



In Hotels, Health and Spas Equals Wealth

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Business is back for hotels across the United States with occupancy levels surpassing long-run averages and hotels raising room rates more aggressively. According to PKF Hospitality Research (PKF-HR)'s forecast, occupancy is estimated to be above the long-run average in 49 of the 55 U.S. markets they track, 14 of which are achieving their highest occupancy levels in the past 25 years. By 2015, the U.S. lodging industry will experience six consecutive years of increasing occupancy, the most since 1988. The

hotel industry has finally climbed out of the recovery period following the Great Recession as people are traveling more than ever before, and at higher prices.

According to the 2014 edition of *PKF's Trends® in the Hotel Industry*, in 2013, total hotel revenue increased 5.4 percent from 2012 (the most current year-end data available). Driving this increase was 5.9 percent growth in rooms revenue, while all other revenue sources averaged 4.4 percent growth. On a per occupied room basis, all

other revenue increased by 2.7 percent. Hotels have struggled in recent years to encourage spending from hotel guests on services and amenities other than rooms. After increasing occupancy and rate, hotel managers are now seeing the return of guest spending in other areas of operation, a healthy sign of growth.

Spa is one hotel department in particular that is seeing great gains in both revenues and profits. Fueling the growth of hotel spas is a combination of a nationally improved economy, increases in hotel occupancies, and a shift in the perception of spa from an exclusive, luxury experience to a wellness-oriented experience valued by the average consumer to help facilitate a healthier, more vibrant life. As spa and wellness are becoming more prevalent in today's society, hotels are ensuring they adopt these lasting trends and offer consumers an experience aligned with society's increasing desire for a healthier lifestyle.

At its root, spa is about health and wellbeing, and there are indications that health and wellness trends are here to stay. As such, hotels are incorporating spa and wellness not only in spa department, but into other aspects of the hotel, such as rooms, meetings, and food and beverage. For example, some hotels are offering aromatherapy and sleep-aiding amenities in rooms, trendy juices and spa menus at their restaurants, and outfitting meeting rooms with healthy snacks and beverages and premium air quality control. In addition, hotels are creating new ways for guests to be active and social, such as initiating a bike-share program or leading group hikes/runs. Thus, spa and wellness is growing outside the spa, and in facilitating healthier lifestyles for their guests, hotels are seeing a positive impact of the integration of spa and wellness into their entire operation.

PKF Consulting USA (PKFC) and

PKF-HR, both CBRE Companies, together are the only consulting firm with a proprietary annual database of approximately 7,000 individual hotel income statements, which includes detailed hotel spa revenue and expense data. Using this database, our *Trends® in the Hotel Spa Industry* report is the only publication of its kind reporting hotel spa performance and profitability, providing hotel spa operators and owners with sound benchmarking information. The performance overview to follow is excerpted from our extensive *2014 Trends® in the Hotel Spa Industry* report.

Revenues Increasing

Hotel spas benefitted greatly from hotels capturing more demand and society's trending healthier lifestyles. In 2013, the most current detailed data available, all hotel spas averaged a 4.6 percent increase in revenues, greater than the average increase experienced by all hotel revenue sources other than rooms. Specifically, both urban and resort hotel spas saw revenues increase, by 7.7 and 3.6 percent, respectively. On a per occupied room basis, urban hotel spas saw a greater increase in total spa department revenue, driven by a combination of an increase in customers, revenue per treatment, and revenue per customer.

Revenue per treatment increased 3.2 percent for urban hotels, while resort hotels experienced a decrease of 1.2 percent. Revenue per customer for urban hotels increased 1.3 percent, compared to a 1.3 percent decrease for resort hotels. For urban hotels, we attribute a portion of these increases to effective revenue management and selling techniques. To calculate hotel guest capture rates, the number of occupied hotel rooms is divided by the number of spa treatments from hotel guests. Combined, hotel spas averaged a 7.8 percent capture rate in 2013,

comprised of resort spa capture rate of 11.0 percent and urban spa capture rate of 4.6 percent. This reflects a slight increase over 2012 for resort spas, while urban hotel spa capture was flat.

Hotels continue to reach out to locals to boost spa revenues. By sourcing local patrons, hotels can decrease the volatility of spa revenues relative to occupancy patterns, and bolster demand in off-peak periods. Daily facility use, fitness and personal training, health and wellness, and membership fees, typically associated with locals and non-hotel guests, grew by 4.5 percent combined. This is slightly greater than the increase in total treatment revenue, which grew 4.2 percent.

Retail revenue increased for both urban and resort hotel spas, by 10.4 and 3.3 percent, respectively. We are finally seeing a return to spending on retail and product merchandise in addition to spa treatments, which is a healthy sign for hotel spas.

Controlling Expenses

Increase in hotel spa revenues is great news for hotel spa operators, and even greater news is the fact that much of these additional revenues passed through to the bottom line. Both urban and resort hotels managed to achieve a greater increase in revenues compared to their change in operating expenses, showing that hotel spas are becoming more efficient in their operations.

As it is a “high touch” experience, labor remains as the spa department’s highest expense. As revenues increase at hotel spas, it is no surprise that labor costs increased compared to the prior year, as well. Labor expenses at all hotel spas increased 2.6 percent overall from 2012 to 2013, however the percentage of total labor expenses to total spa department revenue decreased from 60.8 percent in 2012 to 59.6 percent in 2013.

As demand increases for hotel spas, higher staffing levels are needed to create the same personal, high-quality experience. One notable change we saw in 2013 was a decrease in payroll related expenses for spas with less than \$1M in revenue. It seems reasonable that this would be driven by a shift from full-time employees to part-time, on-call, and/or contract labor for which benefits are not offered. For spas with lower volume, this can be an effective cost-saving strategy.

Due to an increase in revenues and the controlling of expenses, hotel spas were able to see high percent increases in total spa departmental income. Combined, all hotel spas averaged a 13.9 percent growth in profits. Leading the way were urban hotel spas, which grew their bottom line by a greater percentage than resort hotels. Despite a lower overall growth in spa departmental profit, resort hotel spas saw higher profit margins than urban hotel spas, at 23.1 percent compared to 17.7 percent.

New England Hotel Spa Market

New England is home to many hotels and resorts that have spa operations, including destination spas, resort, and urban hotel spas. These spa operations are known for their innovative treatments, high quality services, and excellent guest service.

As society is increasingly making healthy changes to their lifestyles, hotel spas are seeing a benefit and an opportunity. Whether travel decisions are made on behalf of individuals or companies, many are being made with these healthier lifestyles in mind. Additionally, both de-stressing and spirituality have become top-of-mind for hotel and resort guests, and hotel and resort spas are responding in kind.

Mirbeau Inn & Spa at The Pinehills, located in Plymouth, Massachusetts, finds that a strong spa and fitness component is



Left, the Mandarin Oriental Hotel in Boston is city's only 5-star hotel spa.

an important factor when companies select a hotel to host a corporate retreat, which they find puts them at an advantage. And Stowe-flake Mountain Resort, located in Stowe, Vermont, sees that, in general, guests are looking to reduce their daily stress. As such, their Ayurvedic services are extremely popular, and they offer diet and lifestyle consultations, treatments, therapies, and workshops that are customized for guests. Additionally, destination spas such as Canyon Ranch, located in Lenox, Massachusetts, offer numerous spirituality programs focusing on the body, mind, and spirit for the purposes of grounding, finding purpose, and stress reduction.

As noted, many hotels are integrating wellness into other aspects of the hotel, beyond just the spa. At the Mandarin Oriental Hotel in Boston, Massachusetts's only 5-star hotel spa, the Spa Director sits on the hotel's executive committee to ensure the health and wellness of guests are addressed throughout their stay. Committee initiatives

include placing yoga mats in each room and offering personal training and nutritional services. Stowe-flake Mountain Resort incorporates yoga, meditation, and wellness workshops into meetings for business travelers. Food and beverage is a popular hotel department in which wellness can be incorporated. Hotels such as the Stowe Mountain Lodge are offering healthy menus to their guests as an option, along with its regular menu selections. Mirbeau Inn & Spa at The Pinehills also provides its guests with such options, including organic meals, healthy snacks, and smoothies.

Hotel spas are also using technology and social media as a way to reach and engage with consumers. For example, Mandarin Oriental hosts wellness chats on Twitter, and Stowe-flake Mountain Resort welcomes spa writers and bloggers to their online platforms. Technology and social media are instrumental tools for hotel spas as they allow them to reach a broad consumer base to offer promotional offers, educational resourc-

Right, the Mandarin Oriental Hotel in Boston provides luxury products in guest rooms.



es, and other spa-related content.

Hotel spas are finding that personalized, unique, and interactive experiences are what guests are seeking, and what will keep them coming back. Stowe Mountain Lodge looks to “bring the outside in” by providing maps of hiking/running trails to guests upon check-in and offering outside yoga classes, both in the woods and at the base of the mountain. Also, two of Stoweflake’s most popular treatments are the Vermont Maple Sugar Body Polish and the Green Mountain Coffee Body Treatment, each of which uses unique local ingredients. Additionally, hotels are noticing that guests are taking greater advantage of interactive programming, such as Canyon Ranch’s creative arts programming where guests can learn basket weaving, jewelry making, knitting, and collage art.

Spa Sharing

Consumers are ever-more driven toward

unique and active experiences that are “share-worthy”, and spas have a continued opportunity to deliver just this in a way that can generate posts, shares, and create online trending. Technology continues to transform the way the hotel industry conducts business, and thanks to social media, hotels and spas are able to engage with their customers more than ever before. Hotels are realizing the profound influence of technology and social media on guest purchase decisions, behavior, and awareness. A presence on social media is no longer a competitive advantage, but a competitive necessity; all hotels and spas must engage with their customers online to remain competitive. For hotels to rise above the competition and differentiate themselves, they need to provide consumers with unique and personalized experiences. Not only are hotels regularly engaging with their guests through social media, guests are also in constant communication with other potential customers. Therefore, it is important that hotel spas efficiently provide inno-

vative and meaningful experiences that are Facebook- and Instagram-worthy, which will help increase the awareness of these offerings, organically.

A Healthy Present, A Healthy Future

2013 was a healthy year for hotel spas as they were able to increase revenues and control expenses, resulting in an increase of departmental profits, and we estimate similar improvements in 2014 as we gather year-end financial statements. As occupancies continue to reflect record demand levels, hotel spas have more opportunities to generate

spa guest patronage, and the healthy living trends allow spa and wellness experiences to appeal to a broader guest base. It is reasonable to expect that spas providing innovative and unique services, that maintain approachability and the essence of wellness, while managing their expenses, will prove to be most successful in the future. For hotel spas to have sustainable success, they will need to maintain a balance between controlling costs, sourcing new customers, and offering high quality, unique experiences in both spa and broader wellness. ■

FULL REPORT

The full *2014 Trends® in the Hotel Spa Industry* report can be purchased and immediately downloaded by going to <https://store.pkfc.com/trends-in-the-hotel-spa-industry-3>.



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