



“Your Complete Resource for Spa and Hotel Development”

Finding the Compensation System that is *JUST RIGHT*

By Skip Williams

Just as Goldilocks found porridge that was too hot and too cold and beds that were too soft and too hard, we must find a compensation system that is “just right” for our needs and objectives!

Whether you are a Provider or an Owner, the subject of “Compensation” always seems to be at the top of people’s lists of concerns, and everyone seems to have a different opinion. Is there a perfect system by which to remunerate Providers, insure Guest/Client satisfaction and leave a profit for Owners?

Let me first say that I am a big believer in “Capitalism” and in its Karmic ability to reward those who play fair and punish those who get “greedy”. Let me explain with these two fairytales:

Sleeping Beauty Never Wakes

Once upon a time there was a Spa Owner (Beauty) who when opening her business was unwilling to take the “risk” of attracting customers and decided to only pay Providers when they performed services.

For the first couple of years Beauty’s staff went hungry, they could not afford to live on the little amount of work that they were doing. Consequently profits were low and employee turnover was high. Beauty was no longer able or willing to invest the proper amount of time into each new employee training in order to insure consistent Guest/Client satisfaction.

Eventually Beauty was only left with a VERY entrepreneurial group of Providers that performed their own services on their own regular clientele without regard to the “greater good” of the business. When would her Prince arrive?

Because these “survivors” were the only thing holding Beauty’s business together they were able to negotiate very high commission rates. Consequently her dream of having a

very successful Spa, with a loyal team of professionals working in harmony, and a brand built on signature services, where the customer comes first, was reduced to table scraps of profit at best, and possible bankruptcy or failure at worst. Beauty remains in a deep slumber to this day and will never wake to realize her potential.

Sorry no “happily ever after” here, but that is the Karmic ability of Capitalism! Now let’s look at fairytale number two:

Cinderella’s Step Sister Never Learns to Share

A long time ago in a Spa far away there was a Provider (Prunella) who was making a 70% commission, Prunella was able to negotiate such a high percentage because she had such a large client list and a loyal following. The other Providers were struggling to keep busy and many could no longer afford to work for the few crumbs of work that was left. The Owner (Mother Hubbard) had to take money from her own private cupboard to make up the shortfall each month. While Prunella was the Provider that the beauty and massage schools in the area used as an example to show just how much money a Provider could make in this industry.

As months came and went so did the employees. They could no longer afford to stay working with such small amount of clients and also because Prunella treated them as more and more insignificant each day to the point that they felt like Cinderella doing all the chores and wearing hand me down clothes.

As we skip forward to “Chapter 11”, Mother Hubbard was falling deeper into debt and Prunella’s unsatisfied appetite for more money and more clients each month forced Mother Hubbard to make some tough decisions. Ultimately when her cupboards were bare she was forced to close her Spa. Suddenly as the clock struck “times up” Prunella’s coach turned back into a pumpkin and she found herself out of work! Prunella promised herself that if a Cinderella opportunity ever returned she would treat it with respect and never place unreasonable demands on her again, “Just give me one more chance”, she sobbed to herself alone in the garden.

Now I am sure these two fairytales bare no resemblance to anyone you know, but they are examples of how Capitalism has laws, just like gravity has laws, and in a free market left to its own destiny, greed will implode and hard work is rewarded. This is how Humpty Dumpty can be sitting high on Wall Street one day and in the omelet the next, when he forgets the laws of gravity and Capitalism!

So why are these fairytales important to deciding what type of compensation system is “just right” for you? The lesson here is that most industries have learned to build their business practices on these immutable principles of business and Capitalism. They have learned what works, what doesn’t work, and why. I am not sure that our industry has learned these lessons yet, instead many of us copy the mistakes of others because, “That’s the way it’s always been done”. Consequently many business Owners and Providers are not realizing their full potential.

Many years before most of you were born there was a thing called “piece work”. Factories paid their employees a fee for each “widget” produced. This was a “no risk” way of paying employees, right? This was a way for owners to have a fixed cost for the delivery of each “widget”, right? Using this logic Owners were proud of themselves for guarantying the cost of production would not go up. What they failed to realize was that they also guarantied that the cost of production could not go down. Soon there were competitors utilizing better labor contracts, the latest technology, or better production methods to make widgets for less money and/or of better quality. As a result Owners were faced with difficult decisions and many were unequipped with the flexibility to adjust to the law of business that says you must find more and more efficient ways of delivering your product or service everyday if you are to survive. Sounds a lot like one of our earlier fairytales doesn't it?

Is there ONE right way to compensate? I am tempted to say yes because I believe that there is only one right way to compensate in order to accomplish what the goal of most Spas businesses and Providers should be. However there are some Spas that do not have ordinary business goals and therefore other methods will better realize their objectives. Let me see if I can break it down for you:

Booth Rental:

As an Owner:

If your goal is NOT to build a brand but instead have a simple business model that pays the rent and perhaps a small profit, then a Booth Rental business model makes sense. These operations can be simple to operate, and your tenants are competing against each other for their share of the community's business.

The idea of building a “Brand”, having any consistency in the delivery of services, or creating an “overall Spa guest experience”, has no place in this type of operation.

The reality of this fairytale system is how little an Owner stands to make when compared to all other systems. For example, take the amount you can charge for Booth rental, and divide it by the gross profit of another system and see how few services it would take to make far more money even at very high commission rates.

As a Provider:

If your goal is to eventually take your client list and open your own practice someday, this is a great way to get started. You should feel no guilt of conscience taking your client list and “moving on”. Your Clients will never enjoy the full “Spa Experience” in an operation like this, but you can certainly build a reputation for the results you provide and a loyal following.

Make sure that you are just as great at marketing and sales as you are at professionally providing your services.

Commission Based Pay:

As an Owner:

If you owned a small hotel or inn with only 1-2 massage rooms, and the “Spa” was only an “amenity” for your guests, and you were not worried about making profit in the Spa because the hotel was where you made your money, then this might be a pay system that will work for you.

This system has many limitations which may include lack of team work, lack of profit, difficulty building consistency into the delivery of services, and competition within the facility.

However if you have a “serious” Spa then the lack of control and profit will work against your objective. Based on a recent compensation study done for our industry we discovered that ALL associated labor costs including Providers, Administration, Management, and Support staff AND employer’s share of taxes, benefits, and workers compensation CAN NOT exceed 60% of revenue if you have any hope of turning a profit. With Provider commissions now often exceeding 40% or even 50% controlling the total labor cost under the 60% level becomes impossible.

As a Provider:

You only want some occasional work, have plenty of flexibility, and want a high rate of pay for the few hours you work, then this pay system may work for you.

If on the other hand you wish to build a career in this industry and/or excel at what you do, then pick another system. If you want to be an entrepreneur then go back to the Booth Rental. If you want to be part of something larger than yourself and devote your creativity toward making a wonderful environment for not only the Client/Guest, but also yourself and your fellow employees then you need something with far more security than either Booth Rental or Commission Based Pay.

Flat Rate Pay

As an Owner or as a Provider:

The same incentives and disincentives as Commission Based Pay apply to “Flat Rate Pay”.

The only difference is that instead of a percentage of the revenue, the Provider is paid a “flat rate” for each hour of service provided regardless of price. This is good for Owners because if the price of service goes up then you decide how much, if any, the Providers pay is adjusted. It is also good for the Provider because, if the Owner decided to comp or discount a service then your rate is not affected.

Straight Based Pay

As an Owner:

Paying an employee for every hour they are at work regardless of how many services performed is the way almost every other business in the world operates! We don't see grocery clerks, nurses, or mechanics expected to "build their own client lists", nor do we pay them a percentage of what the customers spend. Why then do we believe that somehow "the Spa business is different"? This type of thinking we're different or that normal business rules don't apply will get us in trouble every time.

I submit to you that "The way we pay people is at the root of almost every problem (or success) that you may encounter as a business person". Lack of team work, backstabbing, dissatisfied customers, minimal profits to name only a few. (Notice that I did not say "how much we pay people" I said the WAY we pay people, this is important for reasons that should become obvious as you design your pay system.)

This system of "Straight Hourly Based Pay" allows us to accomplish the typical business goals of profit, team work, superior Guest experience, etc. This is the system that provides a "Win – Win" for both you and the Provider (and the Customer as well). If you have typical business goals for your Spa business this is the "Just Right" way to pay. This system allows for building a more efficient and higher quality operation on an on going basis. It also allows you to adjust to changing market demands and competition. Most importantly, as you begin to fill the capacity of your facility, it allows you to bring the associated costs of labor well below the 60% level as previously discussed.

As a Provider:

Are you looking for a place to learn and grow? A creative outlet that contributes to a sanctuary or peace for your Clients/Guests? Security and a safe place to build a career? A place you can afford to help others and get to know your fellow employees? Perhaps you are right out of school and want to start making a living in this industry. Then this form of remuneration is a winner for you because in this environment you can work hard on being the best possible Provider, instead of worrying how you will feed your kids next week. This is an environment of more structure than many Spas, but one that your contributions have a much better chance of meaning something. All things considered, the pay is good, you still receive gratuities and retail commissions and have a healthy working environment in which to flourish, how can you lose?

Being part of a business that IS profitable has other benefits as well. Many of the Spas with this type of pay system are able to afford benefits such as Health Insurance, 401k plans, or Profits Sharing. So besides the security of working for a profitable business that has is more likely to be around for a long time, you can get regular raises and performance reviews, grow your income and benefits as your company grows, and even have a career path that leads to greater pay and more responsibilities.

Hourly Plus Commission

As an Owner:

Most people think this “hybrid system” is the best of both worlds, in my opinion it is the worst of both. With this system you now have a fixed payroll cost PLUS a high fixed cost of service delivery. Instead of low risk or high rewards, you have high risk AND low rewards! The only reason to utilize this form of pay is if your Spa is an amenity and Spa profit is not a concern (as in the commission example) AND you are having trouble getting employees to show up during slow periods.

As a Provider:

This may be a step in the right direction for you if you are looking for a bit of security, especially when first starting out in your Spa career. But you should quickly decide which is more important for you; the career security or becoming an entrepreneur and pick the system that best propels you toward those goals.

Conclusion

I could go into more of the advantages and disadvantages of these pay systems as I did in “How Do We Pay / How Do We Get Paid” way back in Dermascope Nov/Dec 1999 or in my book “The Reluctant Spa Director and the Mission Dream”, but space constrains me. So remember just a few “laws” of business:

- Owners should incorporate a Compensation System that produces the behavior that matches your goals.
- Providers should look for a Compensation System that allows you to accomplish your personal goals.
- Remember the Karma of Capitalism and how violating laws of business can end up in disaster.
- You must find more efficient, higher quality ways of delivering your product or service through continuous improvement everyday in order to compete in a free market.
- There is a saying in business: “You can make money in a ‘Bull Market’, you can make money in a “Bear Market”, but Pigs always go to slaughter!
- Just because everyone else pays that way does not make it the right system for you.

- And... STOP believing in Fairytales... You silly Goose!

Best Wishes & Healthy Profits

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The following is a “bio” for Skip Williams to be used in conjunction with article submitted:

Skip Williams

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Skip Williams is a recognized speaker and author in the spa arena, with over twelve (12) years of experience in the Management, Financial Development & Operational fields, mostly in the Spa and Hospitality Industry as Spa Director, Controller and Business project Consultant. He brings his previous years of analytical business experience in a broad variety of manufacturing, retail and service businesses to studying Spas, Wellness Centers, and Salons: their profitability, how they operate, and what makes them successful.

When Skip Williams is not employed as a Spa Director, he is often found in some region of North America consulting on a Spa project, analyzing the feasibility of a new spa, or breathing new profit into older ones.

His latest endeavor has been to incorporate many of the lessons of successful Spa operation into his new book ‘The Reluctant Spa Director and the Mission Dream.’

Mr. Williams has been involved in the development of well over 200 Spas throughout the US, Canada, and the Caribbean working with owners, planners and potential owners of a wide variety of Spas, Wellness Centers and Salons. His approach is to study, analyze, educate, implement and cultivate both small and large-scale projects.

He has developed a unique Computerized Business Model called "Build-A-Spa" that allows financial analyses of new and/or existing facilities and feasibility studies.

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