

## Show Me the Money

Numbers don't lie. Do you want more clients, increased profits and a happier team?

Two of the not-so-secret keys to operating a successful spa are retail sales and service upgrades. It can be difficult, however, to learn about realistic, measurable, tangible programs that will accomplish these goals. Simply put, this two-part series will result in increased profits, reduced losses, and a more coherent team reward and recognition program if you follow the suggestions provided. This is not rocket science, but rather a course of action coupled with discipline and persistence.

### Numbers speak for themselves

Spa-ing is the fourth largest leisure industry in North America. Revenues were \$13.4 billion in 2006, an increase from \$8 billion in 2003, yielding an annual growth rate of more than 18%. Cosmetic surgery adds another \$15 billion to the mix. The number of spa visits surpasses theme park attendance.<sup>1</sup>

Spa locations are growing at 16% annually, comprising 160 million individual visits.<sup>1</sup> It seems that for every spa or medical spa that opens, one will close. The competition is fierce. Many who enter the business have little or no experience in the field and even those who open franchised spas are finding the business to be much more difficult than they imagined.

Spa employee salaries and wages exceeded \$9.3 billion in 2006. Did you know that personnel costs in a

traditional spa can equal approximately 70% of all revenue?<sup>1</sup> Because of this, you need to create nonlabor-driven sources of revenue and increase the profits derived from the use of hands-on services in order to increase overall profitability. With personnel costs rising,

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*Editor's Note:* This article is the first part of a two-part series regarding the importance of retail in a spa operation. Part two will appear in the May issue of *Skin Inc.* magazine.





## AN INCREASING number of skin care brands are becoming less channel-specific.

the importance of retail income is vital and essential to a spa's financial viability. Market at-home products as solutions to clients' skin care concerns.

Packaged Facts has compiled a telling set of statistics.<sup>2</sup> The organization has found that the skin care market is worth more than \$7 billion and is estimated to grow to \$9.2 billion by 2010. This rate exceeds 6% per year. Of specific interest is that the anti-aging portion of the market is expanding at 17.9%, while makeup is increasing 5.9% and hair care is growing at 2.8%. The numbers speak for themselves: Focusing on anti-aging skin care has the greatest potential to help your bottom line. But do not be naive and ignore the other major market segments, because they are also important.

The number of North Americans between the age of 55–64 will jump 19.3% to 35.4 million by 2010, less than three years from now. Teens

and twentysomethings are thinking about their skin, wrinkles and extrinsic aging. Gone for most are their parents' sun-worshipping days of reflectors, and mixtures of iodine and baby oil. The mass-market merchants, infomercials and multilevel marketing companies are flooding into the higher-end skin care market. Major mainstream cosmetic companies are purchasing formally professional-based product lines. Products are finding their way into more retail outlets, Internet sites and television channels. Even several makeup companies are going the route of utilizing a multichannel distribution network comprised of infomercials, branded retail concept stores, the Internet and sales to skin care professionals.

### Choose wisely

An increasing number of skin care brands are becoming less channel-specific. What does this mean to you? Several things—good and bad. The media, through the massive advertising and public relations efforts of these large multinational companies, is increasingly drawing attention to the need to take better care of your skin and the advances in the efficacy of skin care products during the past several years. This can bring clients into your spa. Yet, these very same clients may come in asking for the much-touted products that they have read about or seen on television. But, carrying these products also has the potential to put the skin care professional and spa in price competition with other distribution channels that may be easily accessible to consumers, such as online sales outlets and retail stores. The corollary to this is that if you spend the time and money to orient clients and patients to a brand, you might want that brand to be a destination product with channel-specific distribution only available through professionals, such as yourself, and not on every corner.

Clients come to spas and medical spas "in search of ways to improve the quality of their lives as they seek methods through which they can sustain the benefits of the professional treatments they receive."<sup>3</sup> When individuals come into your business, they are primed for both a service and the potential to purchase products. This is a sale

## RETAIL

for you to lose because individuals come to spas seeking improvements. Do not lose this opportunity because 20–40% of a spa's gross revenues should be attributed to retail sales and treatment upgrades.

If your spa sees 20 clients a day and half of them spend \$75 on products per visit, and purchase four times a year, you will net, after commissions, \$300,000 in profit, assuming a one-time mark up. If the average sale increases or the percentage of clients that purchase products increases, the profits skyrocket. If your spa has 40 clients a day, the profit is \$600,000. You can do your own math to see the importance of retail sales.

### Increasing sales

Without the appropriate service upgrades and home care product sales, clients' skin will not reach its full potential. If one home care product is sold to a client, there is a 25% chance she will return; two products 50%; and three or more—more than 75%. The better the treatment, and the more unique and efficacious the

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products sold, the more your business grows. It is less costly to retain a client than to attract a new one. There is a famous line that world-renowned bank robber Willie Sutton uttered when he was asked why he kept robbing banks: "Because that is where the money is."

## Common Retail Mistakes and Obstacles

According to *Retail Management for Spas* from The International SPA Association (ISPA), some of the most common mistakes spa owners and directors make include:

- The spa is like an assembly line with barely enough time to turn the room.
- There is no person or team specifically charged to drive retail sales.
- There is little or no follow-up after clients leave the spa.
- There is little or no product training.
- There is little or no sales training.

Obstacles that must be overcome include:

- Lack of retail knowledge and skills
- Lack of specific product features and benefits
- The skin care professionals don't like the products.
- The skin care professionals don't use the products that they are trying to sell themselves.
- The skin care professionals are attempting to sell products that they themselves feel they cannot afford to buy.
- Lack of training in how to speak about products effectively
- Fear of selling
- Dislike of selling

# REWARD client brand loyalty and expect your vendors to share in this by providing free products.

Pay attention to retail sales because it is a great source of additional profits without significant costs associated with it. The second part of this series will address how to keep your retail investment low and profits high. As important, it will provide specific advice about making your vendor into a strategic partner that shares and invests in your success.

### Obstacles to selling

One of the most common questions asked of consultants in regard to retail goes something like this: "Can you come to my spa and teach my team to sell? I just cannot seem to get my team focused or interested in selling retail products." In most cases, this proves to be a waste of time. First, you have to look at your internal operation in order to uncover any obstacles that may be present making the process problematic. Without addressing them and removing them, retail sales and upgrades will not reach their revenue and profit potential.

There is an adaptation of an old adage that is highlighted in the International SPA Association's (ISPA) book, *Retail Management for Spas* (Hay House, 2005). It is analogous to facilitating skin care professionals selling retail and upgrades in a spa setting. You can teach your team members to fish but they must have: bait (good products and services); fishing rods (selling tools); time to fish (scheduling that allows time to speak with and educate clients); and incentives to fish (motivation and rewards).

See **Common Retail Mistakes and Obstacles** to find out more about the challenges faced by spa owners and skin care professionals when retailing. These obstacles are exacerbated by little or no

significant incentives for them to sell. They also feel that when they were hired or were in school, retail selling was never taught and did not believe it would be an integral part of their job responsibilities.

### Marketing fuels sales

Marketing is important to your spa. Initially, focus your marketing efforts on your most profitable current clients. Ask them why they use your services. Learn from them. Market through education. Establish a list of referral sources and consider keeping a list of clients who you would like to see more often and collect their contact information. Reach out to them each evening by offering last-minute specials and incentives for the next day to fill in the appointment book. Don't be shy—tell them what you are doing and why; they will appreciate the honesty. Reward client brand loyalty and expect your vendors to share in this by providing free products.

### Specific solutions

Part two of this series will focus on specific solutions to the aforementioned problems: how to overcome obstacles; keys to successful retail sales; motivational tips; a product selection guide; several team compensation suggestions; incentive and reward programs; and how to establish an achievable action plan that includes tips on negotiating with and transforming your vendors into strategic partners. X

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## Turn Ideas into Action

Clearly, improving retail sales and service upgrades is an essential building block to ensuring the financial viability of a spa.

However, in this case, just knowing this isn't enough—it is now time to move from theory to practice. You need to be able to plot specific courses of action to take in order to translate your goals into realistic, measurable and achievable action steps. Information on overcoming obstacles, finding the keys to successful retail sales, motivational tips, a guide to product selection, staff compensation plans, incentive and reward programs, and establishing an action plan that includes ideas on negotiating with and transforming your vendors into strategic partners are all necessary for strong retail growth, and that type of information can be found here.

### Sell though education

In the spa, selling must be based upon education. The more you and your spa's team members know, the better you can impart knowledge on to clients. That, in turn, will yield

better treatment results and increased retail sales. Again, just to emphasize, it is about educating—not selling.

The skin care professional must create an at-home skin care protocol that will extend and complement the results of whatever professional treatment or service a client has had at the spa. Link specific products with specific services and treatments to create pre- and post-treatment protocols, and every

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service should be tied to no less than one product for at-home use. Reach out to your vendors to do this for you, if you need assistance. They should be able to prepare and equip you with key selling points to use in advocating at-home products, and if they will not do this willingly, get another vendor. Make your vendors an extension of your staff, adding their expertise and experience to your spa's knowledge base.

One important caveat: If you carry more than three lines, it will likely be hard to get the support—financial and otherwise—from a vendor, so don't spread yourself too thin. If you carry too many lines or only a product or two from a particular vendor, support can be harder to come by. If you invest in vendors, they will invest in you—it's a two-way street. Try to limit your spa to carrying two to four lines. More than that can be confusing and overwhelming to clients and staff.

**IF YOU** invest in vendors, they will invest in you.

For example, an ideal scenario, depending on your spa's size, might be to have a high-end line, a medical line, a lower price-point range and a spa line plus body products. A private label line may also have a role, but beware, as most private label products do not carry with them all the training and support needed to grow your business. Make sure your vendors provide quality support and education, and ensure the different lines you carry have different selling points. Then always carry six deep of each item.

Next, move into establishing a clear retail strategy. If you need assistance, look to a consultant or vendor who acts as a strategic partner to help. Also, check out professional journals and magazines such as *Skin Inc.* magazine regularly to get ideas, and find ways to network with your colleagues. Make sure you set aside time for the ongoing training of your staff, as well, so they can develop selling skills and

product and protocol knowledge. One way to do this is to have vendors conduct monthly product knowledge sessions for your team.

### Establish job expectations

Hire for success. By making sure everyone on your staff—from front desk personnel to skin care professionals to nurses and even the office manager—understands that selling retail products is part of their job, you can easily grow the power of your retail business. If you don't reinforce this notion regularly, however, you will likely have a very limited chance of succeeding. To ensure your team members keep up with their selling duties, you need to continually clarify job responsibilities, driving home the obligation of all staff to participate in the retail selling process. This must be done with enthusiasm and passion, as it is an important part of seeing to it that everyone gets the best possible results from their skin care program.

Teach your staff to create a short dialogue with clients, relating the services a client is signing up to receive or is receiving with your home care products. In effect, have your team members become treatment tour guides. They should be mindful that less is more—conversations should be short and to the point, and any conversation with a client needs to focus on what the client wants to improve upon, not what the skin care professional initially thinks is wrong with an individual's skin. Ask questions, don't tell. Find ways to suggest how a client can obtain their skin care goals. Listening to their thoughts makes the sales process focus on what the client wants to address and helps to building a trusting relationship between staff members and clients. After that relationship is established, there will be ample opportunity for further recommendations.

Also, do not underestimate the importance of front desk personnel to the sales process. Those team members need to be rewarded for success, as well. All too often, the front desk staffers are the first ones to gain a client's trust, beginning by answering the phone, making an appointment, greeting the individual at her first service and speaking with that person as she exits the spa. Simple etiquette goes a long way.

After a treatment, the service provider should walk the client to the front desk, ensuring all is well and letting her know what products are recommended for at-home use. The front desk personnel should then aid in closing the sale.

**PAYING** commissions is not effective unless you monitor performance and provide feedback.

### Top training

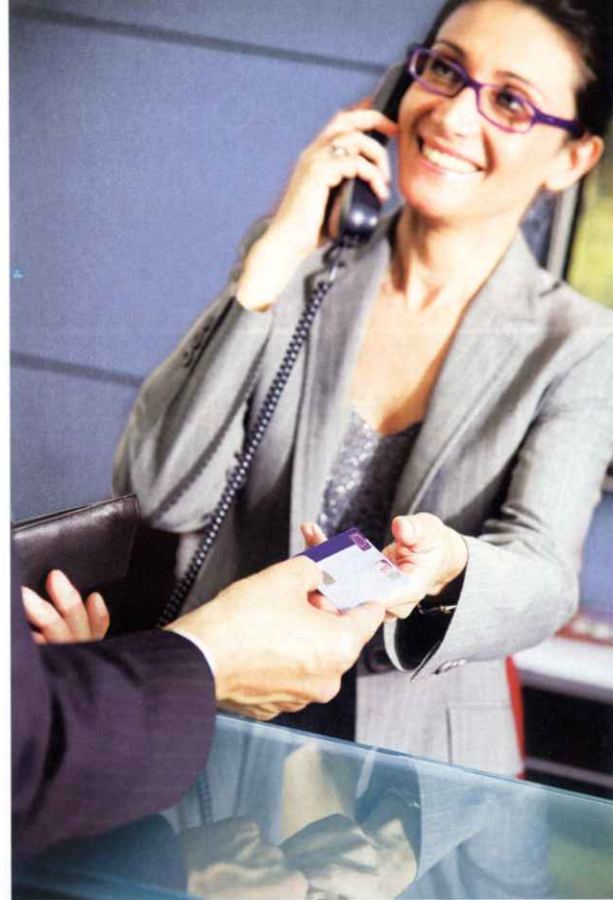
Selling is a learned skill. You must assume your staff members are coming to you with little—if any—sales training. Establish a structured program to teach them how to recommend products and upgrades, and include in this training such basic principles as where to stand, what to say and how to say it, and the importance of always maintaining eye contact. At the risk of being repetitive, look to your key suppliers or a consultant to help you in this task if necessary.

One of the most effective tools can be role-playing. Start every day with a member of the staff being assigned to speak on the key selling points of a line or specific product. And look to your suppliers to provide you with this information. Invite vendors and suppliers into your spa to conduct training on site, as well as to provide the appropriate incentives for your staff if team members perform successfully.

Information is power. Show-and-tell presentations by staff are invaluable. Identify the products that your team members need more information on, and get the vendor to explain why a particular product or line is worth purchasing and recommending.

### The right products and vendors

Now to ensure you are carrying the right products. Make sure the product lines you select meet the clients' needs, not yours. Your lines



must fit the demographics of your practice. All too often, spas carry lines that a member of the staff likes or is familiar with. Unfortunately, that just doesn't build a retail business.

The product line's distribution channel also must protect you and your staff. This is a non-debatable and non-negotiable fact. If you carry a line readily available via retail outlets and channels other than skin care professionals or spas, your success will be limited—if not impossible.

### Commissions, incentives and contests

With the growth of sales, the growth of rewards for sales should increase, too. Most spas pay commissions as follows: For 6% of sales, less than 1% commission; for 7% of sales, under 5% commission; 5–9% commission for 10–14% of sales; and 12% commission for 15–19% of sales. In fact, 50% of all spas do not pay front desk personnel any incentives for retail sales.<sup>1</sup> And if the staff does not have any incentive to sell, they won't. Providing incentives for front desk staff, as well as estheticians and other team members, is a key to retail sales. Think about assigning one person to be the retail driver, and have that person keep track of what is selling and who is selling it.

Moving into using commissions to motivate your staff, know that paying

## Keys to Retail Success

- Offer superior services that provides results—fluff-and-buff treatments are losing appeal.
- Provide outstanding customer service—treat clients like guests at a five-star resort.
- Demonstrate good listening skills.
- Commit to ongoing staff education and training.
- Pick your vendors carefully—select limited distribution, destination products.
- Hire for success.
- Establish realistic sales goals.

commissions is not effective unless you monitor performance and provide feedback to staff members every month to show them how they are doing. And there are several alternatives to paying straight commissions on sales. First, create a minimum sales volume for each staff member before commissions kick in, and make the percentages higher as an individual sells more. Increase percentages as sales volume goes up—for example, the first \$500 week in sales pays 5% in commission. Then a \$501–1,000 week pays 10%, and, beyond that, a week with more than \$1,000 in sales pays a 15% commission or higher.

Another idea is to set up an incentive system based on sales as a percentage of service revenue by treatment type—if up to 40% of a service's revenue is from retail sales, that leads to a 10% commission. Having 40–60% of the service revenue be from retail means a 15% commission, and a 20% or more commission would be when 60% of the service's revenue is from retail sales. Still another option is to tie sales goals to specific treatments—for facials, 50% of the treatment revenue should in retail sales; for body treatments, 15% of revenue from retail sales; for laser services, 15–20%; 10% for injectibles; and 10–15% for hair and nails.

If none of these systems seem to fit your business, develop one of your own design. No one formula is perfect, so find the plan that makes selling the most exciting to your staff. And to be sure you are getting the right idea, involve team members in these discussions.

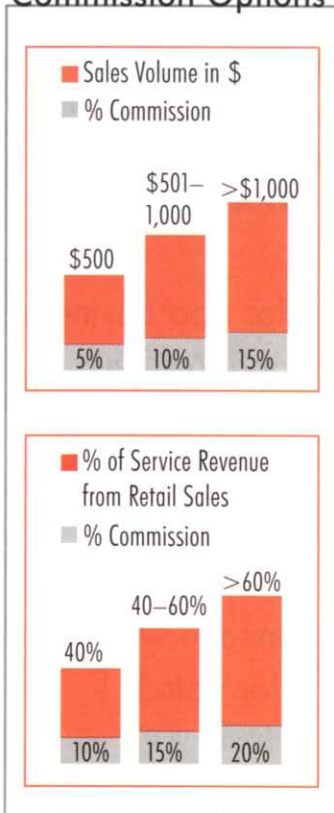
Essentially, an incentive program should be purpose-driven. Pick an area you want to see

improvement in—such as the number of items sold, the average sales per team member, or promotion of a specific item or line—then be clear how the success will be measured, and state the reward specifically.

To also give retail sales an inventive flair, make it a game for your spa's staff. Incentive programs that have been highly successful include:

- **Tic Tac Toe**—Make a board with squares, which does not necessarily have to be limited to nine. When an item is sold, have the seller put their initials in a square. The first person to make a line or the one with the most boxes at the end of the contest wins.
- **Up, Up and Away**—Fill balloons with coupons for prizes and money. Then, when a target or goal is hit, have the staffer break a balloon and win the subsequent prize.
- **Got the Fever**—Draw a simple thermometer on a large piece of paper with a goal number at the top, and color in the sales volume or item total along the way. The first team member to the top wins. This can also be used for an entire staff reward.
- **Off to the Races**—Set up a race track on a board with goal numbers on it, and assign each staff member a horse. The first one around the track wins.
- **Poker**—For each retail sales item or target hit, provide the team member with a card from a special deck. At the end of the contest period, the staffer who can make the best poker hand wins.
- **Pass the Buck**—The person with the highest single sale of the week, largest upgrade or other measured retail sales goal gets \$25 or \$50. Obviously, the first seller of the contest period is in the lead, so she gets to hold the money. As each subsequent sale is larger and larger, the person holding the \$50 has to pass it to the new leader. The person holding the money at the end of the period gets to keep it.
- **Go For the Gold**—An Olympic-type competition that pays for achieving goals such as largest weekly sales, most items per sale, most sales per day or highest weekly sales. The goals can vary from week to

## Commission Options



# HIGHER

retail sales and  
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week, as can the prizes, and you can rank staff members first, second, third and so on.

For any of these games, the rewards can be structured to be creative and include one or more of the following: increased commissions during the contest, free products, professional magazine subscriptions, gift cards or professional meeting attendance options. A favorite reward is also the secret shopper assignment, in which the contest winner is assigned to go to a competing spa that you admire and have a paid treatment or service. They then report back to your team on the pros and cons of what others are doing.

### Vendors as strategic partners

Rewarding your spa's staff members is a great way to encourage them to help move retail sales, sure, but how should you pay for these rewards? By now, you can likely guess the answer: Get your vendors to chip in by supplying free products, cash and the like if their products are

at the center of the retail sales drive. It really is a win-win situation.

And even though all vendors can't always do all of the following, do be sure to ask them what kinds of incentives they can offer you. If they do not do what you need, move on. The vendor-provided incentive options can include: no minimum orders, seasonal incentives, participation in employee incentive programs, employee discount programs, education and training programs, marketing and open house support, trade-out and buy-back programs, direct shipping to clients, newsletter support, collateral materials at little or no cost, special discounts for testers, no-questions-asked returns, visitations, technical support, hotline options, protocol development, signature treatment design, menu assistance and a speaker's program.

### Stellar retail space

Moving into the location of the products themselves, your retail space should be neat and

clean, provide good visibility, create excitement and be easily accessible to your clients. It should also be educational and informative, organized by collection, range and order of application. Allocate at least 15% of your facility's space to retail and keep impulse items by the checkout counter. Also, remember that most women's average height is 5 feet, 5 inches, so keep products at eye level as much as you can, and put the spa name everywhere to help build your brand. Point-of-purchase displays and shelf-talkers help build retail sales volume and profits, as well.

You should be able to measure your sales as a percentage of total spa revenue, by type of item sold—skin care, spa accessories, gift or apparel—retail sales per ticket, sales by staff member, sales per square foot, and inventory turnover by item. Note this simple fact: Higher retail sales and faster turnover equals greater profits, so you should look to turn your inventory over every 60–90 days.

### Be the seller

Finally, all of the above retail initiatives lead to a retail sales program<sup>2</sup> that has you preparing for a sale equipped with business-specific information about your spa on product knowledge, selecting the right product mix, making sure your skin care supplier is a strategic partner, investing in training and educating your staff, asking and discovering your client's needs, learning to initially ask—not tell—clients about problems, presenting products as solutions and as a continuation of professional treatment protocols, practicing overcoming objections, and closing the sale. And never forget to follow up with calls after clients' visits so you can build on that initial sale, translating the treatments and products into future visits and additional retail revenue. )

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