa will serve the in-house population, there will be examples where the spa can be a tool to serve the local business and/or residential population better.

For both the internal and external populations, adopting a well-known brand for the spa may be an important element in attracting and reassuring the market.

## **Income**

There is no template but it seems that the core income stream will be from treatments. Setting the price of a one-hour treatment at the level that the market will bear and using the same yield management techniques (fencing rates, volume discounts, packaging, advance purchase discounting, etc.) as are employed elsewhere in the hotel to sell hotel rooms (and on the golf course to sell golf rounds) should ensure that revenue is maximised for each of the one-hour slots available for sale in each treatment room each day.

Membership income may not be the largest income stream but it will be important to have a large enough membership to offset the peaks and troughs of hotel occupancy, yet a small enough membership so that hotel guests can be offered and they can take up packages that include spa elements.

Membership income is usually made up of two elements – an initial signing on fee and an annual fee. Local demographics and other factors will determine the rate of churn in membership and the signing-on fee can be a significant element of long-term value.

## **Conclusion**

Our findings suggest that when the investor injects the right amount of capital recognising the revenue that can be earned and the profit generated, a spa in a hotel can indeed contribute to long-term value.

The savvy investor will avoid developing spas that are too large, too expensive, in the wrong hotel or the wrong town, with the wrong number of treatment rooms or offering the wrong treatments, unbranded or not operated professionally, with inadequate regard to health and safety legislation.

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