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# ARISE: A Destination-for-a-Day Spa

Driving to work on May 27, 2011, Twyla Thompson, VP of spa operations at Dallas-based ARISE, suspected that her 9:00 AM meeting with CEO Kristen Chambers and VP of business operations Sam Solti would be stormy. They would be evaluating the All-Star Team organizational design that Thompson had developed in August 2010 and implemented in September. The plan was created, after the first year of operations, to stem negative cash flow and reduce turnover. Now, with two years of operations completed, the spa was still in the red and turnover was higher than ever. Clearly, it was time to revisit the All-Star Team concept and other aspects of the business—and to make some tough decisions.

As she entered the spa, Thompson noted the lavender-scented air and earth-tone decor of the sunlit lobby. Everything appeared to be perfect, but the reality was that the business was struggling. Staffing issues were especially vexing. Chambers had built ARISE's differentiation strategy on the idea of retaining a staff of full-time spa specialists, called personal wellness coaches (PWCs), who would provide spa treatments, help clients create "integrated health and happiness plans," and keep in touch with clients between spa visits to help them achieve their goals. Low turnover was essential, both for building customer loyalty and for controlling labor costs. However, PWC turnover stood at 31% by the end of the first year (see **Exhibit 1a**)—although much better than the industry average of 75%, it was still too high to achieve the organization's goals. Thompson's All-Star Team design had attempted to address employee concerns, but turnover continued to climb. By the end of Year 2, only 31 of the 83 PWCs hired from 2009 through 2011 were still with the business (see **Exhibits 1a** & **1b**). Thompson wondered whether tweaking the design would be enough to prevent high turnover from sinking ARISE.

## The Global Spa Industry

Modern spas serve a range of shifting customer demands for wellness and beauty services. These include specialty treatments for the body, skin, hair, and nails, as well as help with personal goals related to nutrition, fitness, and stress reduction. The first systematic analysis of the industry in 2007 defined *spas* as "establishments that promote wellness through the provision of therapeutic and other

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Harvard Business School Professor Michael Beer and writer Lynda St. Clair, PhD, prepared this case solely as a basis for classroom discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. Although based on real events and despite occasional references to actual companies, this case is fictitious and any resemblance to actual persons or entities is coincidental. Occasional references to actual companies appear in the narration. The authors thank Rutgers University professor Charles C. Heckscher, whose work informed the development of the case.

professional services aimed at renewing the body, mind, and spirit."[1] The study divided spas into five categories:[2]

- Day/Club/Salon spas that offer a variety of services by trained professionals on a day-use basis, either independently or in association with a fitness club or salon
- Hotel/Resort spas with facilities that complement the primary business of offering overnight accommodations
- Destination spas and health resorts that offer spa services, accommodations, and other offerings focused on fitness and well-being
- Medical spas that operate under the full-time, on-site supervision of licensed healthcare professionals
- "Other" spas, including mobile and cruise-ship spas.

Destination spas were the main catalyst for the emergence of the industry in the 1980s and 1990s. More recently, the day spa category has grown rapidly. Industry analysts estimated the global market for spa services in 2010 to be more than $60 billion.[3]

## ARISE's Planning and Development Phase: May 2008 – April 2009

With her MBA from the University of Texas at Austin and family connections in Dallas, Kristen Chambers founded ABROAD, an international travel company, in 1999 and built it into a multimillion-dollar enterprise. More interested in starting businesses than in running them, she sold ABROAD for $6 million in 2007 and began to look for a new challenge. A devotee of spa treatments, she noticed that the industry was growing swiftly and, after doing some research, identified an unmet niche: customers who wanted to experience the luxury of a destination spa on a regular basis but were unwilling or unable to devote enough time and money for frequent spa vacations.

### *Vision*

Chambers sought to establish ARISE as a "destination-for-a-day spa" with exquisite surroundings and an emphasis on the health benefits of spa treatments. To distinguish ARISE from other spas and to build strong customer relationships, Chambers envisioned a staff of full-time specialists (e.g., massage, skin, hair, and nail experts) who would also serve as personal wellness coaches. She anticipated that when the spa was running at capacity, the PWCs would spend about six hours per day delivering specialty treatments and two hours engaged in coaching-related activities. PWCs would need to coordinate with one another in advising clients who booked multiple types of treatments, but Chambers did not expect that to require much time because each PWC would primarily focus on his or her specialty area.

Chambers recognized that as the spa was starting to ramp up, PWCs would have some slack in their schedules, so she planned to use that extra time for training and development activities to support the spa's coaching philosophy. In her words, "By taking time to train our PWCs about new health and well-being practices, we'll be role-modeling the type of coaching we want them to provide to their clients." Although less time would be devoted to training once the business was better established, Chambers planned to continue periodic training sessions on new coaching ideas and practices. Her aim was to sustain the ARISE culture and give PWCs new ways to add value for their clients. (See the *Personal Wellness Coach Job Design* section below for details.)

### *Facilities and Services*

In July 2008, Chambers purchased a 23-acre property adjoining the Oak Point Park & Nature Preserve in the prosperous Dallas suburb of Plano, a location easily accessible from the Central Expressway. The 14,000-square-foot main building, a former church camp community center, would be remodeled to house the spa. Chambers hired an elite architectural firm and was heavily involved in design and construction, so when ARISE opened on May 11, 2009, it bore the stamp of her aesthetics and ambition.

Clients entered the lobby to view a wall of water flowing behind the reception desk. The receptionist checked in clients and collected payment for services upon their arrival. There were 18 treatment rooms: four for facials, eight for single massage, two for couples massage, and four for body wraps. The salon space included four stations for hair styling, four for pedicures, and three for manicures. Rounding out the main facilities were steam and sauna rooms, hydrobaths, a lap pool, a state-of-the-art fitness center with a space for yoga, Zumba, and other classes, and changing rooms with lockers and showers. Between treatments, clients could relax in a garden atrium, where a bank of skylights mirrored the shape of the Zen garden below. Tea was served at a black lacquer counter set on a raised platform, and a double door led to a café that served organic snacks and spa cuisine. A retail shop sold a variety of spa products. Six rooms were available where PWCs could meet with clients to create personalized health and happiness plans and for private coaching. Back-of-the-house areas included administrative offices, an employee lounge that could be used for training, and storage space.

### *Organizational Structure*

In January 2009, Chambers finalized her organizational design for ARISE (see **Exhibit 2a**). The business was structured into two main units. The VP of business operations was responsible for overseeing accounting and finance, food and beverage services, and facilities maintenance. The VP of spa operations was responsible for human resource management (HRM), marketing, product development, and retail sales. Under the VP was the director of spa services, who assisted with recruiting and training and was responsible for approving the PWCs' work schedules. The director also was expected to provide informal, ongoing feedback to PWCs. Formal performance evaluations for PWCs and for the reception and scheduling staff were to be conducted annually by the VP of spa operations, with input from the director. The director was tasked with reviewing any occasional part-time specialists who were hired, responding to feedback from spa staff, and monitoring the supply inventory. Marketing responsibilities were to be shared, with the VP of spa operations handling advertising and promotions and the director maintaining a blog on the ARISE webpage, updating the spa's Facebook page, and monitoring online review sites. The director was also responsible for responding to customer complaints that were received or posted online.

### *Recruitment and Selection of the Management Team*

In late January 2009, Chambers hired two VP-level managers to execute her vision: Twyla Thompson, 33, with a masters of management in hospitality from Cornell University and five years of experience with Marriott, became VP of spa operations. Sam Solti, 39, a recent MBA graduate of Texas A&M with a concentration in accounting and finance, became VP for business operations. Before getting his MBA, Solti had spent 10 years in the fitness equipment industry, most recently as a sales representative to spas and fitness centers in the western U.S. (a background that helped him negotiate a favorable deal on the fitness equipment at ARISE). In February 2009, Chambers and Thompson hired a director of spa services: Danielle Dunn, 29, had worked overseas as a massage therapist with the Mandarin Oriental Hotel Group before returning to the U.S. to take a supervisory position at Canyon Ranch Resort in Arizona.

## *Marketing Strategy and Competition*

In the U.S., women make up about 70% of spa customers; the average client is a white college graduate in her forties who earns over $50,000 annually.[4] Consumers of spa services are typically grouped into three categories: periphery, midlevel, and core. The periphery consists of first- or second-time spa users who tend to focus on price. Midlevel consumers are more interested in improving their health and lifestyle but are still cost-sensitive when it comes to exotic treatments. Core spa consumers (under 10%) are the least price-sensitive and can be the most demanding.[5]

During strategy sessions in March 2009, Chambers, Solti, Thompson, and Dunn agreed that although luxury was an important element of the service mix, ARISE's marketing should emphasize the health benefits of regularly re-energizing body and spirit to turn periphery customers into midlevel clients. Given the strategy—including ambiance, as well as range and quality of services—and the target market, the team decided that the primary competition was high-prestige hotel-based spas in the greater Dallas area. To encourage more frequent bookings of multiple treatments, Thompson and Dunn argued that ARISE's prices should be slightly lower than the competition's. They proposed, for example, that prices for basic, advanced, and ultimate facials be set at $110, $185, and $275, respectively—compared with typical competitors' prices of $125, $210, and $325. Solti argued that lower prices did not fit with the type of differentiation strategy that ARISE was pursuing. Initially, Chambers agreed with Solti, but after Thompson prepared a sensitivity analysis showing the impact of extra bookings on revenue, Chambers relented, with the understanding that the issue would be revisited at the end of the first year of operations.

Chambers knew that her business strategy, combining differentiation based on superior customer service with a low cost structure, would be difficult to execute. She was confident, however, that the HRM system at ARISE would help resolve this apparent strategy paradox.

## *Human Resource Management System*

When it came to human resources, Chambers' mantra was "Hire the best and keep them for less." Thus, she designed an integrated HRM system so that its main elements (i.e., work system & job design, staffing, compensation & rewards, career development & training, and feedback from employees) were consistent with her goal of having top performers who were committed to ARISE while still controlling costs. Many spas used the independent contractor model of the hair salon industry to control costs—paying contract or part-time employees for the number of treatments they delivered. But Chambers believed that the PWC role, properly executed, could support a full-time, salaried workforce. She recognized that the individuals who performed these services were professionals—they had to be licensed by the state and were required to complete continuing education hours. Many also studied for and obtained multiple certifications in their specialties. "Treat people like professionals," Chambers said, "and you'll get professional treatment from them."

To control the spa's fixed costs, PWCs would be compensated with salaries that were modest, considering their level of skill and experience, but Chambers was confident that, with high-quality service and personal coaching, PWCs would be rewarded with bigger tips from clients. (Chambers herself routinely tipped 25% at a spa when she received top-notch service.) Because she also was committed to offering benefits, which other spas rarely provided, Chambers fully expected that PWCs would end up with a higher level of total compensation than they could earn in other similar establishments. Plus, they would have the added bonus of a stable, full-time job with some benefits, rather than an uncertain stream of temporary contracts. By late March 2009, Chambers and her team had developed a special Mutual Commitments Contract and job description for the PWCs.

*Mutual Commitments Contract.* The PWC contract covered terms and conditions related to pay, benefits, training, and other basic job elements. What made the contract distinctive was its emphasis on empowerment and trust in the employment relationship:

> ARISE uses positive reinforcement to achieve positive outcomes. Because we hire only the best, we trust your professional judgment. If you have suggestions or questions, speak up! Unlike some organizations, ARISE values your input and wants you to contribute your ideas for improving service quality.

Chambers anticipated that PWCs would be excited about having a chance to voice their opinions. However, Thompson believed that employees were often reluctant to speak up, so she reminded Dunn that she would need to solicit employee opinions proactively.

*Personal Wellness Coach (PWC) Job Design.* A PWC's two primary job responsibilities were providing specialty treatments to spa clients and maintaining an ongoing "coaching" relationship to build a loyal following. PWCs were expected to advise clients when they were at the spa and also between spa visits. Chambers believed that this would encourage clients to view booking treatments at ARISE as a necessary part of their personal wellness program, rather than as an indulgence. Coaching responsibilities were intentionally left open-ended, both in recognition of differences in clients' needs and preferences and to demonstrate respect for the PWCs' professional judgment.

The Mutual Commitments Contract also encouraged PWCs to get training in complementary wellness services such as guided meditation, biofeedback, nutrition, juice cleanses, and fitness. Chambers felt this was critical for three reasons: (1) the spa would save money by not hiring counselors in specialties with limited client appeal; (2) employees could develop new skills and earn bigger tips; and (3) clients would receive more-extensive coaching to help them achieve their goals.

The contract also empowered PWCs to use their personal discretion about how and when to interact with clients: "Some of your clients might be more inclined toward handwritten personal notes, while others may prefer instant messaging. Some may want to friend you on Facebook or follow you on Twitter. Be sure to ask clients for permission to contact them by phone or Skype. You may even want to give your clients your cell phone number." The PWC contract went on to state:

> Coaching is not about selling services; it's teaching clients how to achieve their health and happiness goals. A massage specialist might create a customized tip sheet for a client who wants to reduce stress. Skin care specialists can remind clients to have any irregular moles examined by a doctor. All PWCs can use what they learn at our training sessions to help clients set and achieve personal wellness goals. Remember: Success is contagious—if you help your clients achieve their goals, they will help you achieve yours!

In addition to providing treatments and coaching, PWCs also were asked to help keep the facilities clean and restock supplies in the various areas of the spa.

*Compensation and Rewards.* PWCs received a modest wage and benefits package (see **Exhibit 3a**). Solti had wanted hourly wage rates to reflect the median for each specialty, as reported by the Bureau of Labor Statistics for the region. Chambers wanted to increase Solti's numbers by 15%, which she still felt was modest for attracting the highest-quality employees. They ultimately compromised on pay levels 8% higher than the median. The most expensive benefit was health insurance. Even though it was a barebones package, just having access to health insurance was a major draw for many job applicants. Other benefits included passes for free spa treatments (which also served as training opportunities for other PWCs), discounts at the spa's café, in-house training opportunities, and up to $300 in financial support for coursework required to maintain licenses. Bonuses for being named PWC of the month or year were $250 and $1,500, respectively. PWCs also could earn commissions if clients purchased products that the PWC had recommended. Combined with the promise of lucrative tips, the compensation package looked very attractive to most job applicants. (Although Solti and Thompson had both insisted that no mention of the expected rate of tipping be included in the Mutual Commitments Contract, Chambers had often mentioned 25% when the spa was getting started, and Dunn had repeated that figure when talking to prospective employees.)

### *Staffing Spa Operations*

The spa would be open 12 hours a day, seven days a week, and the initial staffing plan called for hiring 12 full-time PWCs for the first month of operations, with a gradual increase to 32 full-time PWCs as bookings increased (see **Exhibit 1a**). During March and early April 2009, Thompson and Dunn took advantage of Chambers' personal network to recruit PWCs. They focused on experienced Dallas-area treatment specialists with excellent reputations and loyal clients who would follow them to ARISE. Dunn also identified a pool of specialists who could be hired on an as-needed basis to provide scheduling flexibility (given the uncertainty about demand for services, particularly during the early months of operations). All specialists at ARISE held the appropriate license for their primary specialty, and many had additional licenses and certifications.

### *Marketing Before the Opening*

In April 2009, the initial marketing campaign for the spa appeared in local print media (e.g., Dallas newspapers, *D Magazine*) and in niche outlets, including *SpaFinder*, an influential web portal. Offers for free treatments were also sent to a list of local celebrities, who were invited to test the service and provide endorsements and social network marketing.

## Operational Issues in Year 1: May 2009 – April 2010

In May 2009, ARISE did a soft open, to work out operational issues before the grand opening on June 1. Although the company's initial marketing campaign succeeded in getting the ARISE name out to the community, Thompson's strategic approach to selecting PWCs was the most critical component of a successful launch. Most of the bookings in May, June, and July 2009 came from clients who had experience with one of the PWCs. Initially, about 75% of the clients were women, slightly higher than the industry average of 70%. Those clients provided a solid base for referrals when, in August 2009, Thompson rolled out her Bring a Friend promotional campaign, which offered free or discounted products to customers who steered friends to ARISE. The campaign was a success, and bookings grew steadily through the end of the year, demonstrating the importance of the client–PWC relationship and reinforcing just how critical keeping turnover low was to ARISE's strategy. From a marketing standpoint, the spa's expenditures were in line with their competitors', and results were excellent. With respect to HRM issues, however, the picture was not as rosy.

Thompson had hoped that the careful selection process, Mutual Commitments Contract, and work environment (rated 90% positive in a blind poll of employees in October 2009), combined with good tips from satisfied clients, would keep morale up and turnover down. By January 2010, however, morale problems had emerged, and the situation worsened over the next three months. Thompson's morale also dipped when she realized that Chambers, who had been so hands-on early in the process, had become increasingly more disengaged, which meant that Thompson had to spend more time wrangling with Solti over issues that she felt he didn't really understand.

### *Disappointing Tips and Turnover*

Compensation from tips was running about 50% lower than anticipated, even after bookings had picked up in the first few months of 2010. Experienced day spa customers were accustomed to tipping, but some of the more affluent customers were accustomed to the "no tipping" policy at destination spas like Canyon Ranch. Further, when customers booked multiple services, the amount they tipped for each service was often lower. The impact of lower tipping was felt most by the skin care and massage specialists, whose total earnings were 73.0% and 72.6% of what they had been expecting. The nail and hair specialists did only slightly better, at 82.8% and 81.8%, respectively. Although disappointing in its own right, the low level of tips also led some PWCs to feel that ARISE had breached, if not the letter, at least the spirit of the Mutual Commitments Contract.

Turnover in the first three quarters was only 17%, but by the end of the first year it had jumped to 31% (see **Exhibit 1a**). Although this was quite low in an industry where turnover averaged about 75%, the ARISE strategy was built on the assumption of a stable, committed workforce. Spas and salons that competed on price had much higher turnover, but because their customers were far more concerned about price than about who specifically would provide their treatment, the turnover was less of an issue. In contrast, clients at more expensive spas and salons were typically more loyal to their specialists than to the spa, making turnover costly to the top line as well as adding to recruiting expenses. Both Thompson and Dunn encouraged the PWCs to be patient. Dunn also tried to encourage better tipping by placing a printed copy of the Guidelines for Tipping FAQ from the webpage at the front desk and in the atrium garden and café. But customer comments were critical of that measure, so the notices were removed.

### *Problems with Schedules and Job Duties*

Staying on schedule was another serious concern. Said one PWC, "It's tough to keep clients on schedule, especially in the afternoon. Clients who eat lunch in the café are often not ready at appointment time because their order was slow or they had to wait for their check." Some schedule conflicts were with other PWCs. As one PWC hair stylist commented, "I hate it when I have a client coming from a facial—they never get out on time. The estheticians take forever explaining all the different products that the client might want to buy."

Dunn had told the PWCs that their job included helping keep the facilities clean and well stocked. However, because ARISE had a facilities maintenance group, most PWCs assumed they would rarely need to clean and stock. In reality, facilities-maintenance employees worked primarily after hours to clean the spa and prepare it for opening in the morning. As a result, PWCs often found themselves rushing to clean up or searching for supplies during their brief breaks between clients, causing them to be late picking up a client from the waiting area.

### *Client Reactions*

Although tips had been lower than expected and there had been scheduling glitches, early feedback for the spa and its staff was very positive, with 90% of customers reporting that they were "very satisfied" with their overall experience. Chambers had anticipated large tips based on her belief that customers would regard the personal wellness coaching as a valuable service. However, after the first eight months of operations, customer surveys revealed that only 34% of clients reported that they "loved" the service, whereas 60% indicated that they were "not particularly interested" and 6% that they "disliked" receiving advice from spa employees. The survey comments made clear that respondents who disliked the coaching used multiple services and felt that they had received conflicting advice from the different PWCs. The "lovers" tipped 20% to 30% better than other clients and used the coaching service extensively. Most lovers asked questions on Facebook or Twitter, but some phoned in and asked to speak to a particular PWC. A few of the lovers who couldn't reach their PWCs on the phone or get an immediate online reply became disenchanted, and some posted negative reviews online.

### *Financial Performance*

In late May 2010, Chambers, Solti, and Thompson met to review the key performance indicators (KPIs) for the company's first fiscal year (see **Exhibit 4a**) and the income statement (see **Exhibit 5a**). Solti argued for immediate cost cutting. Thompson, relieved to see that Chambers had finally made time to attend to the business, argued that the spa's KPIs, which focused on revenue, were very good for the first year of operations and that costs would come down now that the initial staffing process was complete, as long as turnover could be controlled. After occasionally heated debates, Chambers made it clear that she was far from happy with the situation but was willing to give Thompson three months to address the turnover issue. To Solti's chagrin, Chambers also refused to consider increasing prices for treatments on the grounds that it was no time to alienate clients. To appease Solti, Chambers agreed to his proposal to add a new, fee-based option for fitness center use. Guests could pay a $5-per-day fee to use the fitness center on days when they did not have treatments, or they could purchase a monthly membership for $35.

## Operational Issues in Year 2: May 2010 – April 2011

In June and July 2010, Thompson and Dunn conducted formal performance evaluations with the PWCs and solicited feedback about their job satisfaction and commitment to ARISE. By the end of this process, it was clear to Thompson that most of the PWCs were frustrated and did not think that ARISE had lived up to its commitments to them. Although their overall compensation (when benefits were factored in) was comparable to the local market rate, the PWCs focused on the fact that tips were only about half of what they felt they had been promised (see **Exhibit 3a**). A second major concern was that some PWCs were seen as slackers who didn't help enough with cleaning and restocking. Although the PWCs indicated that the low level of tips was much more important, it actually was when they were talking about taking on extra work because of slackers that they displayed the most negative emotions. The PWCs felt that Dunn should have been more assertive about trying to resolve inequities that some PWCs had brought to her attention. Because the philosophy of the spa was built around the idea of positive reinforcement and trust, however, Dunn had hesitated to write up complaints about employees. Thompson shared the view that trying to punish poor performers was counterproductive and had never pushed Dunn on that point.

### *Developing the All-Star Team Plan*

In August 2010, Thompson and Dunn hammered out a proposal called the All-Star Team plan. Thompson tried to meet with Chambers to go over the plan, but Chambers was out of the country and told Thompson to move forward. The plan was rolled out in September 2010, without a detailed review by the CEO. Rather than being grouped by specialty as before, each PWC was assigned to a team that included at least one member from each of the four specialties (see **Exhibit 2b**). Ideally, a single team would be responsible for each client. Clients could still request a particular specialist, but those who booked multiple treatments and did not request a particular specialist would be assigned to members of one team, as long as the client's preference (if any) for a male or female specialist could be met. Thompson and Dunn believed that the team approach would have several benefits: (1) PWCs could more easily coordinate their coaching and create a more unified experience for clients, which should result in better tips; (2) working in teams would increase peer pressure, making it less likely that any of the PWCs would slack off on cleaning and restocking duties or keep a client too long, thereby disrupting the schedule for other PWCs; (3) by letting clients know that most PWCs worked as part of a team, clients of one PWC might be more inclined to book additional treatments from other members of that team.

### *Employee Reaction and Impact on Turnover*

When it was initially rolled out, the All-Star Team plan was generally well received. Many of the PWCs were excited about working in teams, and soon a friendly, informal competition sprang up to be the team with the highest satisfaction rating for the week. Despite the positive reception to the plan, however, turnover continued to increase. By May 2011, 63% of the PWCs hired in the first two years were no longer with ARISE (see **Exhibits 1a** & **1b**). Although tips had increased by 20% since the All-Star plan was introduced, many PWCs were still disappointed that their overall cash compensation was lower than expected. From exit interviews, Thompson knew that some turnover was related simply to changes in personal situations. For example, one aesthetician moved when her partner got a transfer, and a massage therapist decided to stay home after his daughter was born. Still, other PWCs were leaving because they perceived that they could make more money at other spas. Thompson recognized that part of the problem was that PWCs tended to undervalue the benefits they received. Changing that perception would be tough, but failing to change it could lead to the downfall of ARISE. Although the direct costs of recruiting new PWCs and hiring temporary staff hurt the bottom line, the loss of top-line revenue (not to mention the organizational culture and esprit de corps) was even more significant. When a PWC quit, ARISE lost an average of 55% of that employee's clients, and the lack of staff made it harder to schedule appointments for new customers.

### *Client Reactions*

In March 2011, Dunn surveyed clients to get their reaction to the All-Star team approach and to solicit other feedback. The response to the new team structure was mixed: 27% of clients said they liked having a "spa team"; 17% said they disliked the team approach; and the remaining 56% indicated that they were indifferent. The use of teams had not, unfortunately, led to more clients booking all four specialties; many still preferred to have only two or three treatments per visit. On a more positive note, 94% of clients were "very satisfied" with their spa experience overall. Even better, the number of positive comments on online review sites had climbed by 27% since the first year, and 38% of comments specifically mentioned the value of personal wellness coaching. Attesting to the growing popularity of wellness coaching, a friend told Thompson that *SpaFinder*, a key source of industry information, was going to report that wellness coaching was a top 2012 spa trend.

### *Financial Performance*

The additional fitness center fees had added over $20,000 to the bottom line, and the spa's key performance indicators had improved (see **Exhibit 4b**), but the business was still far from breaking even (see **Exhibit 5b**). Although Chambers understood that building a successful business took time and had deep enough pockets to persevere, Thompson knew that her patience was not infinite and that the clock was ticking.

## What Next? May 2011

In her office, composing her thoughts before the 9:00 AM meeting with Chambers and Solti, Thompson reflected on what needed to be done next to strengthen ARISE. From a financial perspective, Thompson's primary concern was growing revenue, but Solti regularly pressured her about controlling costs. He had adamantly opposed increasing PWCs' salaries, pointing to the cost of the PWCs' benefits and arguing that the PWC productivity rate was too low. Thompson conceded that health insurance premiums couldn't be overlooked—they had risen 9% since 2009 and were expected to increase another 20% in the next fiscal year. Further complicating the benefits situation was the issue of the Patient Protection and Affordable Care Act. The passage of the act in March 2010 might have been a game changer for employee benefits, but challenges to its constitutionality (one of which was filed by the Texas Attorney General) kept things in limbo. Thompson strongly disagreed, however, with Solti's stance on productivity. She believed that the current 72% rate (see **Exhibit 4b**), which was in line with industry benchmarks, was actually too high for ARISE because PWCs' time spent on coaching outside of treatment hours was not included in that percentage.

Thompson also wondered about the All-Star Team plan. It had not solved the turnover problem, but it had helped in some ways. Tips had increased, but the goal of having a single team serve each client was far from being achieved, and that was causing scheduling problems. Eliminating the teams would help with scheduling, but many PWCs reported that they liked working in teams and enjoyed the friendly competition, so dropping the team concept would be likely to hurt morale.

Although many different details remained to be addressed, Thompson had recognized while preparing for the meeting that three basic options were available. Even if she could convince Chambers and Solti (and herself) that the HRM system was fundamentally sound, minor adjustments were certainly still needed. She suspected that Solti, however, would argue for a second option that included much more radical changes to the current system. Third was the option of retreating completely from the idea of operating a large, state-of-the-art spa as a stand-alone entity. With a deep breath and a practiced smile, Thompson headed to the conference room to attempt to hammer out an action plan that would lift the fortunes of ARISE.

## Endnotes

[1] Global Spa Summit, Global Spa Economy 2007, prepared by SRI International, May 2008. Accessed at http://www.globalspaandwellnesssummit.org/images/stories/pdf/gss.spa.economy.report.2008.pdf, p. 1.

[2] Global Spa Economy 2007, pp. 10-11.

[3] Global Spa Summit, Spas and the Global Wellness Market: Synergies and Opportunities, prepared by SRI International, May 2010, p. 24. Accessed at http://www.globalspaandwellnesssummit.org/images/stories/pdf/gss_spasandwellnessreport_final.pdf

[4] First Research U.S. Industry Profile: Spa Services, p. 2.

[5] Mintel: Spa Tourism – International – October 2011, "The Spa Customer," p. 23. [Note: Mintel did not provide data on the size of the periphery and the midlevel segments.]

**Exhibit 1a PWC Staffing Year 1: May 2009 –April 2010**

| Quarter | Massage | | | | Skin Care | | | | Hair Care | | | | Nail Care | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Hired | Quit | Fired | EoM | Hired | Quit | Fired | EoM | Hired | Quit | Fired | EoM | Hired | Quit | Fired | EoM |
| May 2009 – July 2009 | 6 | 0 | 0 | 6 | 5 | 0 | 0 | 5 | 2 | 0 | 1 | 1 | 4 | 1 | 1 | 2 |
| Aug 2009 – Oct 2009 | 5 | 1 | 0 | 10 | 3 | 0 | 1 | 7 | 1 | 0 | 0 | 2 | 3 | 0 | 0 | 5 |
| Nov 2009 – Jan 2010 | 3 | 1 | 0 | 12 | 0 | 0 | 0 | 7 | 1 | 0 | 0 | 3 | 2 | 0 | 0 | 7 |
| Feb 2010 – Apr 2010 | 4 | 2 | 1 | 13 | 3 | 2 | 0 | 8 | 2 | 1 | 0 | 4 | 4 | 2 | 1 | 8 |
| ***Total*** | ***18*** | ***4*** | ***1*** | | ***11*** | ***2*** | ***1*** | | ***6*** | ***1*** | ***1*** | | ***13*** | ***3*** | ***2*** | |

*EoM = End of Month

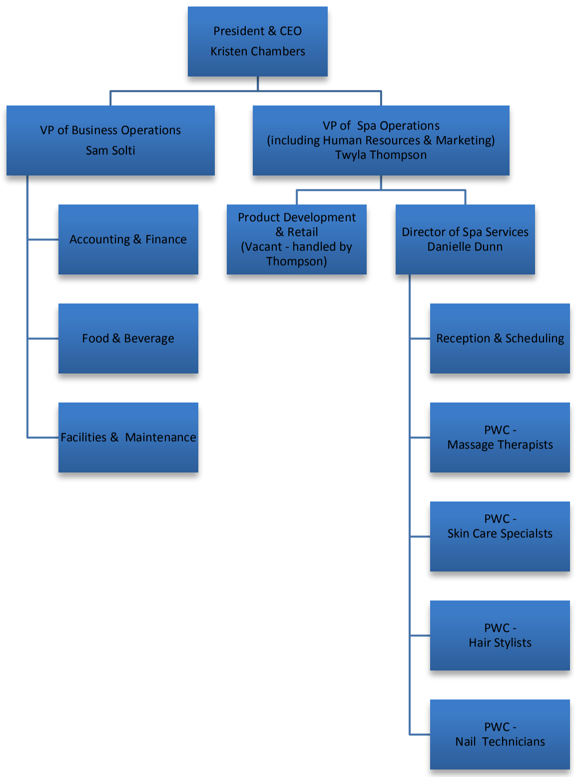
**Exhibit 1b PWC Staffing Year 2: May 2010 – April 2011**

| Quarter | Massage | | | | Skin Care | | | | Hair Care | | | | Nail Care | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Hired | Quit | Fired | EoM | Hired | Quit | Fired | EoM | Hired | Quit | Fired | EoM | Hired | Quit | Fired | EoM |
| May 2010 – July 2010 | 1 | 2 | 0 | 12 | 0 | 1 | 0 | 7 | 1 | 2 | 0 | 3 | 1 | 2 | 0 | 7 |
| Aug 2010 – Oct 2010 | 3 | 3 | 0 | 12 | 3 | 2 | 1 | 7 | 3 | 1 | 1 | 4 | 0 | 1 | 0 | 6 |
| Nov 2010 – Jan 2011 | 3 | 2 | 1 | 12 | 1 | 1 | 0 | 7 | 2 | 2 | 0 | 4 | 3 | 3 | 1 | 5 |
| Feb 2011 – Apr 2011 | 3 | 3 | 0 | 12 | 3 | 2 | 0 | 8 | 4 | 3 | 1 | 4 | 4 | 2 | 0 | 7 |
| ***Total*** | ***10*** | ***10*** | ***1*** | | ***7*** | ***6*** | ***1*** | | ***10*** | ***8*** | ***2*** | | ***8*** | ***8*** | ***1*** | |

*EoM = End of Month

## Exhibit 2a Original ARISE Organizational Chart

### May 2009 – August 2010




## Exhibit 2b Org Chart Under the All-Star Team System

### September 2010 – May 2011

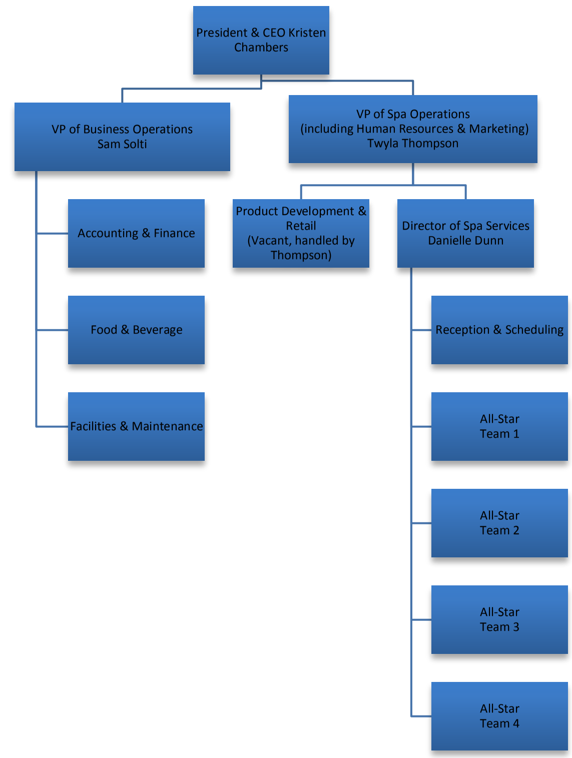


**Exhibit 3a Average Salary Structure for PWCs, Year 1: May 2009 – April 2010**

| PWC Specialty | Salary (per hour) | Benefits & Taxes (per hour) | Monthly Salary and Benefits paid by ARISE | Anticipated Tips (per month) | Actual Tips (per month) |
|---|---|---|---|---|---|
| Massage | $17.33 | $5.20 | $3,604.80 | $2,303.36 | $1,209.26 |
| Skin Care | $15.87 | $4.76 | $3,300.80 | $2,073.02 | $1,094.10 |
| Hair Care | $11.41 | $3.42 | $2,373.80 | $805.20 | $456.28 |
| Nail Care | $10.44 | $3.13 | $2,171.20 | $697.84 | $402.60 |

**Exhibit 3b Average Salary Structure for PWCs, Year 2: May 2010 – April 2011**

| PWC Specialty | Salary (per hour) | Benefits & Taxes (per hour) | Monthly Salary and Benefits paid by ARISE | Anticipated Tips (per month) | Actual Tips (per month) |
|---|---|---|---|---|---|
| Massage | $17.68 | $5.83 | $3,761.60 | $3,156.48 | $1,972.80 |
| Skin Care | $16.19 | $5.34 | $3,444.80 | $2,840.83 | $1,814.98 |
| Hair Care | $11.64 | $3.84 | $2,476.80 | $1,192.32 | $794.88 |
| Nail Care | $10.65 | $3.51 | $2,265.60 | $1,033.34 | $715.39 |

**Exhibit 4a Key Performance Indicators: May 1, 2009 – April 30, 2010**

| | | |
|---|---|---|
| **ATR** | Average Treatment Rate = total treatment revenue / number of treatments sold | $118 |
| **ASR** | Average Salon Rate = total salon revenue / number of salon services sold) | $55 |
| **ATRU** | Average Treatment Room Utilization = hours of treatment room use / available treatment room hours | 24% |
| **TProd** | Therapist Productivity = service hours performed / therapist hours available | 61% |
| **RPSF** | Revenue Per Square Foot (combines spa and salon) | $66.28 |

**Exhibit 4b Key Performance Indicators: May 1, 2010 – April 30, 2011**

| | | |
|---|---|---|
| **ATR** | Average Treatment Rate = total treatment revenue / number of treatments sold | $137 |
| **ASR** | Average Salon Rate = total salon revenue / number of salon services sold | $69 |
| **ATRU** | Average Treatment Room Utilization = hours of treatment room use / available treatment room hours | 31% |
| **TProd** | Therapist Productivity = service hours performed / therapist hours available | 72% |
| **RPSF** | Revenue Per Square Foot (combines spa and salon) | $118.26 |

**Exhibit 5a Income Statement: May 1, 2009 – April 30, 2010**

| | |
|---|---|
| **Revenue** | |
| Spa & Salon | $ 660,442 |
| Retail Sales | $66,044 |
| Café Sales | $ 187,200 |
| **Total Gross Revenue** | $913,686 |
| **Cost of Goods & Direct Expenses** | |
| PWC Salaries & Benefits | $ 925,267 |
| Retail Sales Commissions | $ 6,604 |
| Spa treatments & Salon services | $ 66,044 |
| Retail (merchandise & labor) | $ 49,533 |
| Café (food, beverages & labor) | $ 112,320 |
| **Total COGS & Direct Expenses** | $ 1,159,768 |
| **Gross Margin** | $ (246,082) |
| **Other Operating Expenses** | $ 201,011 |
| **Income (Loss) before depreciation and amortization, interest expense, and income taxes [EBITDA]** | $ (447,093) |

**Exhibit 5b Income Statement: May 1, 2010 – April 30, 2011**

| | |
|---|---|
| **Revenue** | |
| Spa & Salon | $ 1,011,096 |
| Fitness Center Fees | $ 23,400 |
| Retail Sales | $ 121,332 |
| Café Sales | $ 22,464 |
| **Total Gross Revenue** | $ 1,178,292 |
| **Cost of Goods & Direct Expenses** | |
| PWC Salaries & Benefits | $ 1,122,757 |
| Retail Sales Commissions | $ 12,133 |
| Spa treatments & Salon services | $ 101,110 |
| Retail (merchandise & labor) | $ 90,999 |
| Café (food, beverages & labor) | $ 13,478 |
| **Total COGS & Direct Expenses** | $ 1,340,477 |
| **Gross Margin** | $ (162,185) |
| **Other Operating Expenses** | $ 223,875 |
| **Income (Loss) before depreciation and amortization, interest expense and income taxes [EBITDA]** | $ (386,060) |