Spa and wellness is a wonderful industry but spas can often yield low profit margins. Costs can be high, and occupancy and retail revenue are dependent on a variety of factors that are often beyond your control. Revenue management can help increase profits and improve business operations.

GUIDE TO REVENUE MANAGEMENT FOR YOUR SPA

Spa and wellness is a wonderful industry but spas can often yield low profit margins. Costs can be high, and occupancy and retail revenue are dependent on a variety of factors that are often beyond your control, like political, socioeconomic, and environmental factors, staff shortages, seasons, day of the week and time of day.

Fortunately, there is an almost foolproof way to significantly increase profits at your spa: revenue management. Despite ample evidence of revenue management's incredible power to boost profits, however, not every spa uses it, which means many people are leaving considerable amounts of money on the table. Is this you? Let's change that.

In this guide, we'll talk about revenue management and yield management, revenue management software systems, why they matter and how these strategies can have a dramatic impact on the bottom line at your spa.

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What Is Revenue Management?

Revenue management is the practice of optimizing pricing and product or service availability based on anticipating and predicting consumer behavior and fluctuating market factors in order to achieve the best financial results. This involves collecting and analyzing data and identifying customer segments to identify patterns that may help predict consumer behavior and value perception specific to these segments. It's often stated that the primary aim of revenue management is to sell the right product to the right customer at the right time for the right price.

Because spa, wellness, and hospitality markets are capricious and unpredictable, revenue management is extremely important. The COVID-19 pandemic is a perfect case study of how markets and profits can be affected by unpredictable factors. Savvy businesses in areas hardest hit by travel bans found particular benefit in adjusting offerings to appeal to local markets and to customers looking for longer-stay options. The staycation and the workcation are examples of the aforementioned "optimizing pricing and product or service availability based on anticipating and predicting consumer behavior and fluctuating market factors in order to achieve the best financial results."

In 2020, for instance, when millions of people became full-time remote workers, hotels and resorts got creative with program offerings that allowed guests to stay connected to work. Wellness sabbaticals and workcations emerged as top travel and hospitality trends, allowing companies to generate revenue streams while we waited for travel to return to pre-COVID levels. Marriott International announced a program to work anywhere with Marriott Bonvoy, offering Day Pass, Stay Pass and Play Pass packages to people looking for ways to break up the day-to-day monotony of working from home. This is a good example of analyzing data, projecting consumer behavior, and adjusting services and pricing to meet predicted needs and demand and it is the sort of strategic thinking and planning that serves businesses well. Marriott would have done a lot of work analyzing data to determine whether this strategy would work. More examples of revenue management in hospitality that emerged during the pandemic include fitness equipment rental and charging for extra housekeeping.

But these are not even the most obvious instances of revenue management, which is more commonly applied to day-to-day operations outside of a major disruption event.

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How Can Revenue Management Increase Profits at Your Spa?

In a spa, more traditional examples of revenue management strategies include dynamic pricing, menu engineering, and add-ons.

In an industry in which product and service availability often exceeds demand, a common way to deal with this is by discounting. But savvy leaders will generally counsel against this strategy, particularly in luxury markets where discounting can be seen to devalue a brand. It’s been pointed out that setting one rate for peak times and discounting during slower times or offering too many promotions can position your spa as a sort of bargain basement, which might not be the image you’re going for and might not attract the type of clientele you have in mind.

Marriott’s Senior Corporate Director of Spa Operations, Suzanne Holbrooke, told Spa Executive Magazine in a 2021 interview, “While discounting is an easy way to attract extra demand, it is unfortunately only a short term solution. A discount strategy can have a negative impact on the consumer’s value of treatments, services, and brand. Consumers will want access to the discounted prices most of the time. Discounting will only downtrade revenue potential.”

Similarly, implementing dynamic pricing in the wrong way might turn customers off, because fluctuating prices can be seen as unfair or unreasonable. While reducing prices during

off-peak hours can certainly work in some markets, other consumers might wonder why they should pay more for a massage because they work weekdays and have children, and are therefore only available on a Saturday, than someone who is available Tuesday.

Fortunately, there is an array of dynamic pricing strategies that can yield the results you want. They start with taking a deep dive into your expenses and profits and structuring operations accordingly, for example, to offer the most profitable services during peak times.

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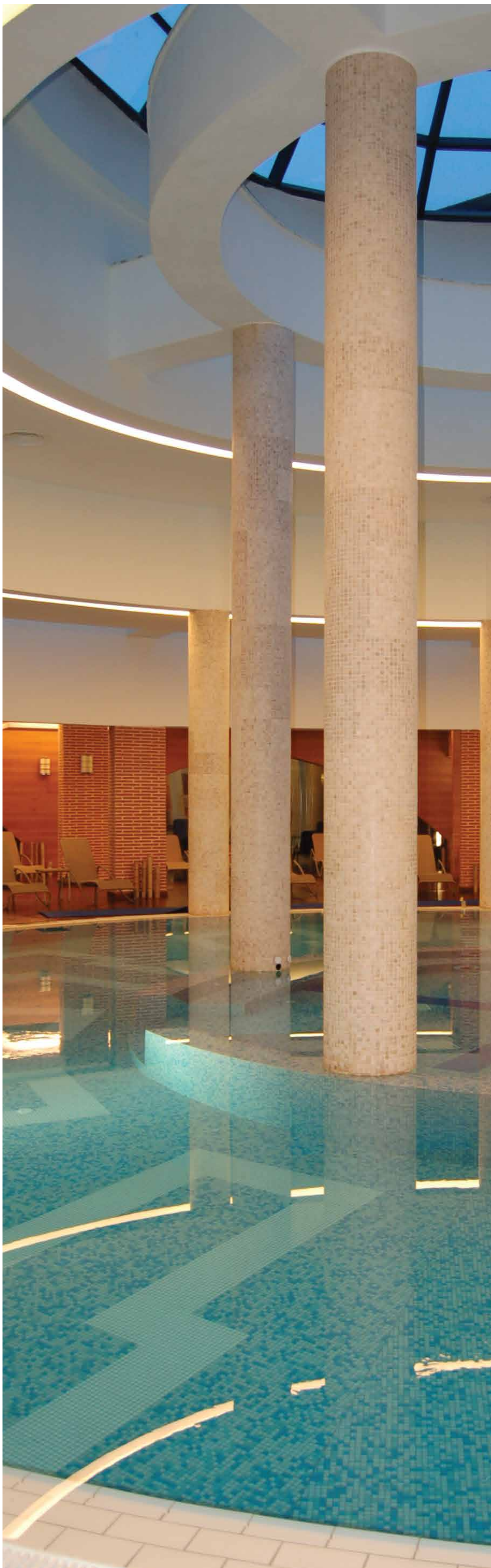

The History of Revenue Management

Revenue management began in the airline industry in the early 1970s and was known as "yield management."

The very first revenue management strategies in this industry were discounts for early bookings, which gave airlines the opportunity to sell seats that would probably have otherwise remained empty when the plane took off. The strategy was based on analyzing market factors, like time of year, day of the week, and destination and origin locations – to predict demand.

In the late 1970s the airline deregulation act opened the door for airlines to fully implement yield management, which has been called by Robert Crandall, former Chairman and CEO of American Airlines, "the single most important technical development in transportation management since we entered deregulation."

Yield management is sometimes said to have brought the air industry back from the brink. Throughout the 1980s the practice grew and became common and spread throughout the hospitality industry. A 1992 paper quotes Robert Crandall, former Chairman and CEO of American Airlines as crediting the survival of the company to yield management and estimating that the strategy generated $1.4 billion in incremental revenue over a three-year period. He also said, "We expect yield management to generate at least $500 million annually for the foreseeable future."

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Consumers now simply expect fluctuating prices for airline seats and hotel rooms as a matter of course.

Since then, the concept of yield management has been expanded and encompassed by the more comprehensive concept of revenue management.

The Difference Between Revenue Management and Yield Management

Yield management is most commonly applied when there is limited or finite capacity, such as with seats on an airline, a hotel room, or in the case of a spa, a treatment room or chair and a service provider’s time and energy. It’s traditionally used to refer to rooms and bookings. Revenue management is a natural evolution of yield management that includes not just rooms and appointment bookings but packages, amenities, and additional offerings like food and beverage.

Regardless of whether we’re talking about revenue management or yield management, the same conditions and steps usually apply. These include a finite amount of available resources that become unsellable after a point in time, customer segments, and demand forecasting.

Successfully implemented, revenue management and yield management systems will optimize intake, minimize downtime, increase revenue, and keep your spa or salon appointment book filled and your staff happy.

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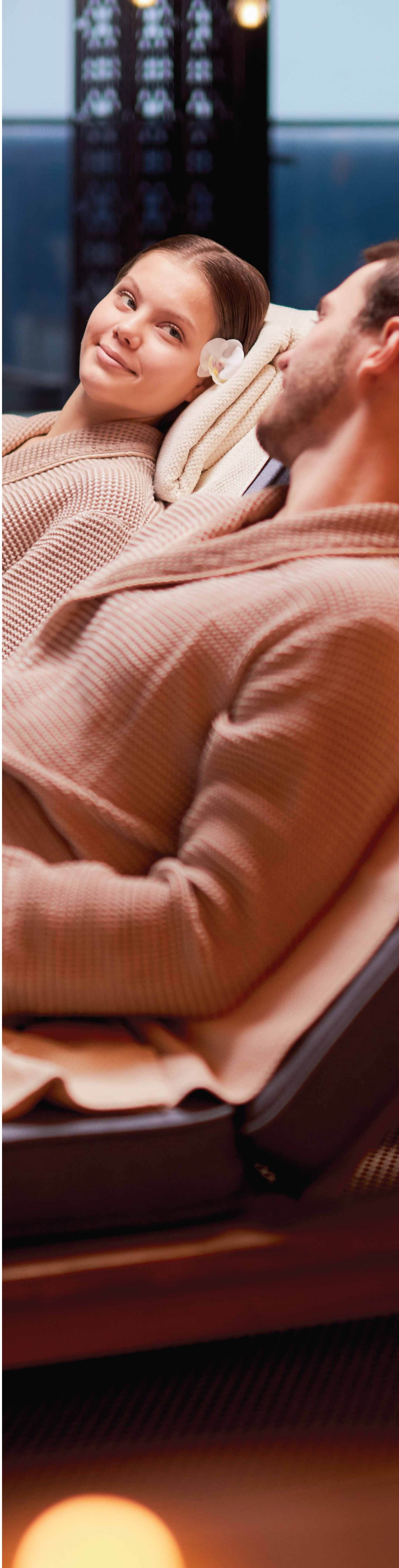


Common Revenue Management Tips and Strategies

These are some commonly applied revenue management strategies:

- **Tracking KPIs:** You'll need to determine your KPIs and track them in your software system. These include your capture rate for services and retail, your staff utilization, your treatment room occupancy, and more. Knowing your business will allow you to optimize it. Getting to know your market: You need to learn what the market is doing, what it will bear, and where the opportunities are for you. Who is your target customer, what do they want and expect, and how can you give it to them? This information is in your data and analytics. You also need to know about the industry itself and about what your competition is doing. You don't operate in a bubble.

- **Creating customer segments:** Different types of customers will want different things. Using the data in your spa software system to sort your customers into groups, or "segments" will help you determine what to offer to whom, when, and at what price. You wouldn't market staycations to hotel guests, for example, but you would to local customers. And men might be interested in different products or services than women. The Marriott "workcation" is an example of finding what works for customer segments, in this case local guests. Local guests may also be more interested in certain types of spa memberships or packages. Vacationers, meanwhile, may be more interested in weekday offers or full-day packages, because they are on vacation.

- **Yield management:** As already mentioned, yield management is a big component of revenue management and is extremely effective. Once you have analyzed your data, you will know your top revenue generating services and your peak times. There is more than one way to use this information, but one suggestion is only offering your top revenue generators during peak times and other services during less busy times. So, your $250, 90 minute ginger body wrap and your ultimate foot treatment are available Saturday afternoons, while one can only get a basic massage or short pedicure during weekday mornings.

- **Discounting:** Discounting means cutting prices to unload resources that are not selling and can be useful at the last minute or at the end of a season but should usually be applied judiciously.

- **Upselling and cross selling:** Upselling means encouraging a customer to purchase a higher-value product or service instead of the intended one – upgrading to a 90-minute body treatment from a 60-minute massage, for example. And cross selling is selling services or products on top of something a guest has already purchased. This is commonly applied with adding retail products onto a spa treatment, but can also be applied by adding VIP add-ons, mini treatments, and more, at time of booking the appointment, during confirmation communications, during check in, or during the treatment itself. Both increase revenue.

- **Continuing to track and analyze data:** Your busiest times and bestselling services one month may not be your busiest times and bestselling services six months later. Your guest preferences may change, and market conditions will also change. It's important to be prepared, even though disruptions can happen at any time and upset even the best strategies. Resting on your laurels and relying on data that is getting old can leave your vulnerable to losing revenue to -market changes.

Examples of Revenue Management and Yield Management in the Spa Industry

Here are just a few examples of how these revenue and yield management strategies may be implemented in the spa industry.

- **Menu engineering:** Optimizing your spa menu to offer top revenue generating services only during peak hours and lower revenue generating services during off hours.

- **Tiered memberships:** One can simply offer discounted memberships for off-peak hours, or consider value added memberships, with VIP service and additional features for higher tiers and more basic tiers at the lower cost level.

- **Unbundling:** Selling a product or service that was once bundled with another product or service separately. In the airline industry, an example is charging for checked baggage – a service that used to be free – and internet. In a spa, if you have a salon component, this might mean charging for a manicure by individual nail rather than the whole hand, or charging separately for hair washing, cutting, and blow drying.

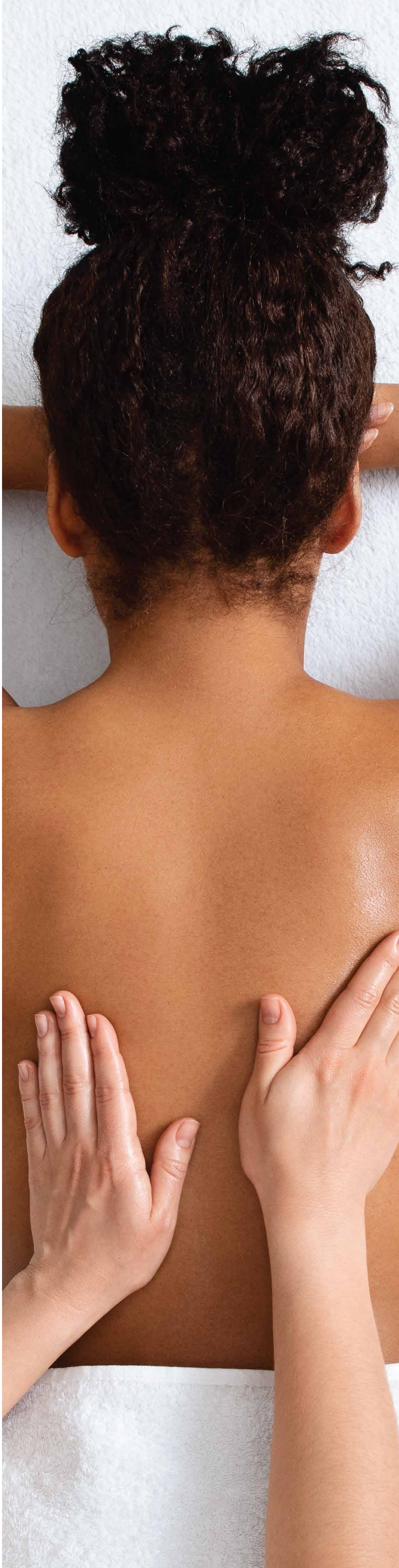
- **Tiered service providers:** More in-demand or experienced service providers may be worth more to your guests and less experienced team members. The service provider would make higher commission and some of that revenue would also go to the spa.

- **Ancillary services:** Adding extras on top of existing treatments and service menu items. The possibilities in a spa are endless. It could be a glass of champagne, a cocktail, canapes, a mini pedicure, massage, facial, or sound bath added to another menu item.

Suzanne Holbrooke said in the same interview we mentioned above, "There are many facets to yield management. I launched a company-wide program about 11 years ago called Spa Plus, where the front desk or therapist would be financially incentivized for offering an upgrade within treatment time, like stones, face masks, CBD, scalp treatments etc, for an additional cost. We developed a comprehensive training platform including manuals and videos to ensure the teams were fully educated and prepared. This increased revenue by $8 million in 2019 with an 80% profit."

How a Spa Software System Can Help With Your Spa's Revenue Management

Revenue management will begin with taking a dive into the data and analytics of your spa's existing operations. Book4Time's comprehensive reporting dashboards are said to be the best in the industry. These probably allow you to view every element of your operations you can imagine. With these dashboards the reports you can view include but are not limited to:



- Your top and bottom revenue generating services.
- Your bestselling and not-so-bestselling retail products. Treatment room occupancy.
- Your revenue and occupancy by month, season, day of the week, time of day.
- Projected revenue by day of the week.
- The performance of your service providers.
- Revenue by customer segment, including gender, local or hotel guest, and more.

Your customer loyalty programs can also provide a goldmine of information regarding "selling the right product, to the right customer, at the right time, via the right channel, for the right price, at the lowest cost to you."

This information then allows you to establish a baseline of peak periods, profit margins on products and services, staff utilization, and more, and identify patterns to then engineer menus and manage your yield accordingly.

Book4Time also allows you to manage your membership and loyalty programs, which in turn can inform your revenue management strategy.

There is much more than this to revenue management, including opportunities to get imaginative and creative. But this is a start!

Stop Leaving Money on the Table

We know that there are many ways in which spas leave revenue on the table. A successful revenue management strategy can put a stop to that. Understanding your business and making data-driven decisions is key. In spa, revenue management allows you to optimize profits from finite resources, make healthy profits, and grow your business. It's something you can't afford not to do.

Are you ready to explore how you can take your spa revenue to the next level with revenue management with Book4Time?

Schedule a demo today!

www.book4time.com

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