

By Robert Cass

The Big Payout

How you handle paying commissions can make or break your spa.

OWNING, OPERATING AND WORKING AT A SPA BEARS many wonderful gifts including a peaceful, caring environment and the opportunity to help heal others and relieve their stress. But with these blessings come the challenges of running your business. As an entrepreneur, turning a profit is your No. 1 concern, while compensating your team is the single most significant expense. Staff compensation has a direct relationship to revenues. A typical day spa is likely to break even or profit at a 50% to 55% labor cost; for larger operations working at high efficiency it can be as low as 30% to 35%. Generally, to create sustainability and growth, labor costs shouldn't exceed 40% to 45%.

To keep your labor costs in the black, it's important to consider your commission structure. There are no industry standards on paying commissions for either services or retail sales because each spa has a unique set of needs. As an

owner, the trick is to learn the options and apply the one best suited for your operation. Considering commission options and applying them creatively will help you show your team that they're appreciated and reward positive behaviors. In turn, these tactics should help drive sales and raise the level of customer service, which will greatly benefit your spa.

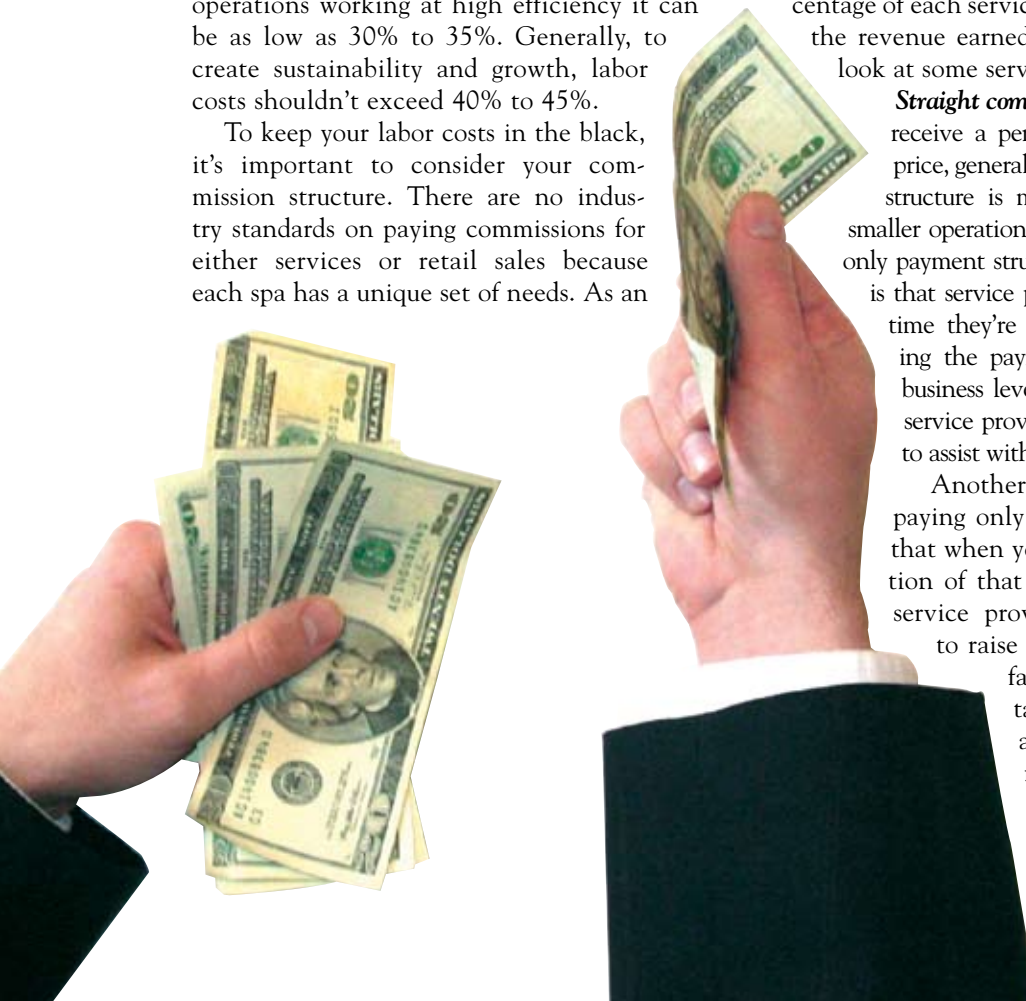
Service Commissions

By providing a service commission—paying a percentage of each service—you're essentially sharing the revenue earned from each treatment. Let's look at some service commission options:

Straight commission only. Service providers receive a percentage of the service selling price, generally between 35% and 55%. This structure is most frequently in practice at smaller operations, with a straight, commission-only payment structure. The operational benefit is that service providers are only paid for the time they're performing treatments, allowing the payroll to fluctuate directly with business levels. The challenge here is that service providers often don't feel obligated to assist with other operational needs.

Another challenge for spa owners paying only a commission percentage is that when you raise service prices, a portion of that increase always goes to the service providers. When you're forced to raise prices due to uncontrollable factors such as higher rent or taxes, your obligation to pay a higher commission undermines your efforts.

Hourly rate plus commission. Another option is to offer a commission plus an hourly wage. With this strategy, your staff is paid for all of their time.



To maintain a profitable commission structure, keep the relationship between the selling price and service costs within a target percentage.

The drawback is that you're paying them even at times they're not performing a service and generating revenue.

"Since the day we opened, we've paid our team based on an hourly rate plus a percentage of the treatment and it has worked well as we've grown," says Summer Ellis, director of Avia Spa (www.aviaspa.com) in Santa Barbara, California. "I think the staff likes it because when I raise the prices they feel they share in the growth."

Graduated/sliding commission. With a graduated commission structure, the service provider's commission increases based on the achievement of a target. Suppose Spa X's estheticians receive 20% of the treatment fee. After they perform \$20,000 worth of treatments in a month they start receiving 25% of the treatment price. The advantage of this structure is that spa owners can use the commission to motivate technicians to achieve specific goals. If you're paying a sliding commission, be sure your target is both meaningful and specific to the financial goals that you've defined for your spa business.

Straight fee only or hourly rate plus fee. With this structure you have some flexibility, as commission amounts can vary. You can set a straight percentage for each service's selling price, or you can evaluate each service individually based on the cost to perform the service or another variable. The advantage to paying a straight fee or a fee plus an hourly rate is you can customize compensation to reflect the operational cost of each treatment. This method also gives technicians clarity and certainty on their per-service income without having to calculate each service. Additionally, if your operational costs rise, you can raise the price of a service and it will directly offset this cost increase, since you aren't tied to a specific percentage.

To maintain a profitable commission structure, operators must keep the relationship between



the selling price and service costs within a target percentage. An increasingly popular strategy is to deduct treatment costs before calculating the commission. For example: A \$100 facial carries a \$10 product cost. By deducting the \$10 from the selling price the commission is paid on the \$90 rather than \$100. Why pay commission on the price of the products used during treatments?

Retail Commission

In the spa industry, it's common to pay employees a commission on retail sales. As a rule, your staff will be more motivated to sell when they're seeing a direct financial benefit. "Retail commissions are a must," says Nalalia Cosentini, general manager of Sanctuary Day Spas (www.sanctuarydayspas.com), a Canadian-based chain of eight spas. "This is a tough business and without strong retail sales, it's even tougher. We educate our team to assist clients with wise product choices and we're happy to share the rewards with our team when they do a good job. It's motivating for everyone."

As with service commissions there are several structures to consider when it comes to retail commissions:

Fixed commission based on the selling price of each product. Generally, fixed commissions range from 5% to 25%.

Graduated/sliding/progressive commission. In a sliding commission scale, pay increases as associates

achieve preset sales targets.

Minimum target commission. Owners who use this structure set a minimum target of sales to be achieved before paying any commission.

In determining the amount of retail commission you're willing to pay, percentages should be related to profit margins built into the selling price of the products. In some cases the margins can go beyond

- Absorbing it as cost of doing business to generate higher retail sales.
- Taking the percentage from the service provider commission and sharing it with the members of the front desk team.

Create a strong commission strategy for services or retail sales by looking at all of your options and staying flexible. "We learned as we grew," says

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the traditional 100% markup to 200% to 300%, based on branding and prestige. Then you can pay a higher percentage to your staff.

It's also important to have a clearly defined and consistent commission payment policy. For example, numerous successful spas include the front desk team in the commission structure. It can be done in two ways: 1) Front desk staff receives a percentage of each sale they make, and/or 2) They share in a pool of funds based on overall retail sales. The commission can be 1% to 4% of overall retail sales.

If you're not already paying your front desk staff a retail sales commission, it may seem cost prohibitive, but take some time to consider it. You can support paying your front desk staff a commission by:

- Increasing your retail product markup percentage.

Commission Commotion

Use these three suggestions to implement a successful commission policy.

- **Conduct regular, detailed evaluations.** Link the evaluation to the commissions a staff member earns—a positive evaluation should mean an increase, a negative evaluation should likely result in status quo, a decrease or at the extreme, dismissal.
- **Set goals—expectations towards selling targets.** In many highly productive spas the achievement of minimum sales targets is a condition of employment for the service provider.
- **Provide training and support to guide your team in a positive direction.**

Cosentini. "We started with a straight percentage [structure] and then moved to an hourly rate. When we did our homework we discovered this was the best way for us to maintain profitability."

Coming up with resourceful new solutions to custom fit your spa can also be critical. Dr. Lisa Skerritt, principal of Solarice Wellness Centre & Spa (www.solarice.com) in Whistler, British Columbia, Canada, uses a combination of methods to serve her needs. "We guarantee our staff an hourly rate for the first four hours, or a 30% commission on services for the day, whichever is higher. This way the staff knows they're always earning some income and we always have people available to handle walk-ins."

Don't be afraid of using different pay structures for different modalities. "We have professionals for so many different kinds of practices [massage therapy, yoga, esthetics, tai chi, naturopathy, etc.], so we needed a plan to serve each one of them differently," Skerritt says. A diverse structure shows your team you're aware and responsive to their varying needs, education and experience.

Whatever commission structure you choose, the key to maintaining healthy profits and a happy staff is to connect pay with performance. Having a well-thought-out and meaningful commission plan can be motivating for the team and profitable for the operation. ●

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