

Fair Pay

By Lisa M. Starr

One of the many challenges of operating a

spa business is ensuring a profitable outcome on your income statement. Like salons, spas are labor-intensive. Payroll is the single biggest expense against revenue—but in spas it's no longer the only major expense.

Yet many spa owners continue to operate with a compensation model inherited from the salon business—that of service commissions—without considering the expanding group of options available. While

changing your compensation structure is difficult and fraught with perils, it can sometimes be the only alternative to closing the business. And your compensation plan can have other effects on your business as well, driving behaviors that can grow or destroy both sales and morale. To help you work through your own situation, here are some of the current trends in spa compensation plans.

Illustrations by Eris Klein

Commissions

Day spas, which often began as salons, have tended to adopt the salon system of employee payment, which is typically a **straight commission** of between 40% and 50% of services booked. This decades-old convention made sense in the 1960s, before computerized point-of-sale systems and insurance rates that run anywhere from 4 to 10 times what they were then. In addition,

the business has undergone a profound change as a result of transitioning from salon into spa.

While clients buying a haircut or a manicure want to feel comfortable in the environment, the fashion orientation of the salon business often meant less investment. A

great haircut does a lot to overcome any shortfall in ambiance or attention to detail. The

spa client, on the other hand, expects top-notch customer service, luxurious robes, steam showers, whirlpools, herbal tea and coffee, nutritious snacks, interesting reading, spa music, temperature-controlled treatment rooms, well-appointed surroundings and cozy furniture in relaxation lounges, as well as well-trained therapists and efficacious products. Day spa owners have come to understand that it's impossible to offer all of that and also realize a profit in situations where labor costs alone can exceed 60% of revenue, excluding any taxes or benefits.

That's why commission rates have dropped across the United States from between 28% and 35% of revenue in Southern California to 40% in many other states. The exception is the Northeast where commission rates of

up to 50% of revenue are still common. One thing is clear: A business paying a 50% service commission, before taxes, will have little left to invest in vacation or medical benefits for employees.

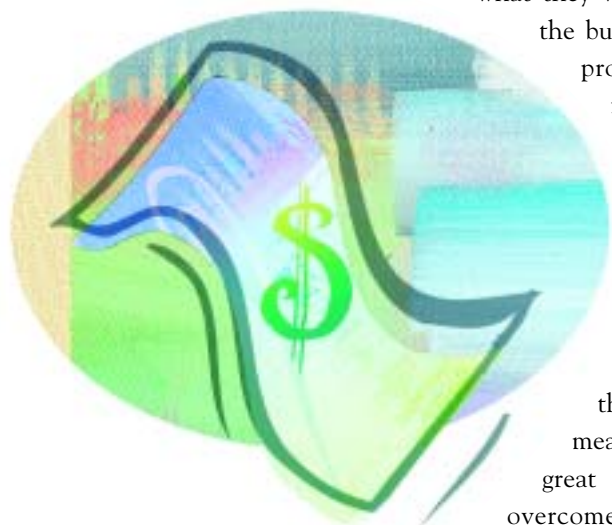
Some spas have instituted **product surcharges** or back-bar charges in an attempt to lower labor costs in a way that's acceptable to staff members. Surcharges range from a dollar amount per service to a straight percentage, as high as 10% of the service total. So while the practitioner receives the hoped-for commission percentage, the product charge effectively lowers the real commission rate.

And then there's the **graduated commission** scale, which awards different percentage rates for increases in dollar revenue levels. For instance, a technician may receive 34% of a revenue total of \$0 to \$850 dollars, 36% on \$851 to \$1,250 and 38% on \$1,251 and higher. This approach puts more emphasis on the sales role of technicians, giving them more incentive to try for higher levels of revenue by working longer hours or adding on services. To achieve the desired effect, technicians need to be constantly apprised of where they are in terms of sales goals.

The commission method is easy to compute for both you and your staff, although product surcharges can make the calculations a little more difficult. Commission methods also make it easier to easy to forecast when budgeting; you'll know exactly what your labor costs will be as a percentage of revenue. A downside of this method is that any time there's any sort of price increase, your staff will receive a portion, giving you less control over your gross margins.

Hourly Plus Commission

This compensation method, brought to spas from the hospitality industry, is



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gaining popularity. Technicians are paid an hourly salary, usually somewhere between \$8 and \$12 per hour, plus a commission on service sales generally ranging from 10% to 20%. The hourly guarantee allows technicians, especially those just starting out, a more comfortable situation. Spa owners establish different levels of hourly and commission rates, based on the technician's experience and ability. Combination

salary-plus-commission

plans usually include paid vacation time and some medical insurance. This type of compensation is widely used by larger corporations, such as resorts, hotels and hospitals, which can take advantage of strong benefit programs already in place.

An added benefit of this method is that technicians become committed to working a particular schedule and clocking in and out, making them less focused on the timing of first and last appointments. It also helps to reinforce the concept of coming to work and participating in responsibilities other than direct client service.

Treatment Rate

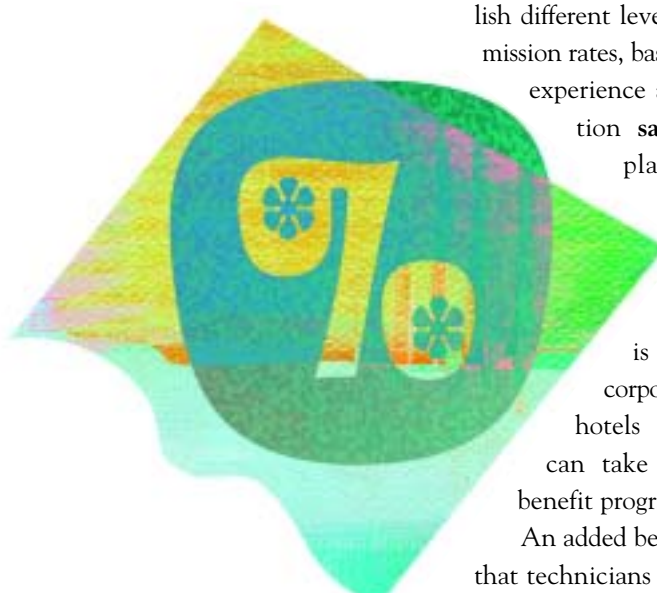
Another developing trend is a treatment-rate compensation plan, in which the technician is paid a **preset dollar amount per service**, rather than a percentage commission. While you would probably start with a percentage in mind to set your levels, this plan allows you more flexibility within each level. For instance, a second-level or "professional" esthetician may receive \$25.50 for each \$85 facial she performs. But for services such as microdermabrasion, which require an intensive investment in equipment

and training, the per-treatment rate may be only \$27.50 for each \$110 service. Because owners aren't tied to one broad percentage rate within each level, they have greater flexibility and can recoup equipment investments more readily.

In a three-tiered system, owners often use internal labels such as "practitioner," "professional" and "senior." It's also typical that entry-level practitioners aren't trained to do all of the services the spa offers. For instance, a "practitioner" massage therapist might not perform hot stone massages, sports massages or cellulite treatments requiring expensive equipment. This gives technicians more incentive to learn and move up a level. The requirements for moving up have to be clear from the time of hire and be based on both performance and attitude measurements, such as average ticket, retail to service ratio and retention rate, along with factors like general attendance, teamwork, appearance, punctuality and skill level. A technician would need to reach and maintain the next level for a defined period—at least three months—before being officially advanced.

At Solimar Wellness Spa in Eagan, Minnesota, owner Lisa Delton instituted this system when she opened last year. While the commission rate in the Minneapolis metro area was generally 40%, Delton wanted to offer her technicians a more comprehensive compensation package than she could afford with that type of plan. The consultant she worked with suggested a treatment rate, which made sense to Delton because it was based on what the spa could really afford, not on existing conventions.

Prospective technicians are given a guide that clearly spells out the exact



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amount they will be paid for each service, along with a long list of benefits. Delton included a generous contribution toward health insurance, a fully paid vacation, a mentoring program, regular technical training, a retirement program, and advanced sales and customer service training. With this package she had no trouble attracting talented technicians: Out of 25 initial job offers, only one person elected not to accept a position.

“Per-treatment rates allow me to compensate my staff members in a fiscally responsible way,” says Delton. “If certain services are more profitable, I can customize those; if others are not as profitable but important to the business, I can pay accordingly.” Delton says that

part of what makes this plan work is explaining what’s behind some of the numbers to her staff. “My staff knew that I had a lot of construction and marketing costs because the spa was a startup operation. They recognized the expense of providing an upscale spa, including electric lift tables and ergonomically comfortable work spaces. Also, when we run promotions, which are frequent, I don’t have to deduct the discount from their portion of the service.”

Delton believes this plan attracts people who are interested in benefits and long-term employment, the kind of workers most spas want. She has been able to send three people to classes offering special certifications—something she would not have been able to

afford on another compensation plan—and the technicians have gained knowledge of a new modality that will stay with them. She was able to increase their treatment rates on those particular services without increasing compensation across the board.

This plan is administratively intensive during setup, but once the data are entered, spa software will handle payroll computations. The treatment rate plan allows an owner to keep total payroll—including benefits, taxes and support staff salaries—under 55% of revenues, giving the owner maximum control over gross margins.

Team-Based Pay

A salaried compensation program is not common in the spa business. In fact, it’s not common in any business that’s sales-oriented. And make no mistake, the spa business is a sales business. Spa staffers need to be focused on sales and numbers, and **salaried compensation** has not proven to be effective in that kind of environment. A salaried environment typically attracts solid, dependable workers who show up every day but aren’t terribly ambitious. Some salon/spas, however, have had success with a salary/bonus pay structure.

Neil Ducoff of Strategies Publishing Group in Centerbrook, Connecticut, pioneered team-based compensation in the beauty industry. To convert to this method, an owner calculates a technician’s average earnings over a six-month or one-year period and then divides it by the number of hours worked to come up with an hourly rate of base pay. It’s a good idea to add a small percentage as a good faith gesture. From that point forward, teams are formed and given goals of service and retail sales. When they meet or exceed their goals, they receive a pre-



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determined percentage of profits on a monthly basis. The bonuses are prorated by the hours in their regular schedule and have nothing to do with their base pay. For example, a full-time worker would receive a full share, while someone who worked 20 to 30 hours per week would get a three-quarters share, and so on.

Dennis Gullo of Moments Salon & Day Spa in Mt. Laurel, New Jersey, has used this plan since 1999. He opened his salon in 1993 and added spa services in 1998. Says Gullo, “When we opened, I paid straight commission, and it took me a couple of years of growing the top line but not the bottom line to realize that model doesn’t work. It especially doesn’t work in day spas because the costs are too high, and the ultimate goal is to create a great customer experience. In a commission environment, workers compete with one another and can suffer a personal, direct negative financial penalty from recommending a client to someone else.”

Team-based pay also provides an incentive for quickly growing businesses, since it provides fully booked technicians another opportunity for upward mobility. In a typical commission environment, the only way to make more money once a technician has a full book is to raise prices for the client. With a team-based compensation plan, the entire team benefits whenever the business grows.

Gullo believes this method exposes poor performance and creates more pressure on those who don’t carry their weight. “As a boss you can create mandates, but nothing is more powerful than peer pressure,” he says. “Your compensation plan has to reward the right behaviors. Commission rewards only one behavior.” The team-based method allows Gullo to keep his total

payroll for service providers and support staff at about 50% of revenue.

Retail Commission

While this area of compensation is often overlooked, it can provide substantial income for a motivated service provider. A strong retail compensation program is especially important in a treatment-rate or team-based plan. Industry standard retail commissions hover around 10% on average. For an esthetician selling skincare products bringing in several hundred dollars per week, 10% adds considerably to her overall compensation. But for a nail tech or a massage therapist who may only sell something once per day, a 10% commission may provide little incentive.

Basing your retail commission on the profitability—or gross margins—of the products sold can help add some much-needed flexibility to your retail commission program. With branded merchandise, it’s difficult to offer more than 10% commission because the cost of goods is usually 50% of the selling price, or more, and you have shipping, handling and storage costs on top of that. A private label massage, hair or cosmetic product, however, can increase your margins substantially, allowing you to offer retail commission of up to 30% on those products. The ideal retail commission plan would be a stepped plan with different percentages on different categories of products. Your product selection needs to be carefully reviewed and weighted to have the correct mix of the higher margin products.

With significant retail commissions, it doesn’t take long for technicians to realize that they can make as much money in 10 minutes on the sales floor as they can in an hour in a treatment

DEFINED COMPENSATION

The term compensation refers to the entire package that an employee receives in exchange for employment—not just the paycheck. This normally consists of money and benefits like medical insurance, life insurance, paid vacation, continuing education, memberships and other perks. Since, historically, salons and spas have been unable to offer much in the way of benefits, spa workers tend to focus exclusively on their take-home pay. If you're offering benefits beyond the paycheck, you'll need to begin selling them to potential employees during the interview process and continue to bring them up at every review.

room. Many of the top retailing spas in the country use this type of retail compensation plan—further proof that you get the behavior you reward.

It's also worth noting that front desk staff should not be commissioned directly for product sales; it puts them in competition with the technical staff. However, you can take a percentage of all retail sales, of overall sales or of sales over goal, and compensate the support staff in a prorated pool. Since they often have to close sales and direct clients to the appropriate products, this provides some additional compensation for their part in the process.

When considering compensation options, remember that there's no one right plan. There are many different options, and they can be combined in any way that works for your business. Don't hesitate to take components of the different programs and combine them in a new program that will reward

the right behaviors. The goal for both the technician and the spa is to earn a fair income while keeping prices affordable for clients. Performance-based pay needs to have pre-set, clearly defined goals and benchmarks. Team-based pay programs need to have team input on setting goals, and goals need to be motivating but reachable. And, if you're considering a change in your current plan, it must be structured to make sure existing staff members aren't adversely affected. They can be "grandfathered" on their current plan, or you can give them an option of a new plan with added benefits and opportunities. Your goal is to manage compensation for the long-term health of the staff and the business. ♦

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