5 Financial management in spas

Because of the number and complexity of the various different spa sub departments, spa financial reports can appear daunting at first glance, which is one of the reasons that many spa managers put off giving financial management its necessary focus. Financial acumen and a basic understanding of spa financial reports is a weakness affecting many spa managers. According to Loynes and Rosamond (2017:146) "The current employment market reflects the spa industry's growing need for higher academic levels of business acumen which will enable the industry to fill the gaps in middle to upper management positions". In short, financial business acumen in spas is both a weakness and a key skill that spa managers must have.

Once a spa manager understands what financial areas to focus on, the main priorities and where to look, spa monetary management is relatively straightforward. This chapter explains the basics of how a manager should approach reading a spa P&L (a profit and loss statement) and the processes of preparing a budget. It also covers some of the main key performance indicators which are useful in managing a spa business.

> Managing a spa today requires an extensive range of skills, the most important being leadership and having the ability to build a solid team. It is also important to have an awareness of the global wellness trends and to have global understanding of their influencing factors – socially, economically and politically. All of the above needs to be combined with knowledge of how to prepare budgets, reports, marketing and sales skills.
>
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Financial basics

When looked at objectively, the process of making a profitable spa operation (or any operation for that matter) is very simple (Figure 5.1). As this flow diagram shows, the aim of any business is to generate a surplus or profit. In simple terms, profit equals net sales revenue minus cost of goods sold (Loynes and Rosamond. 2017). This, in essence, is what the spa manager should be striving to achieve – always.

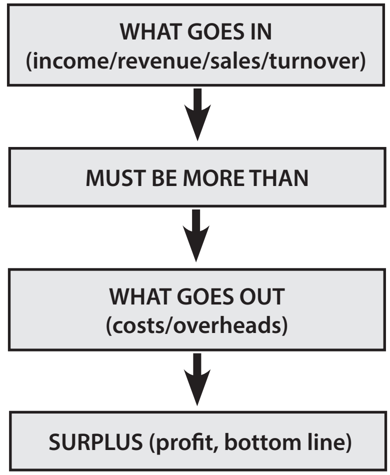

Figure 5.1: The basic rule of any business.

The report in which the monthly and yearly results are communicated is called a P&L (profit and loss) statement. Generally, there will be three sections:

1 What goes in (the income, sometimes referred to as *revenue, income, sales* or *turnover*).
2 What goes out (the *costs*, sometimes referred to as *expenditure* or *overheads*) .
3 The *profit* (sometimes referred to as the *bottom line*, as this is the final line in the P&L statement).

The aim of the spa manager is to generate this profit, which will normally exceed what has been set in the target or plan (also referred to as the budget). The budget will normally be set at more than the previous year's results by a few percent.

The revenue figures in the P&L will be NET (total amount after deductions, normally sales taxes such as VAT – value added tax).

In a well-run spa operation, part of the profit or surplus should be reinvested back into the business (Figure 5.2). However, in many companies this is not the case. It is not uncommon for spa facilities to be underinvested in, and allowed to run down, with the owners/directors still insisting on a growth in profit each year – a challenging situation for a spa manager to find themselves in!

Ideally what is reinvested back into the spa should improve the facility and generate more revenue which, in turn, should lead to more growth. For large developements, additional loans may be taken out to invest and improve the profit further.

Examples of areas where spas reinvest their profits include:

1 **New services**: introducing a new treatment or product brand.
2 **New equipment**:
   - ☐ Upgrading equipment to ensure a better-quality product that will attract more guests.

- ☐ Introducing a totally new piece of equipment into a department that will bring in more revenue.
- ☐ Changing an existing piece of equipment to something more fashionable and in demand (i.e. getting rid of an out-dated sunbed and exchanging it for an infra-sauna or floatation tank instead).

3 **Creating new spaces**: i.e. turning an unused space into another treatment room (for example designing a nail bar station underneath an unused stairwell) or constructing additional new spaces onto the building.

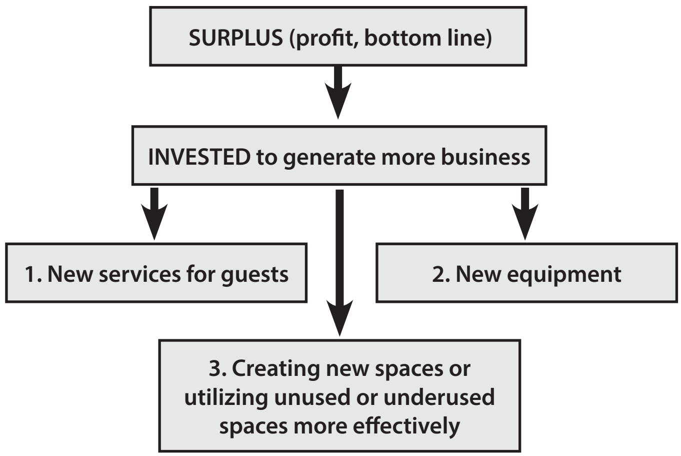

Figure 5.2: Part of the profit should be reinvested in the business.

Clarity of financial reports

In Chapter 4, it was emphasized how important it is to have a well laid out revenue report so that the different revenue streams can be seen in clear, separate segments. This is not just true for revenue but also for costs – and indeed for the entire financial reporting system. When starting out in the job, before embarking on any other activity, as a first step, the spa manager should do everything possible to ensure that they are able to see the revenue, costs and profitability figures clearly. Figures sloppily grouped or poorly laid out will mean that the spa manager will not be able to identify problematic areas quickly and efficiently.

The financial report should also be laid out in such a way that the spa manager can see exactly what is going on in each area and sub-departments of the spa. Wherever possible, the separate spa departments should be sub-grouped into their own little mini profit centres, with their relevant revenues and costs. In this way, if there are discrepancies in the bottom-line results, the spa manager will be able to see exactly where the problem lies at glance.

If the financial reports are poorly laid out and not grouped logically, then the spa manager should speak to the financial department (or whoever is responsible), and do everything in their means to make sure that reporting layout structure is