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Key Drivers for Hotel and Resort Spa Profitability

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Relaxation and a sense of wellbeing are at the heart of the spa and wellness market. Hence, it's no wonder that hotels, resorts, and spas have begun to reorganize their operations around wellness. The benefits, in the form of a stronger bottom line and appeal to demand segments, extend not only to guests but to hoteliers and hospitality companies, as well.

Traditional resort spas cater to relaxation through a variety of services including aesthetics, facials, and massage. Some also offer salon services for hair and nails. Wellness-focused resort spas cater to diet and nutrition, spiritual counseling, and naturopathic health- and prevention-oriented services that extend beyond the scope of a traditional spa.

This article looks at the scope of growth for traditional and wellness-focused spas worldwide, as well as the physical and operational keys to building stronger bottom-line performance.

Asset Attributes

Both traditional and wellness-focused spas are considered effective operating models that can add value to a guest's hotel or resort destination experience. Moreover, they add value to the hospitality operation itself. These models have begun to merge, presenting a new subdivision of resort and hotel wellness-driven spa environments.

The nuances and specifications of these spas vary extensively, as each property has its own unique selling points, specialties, and demographic advantages. One thing hotel and resort wellness spas have in common is that they are at the epicenter of one of the fastest-growing spa and wellness market segments. They are also charted for tremendous rolling growth for their marketability and the increasing demand for experiential and leisure travel.

Coupled with new tactics for aiding prevention, increasing happiness, and relieving stress, this new spa "type" brings immediate benefits along with long-term opportunities for client engagement and retention. The Millennial generation and its relatively younger, health savvy members are a prime demographic for the wellness-oriented hotel and travel space. However, the Baby-Boomer market still comes in strong seeking longevity, anti-aging, and lifestyle services to improve overall quality of life.

Revenue

Traditional spas generate cash-based revenue for elected services. These services are priced based on treatment type, quality, duration of service, and packages. Additional revenue sources for spa services can include a daily fee for spa facility use and auxiliary services, such as poolside massage or treatment provisions provided in other areas of the hotel and guest spaces.

While spas are a cash revenue producer, wellness centers comprise a mix of cash, insurance, memberships, and payment plans. Diversifying spa modalities and treatment options can abundantly increase the scope of treatment revenue. This can be a unique advantage based on the goals of the property, client demand, and guest profiles. While luxury resort spa pricing can come at a premium, spa and wellness-center costs are equally competitive, making the move to diversify services more intriguing and ultimately more lucrative.

Summary

The global spa movement, which includes wellness tourism, amounts to upwards of $3 trillion dollars per year. What physical and strategic elements are key to driving bottom-line performance at traditional and wellness-focused spas?

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Owners and operators need to have a wide view of the potential revenue generators for a hotel or resort's spa operation. This includes services, new modalities, and technology as well as retail sales. Whereas treatments and services are core to revenue performance, a well-performing retail segment can add meaningful value to a spa's bottom line with an average continuum percentage between 10% and 35% of a spa's annual revenue. Therefore, operators need to maximize efficiencies in the retail space to make it a high-acting outlet. This also requires sales talent and retail training that backs the process of creating higher product rotation and stronger retail sales growth.

The following table charts the nearly $5 billion in overall growth of the global spa market between 2013 and 2015. As stated above, this growth has come in the form of new and innovative spa services, as well as product lines that appeal to a wide variety of wellness travelers, including corporate and leisure demand.

Global Spa Economy, 2013 and 2015

Spa Economy Sector Revenues (US$ Billions)		
	2013	2015
Spa Facility Operations	$74.06	$77.57
Spa Capital Investments	$18.75	$19.82
Spa Education	$0.82	$0.85
Spa Media, Associations & Events	$0.22	$0.25
Spa Consulting	$0.11	$0.12
Total Spa Economy	$93.95	$98.62

Source: Global Wellness Institute, Global Wellness Economy Monitor, January 2017

Global Market Growth

According to the Global Wellness Institute's (GWI) *2017 Global Wellness Economy Monitor*, the global spa market grew 2.3% between 2013 and 2015, resulting in a $98.6-billion market. Once considered an amenity (the pejorative term for what spas provide was "pampering"), spa facility revenues in 2015 were worth $77.6 billion globally, while revenue from supporting market sectors that enable spa businesses was reportedly worth $21 billion. These are big numbers, and they're moving upwards.

Between 2013 and 2015 alone, the number of new spa locations increased worldwide from 105,591 to 121,595, adding more than 16,000 new spa facilities and over 230,000 individuals to its workforce. Spa segment growth is anticipated to flourish by an additional 6%, to be worth $103.9 billion by 2020.

Global Wellness Economy Highlights (2015)

Spa Industry
Number of Spas: 121,595 (7% CAGR from 2013-2015)
Spa Revenue: $77.6 billion (2% CAGR from 2013-2015)
Spa Employment: 2,150,147 (6% CAGR from 2013-2015)

Wellness Tourism
Wellness Tourism: 691.0 million (9% CAGR from 2013-2015)
Wellness Tourism Expenditures: $563.2 billion (7% CAGR from 2013-2015)

Thermal/Mineral Springs
Number of Establishments: 27,507 (1% CAGR from 2013-2015)
Establishment Revenue: $50.0 billion (1% CAGR from 2013-2015)
Establishment Employment: 1,386,092

Workplace Wellness
Number of Employees with Access to Workplace: 305.5 million (9.5% or employed workers)
Expenditures on Workplace Wellness: $43.3 billion (3% CAGR from 2013-2015)

Wellness Real Estate
Wellness Real Estate Market: $118.6 billion (9% CAGR from 2013-2015)

Source: Global Wellness Institute, Global Wellness Economy Monitor, January 2017

The GWI study also reports that global wellness tourism revenues grew to $563 billion, a striking 14% rise from 2013 to 2015. The U.S., the #1 wellness market in the world, represented $202 billion of these revenues, nearly triple that of the #2 market. The GWI estimates that wellness tourism will grow another 37.5%, to $808 billion, by 2020.

Katherine Johnston, a GWI fellow and senior researcher, speaks of "a profound shift in the way people consume wellness." She refers to the "infusion" of wellness—in the form of fitness, nutrition, stress reduction, prevention, and other modes—into people's everyday life, as opposed to a luxury or indulgence taken on once or twice a year.

Today's $3.72-trillion global wellness market presents new value propositions for hospitality and travel. "The spend on proactive healthy choices," says Johnston, "will continue to comprise a greater percentage of massive multi-trillion-dollar industries, [including] real estate, food and beverage, [and] travel."

There is a profound upward shift in spa and wellness throughout the hospitality market. Data back this forecast and growth, and these features are no longer the counterpart of temporary trends. This momentum is escalating and long-lasting, led by increasing consumer awareness and higher experiential expectations.

Investment Value

The force of the spa and wellness industry's success in recent years has changed the way hoteliers approach the expanse of demand for spa and wellness offerings at their hotels and resorts. Hyatt's recent acquisition of wellness pioneer the Miraval Group illustrates the enthusiasm behind spa and wellness investment in hospitality.

"Hyatt's growth strategy includes a continued focus on growing wellness experiences and super serving the high-end traveler," said Angee Smithee, Senior Director of Spas for Hyatt. "For several years, wellness has been a key area for the company as it strives to continue to better care for and understand our guests. Our recent acquisition of Miraval Group provides a proof point for Hyatt's growth strategy, but more importantly, it is also a demonstration point around our core purpose of care. Hyatt is committed to increasing the lens through which we view our core customer desires," said Smithee, "and clearly the $420-billion wellness tourism market is one where we are well positioned to capitalize on those opportunities."

The increase in wellness-related travel (transient and group) is leading hospitality giants like Hyatt to pursue spa and wellness models as a wise value-add to hotels and resorts. Corporate wellness programs and executive meetings have also diversified the growth in leisure and wellness tourism.

New hotel developments, capital improvements, and spa and wellness program investments continue to rise in the global market. At the same time, there is powerful positioning bringing in stronger and swifter returns on investment. These investments and actions are driven by innovation and new technological options that back the design of substantial new program possibilities.

Profitability

A hotel spa that caters to wellness can provide a strong competitive advantage for the leisure and wellness-minded customer, as well as corporate groups. However, achieving an operational flow alongside profitability often presents a challenge, making it crucial to understand industry benchmarks that support this evolving market.

Some key factors to consider include the square footage of the spa and the allocated square footage for treatment rooms. It is also important to factor in the square footage of a property's fitness area(s) and the space created for wet and dry amenities. These can include steam rooms, showers, dry saunas, hot tub and pool space, and the spa's dedicated space for relaxation and retail.

In addition to square footage, there are multiple scenarios pertaining to auxiliary services, hotel occupancy rates, and a property's unique selling points. Guestroom ratios based on seasonal or annual performance can represent upswings and dips in overall utilization. However, the ratios between internal and external marketing and promotions can also significantly sway the range and relationship of services between distinct departments. Done well, these assets can overlap, providing mutual support.

Labor costs also affect profitability. Hence, operators must manage staffing logistics, employee satisfaction, and anticipate turnover to achieve a well-tooled operational structure and the most profit from their spa operation. Understanding how to leverage new tools, such as automation and technology, can foster more efficiency, reduce costs, and substantially increase spa revenue.

Conclusion

Spas and wellness-oriented operations have had a meteoric rise over the past several years and continue to make waves in the lodging industry, particularly at resorts. Hyatt and other hospitality companies highlight the shift toward wellness operations. While traditional performance methodologies still apply, the complexities surrounding the proper implementation and execution of the spa and wellness components remain keys to maximizing the asset's revenue potential.

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