

## Basic Retail Management for Spas

**R**etail is an absolutely vital part of a successful spa operation. In many cases it can be the difference between generating a profit or sustaining a loss. This article is part of

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| an ongoing series devoted to retail management for spas and will focus on basic retail management techniques that can have an immediate impact on your spa retail operations.

Last year, when John Korpi, president of the ISPA Foundation, led a group of retail experts to create the text and course for “Retail Management for Spas,” we had one simple goal in mind: to create a tool that would dramatically increase the effectiveness of retail operations within spas. The retail concepts that are second nature to traditional retail professionals are not so intuitive to spa professionals. Many spa managers either come through the ranks of estheticians and massage therapists or through other management positions. Retail management is not a primary skill, and as such, is an area with only a cursory level of focus.

Today, spa retail revenue on average generates 10-18 percent of total spa revenue but represents 20-25 percent of total



profit. Therefore, it is clear that by increasing retail revenue there can be a huge effect on overall spa profitability. Every spa operation today needs to evaluate their retail operations to ensure that they are fully maximizing their retail revenue/profitability potential.

The most basic concepts of retail are simple and obvious:

- Carry the right inventory
- Carry the right *amount* of inventory
- Manage cash flow
- Earn a profit

The key is employing some basic retail techniques to ensure the above principles drive your retail management activities.

The most basic of these is Turnover, Stock-to-Sales Ratio and Best-sellers/Slow Movers.

### TURNOVER

This term refers to the number of times an average retail inventory is sold within a year. For example, if a spa had annual retail sales of \$120,000 and the average monthly inventory (at retail) was \$30,000, the turnover would be 4 ( $\$120,000/\$30,000$ ). In the spa industry, a good turnover is between 3 and 4. A high turnover rate ensures fresh inventory and an opportunity

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# a retail focus

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to change the product mix according to current customer buying trends.

## STOCK-TO-SALES RATIO

This ratio is calculated by taking the begin-

ning-of-month inventory (at retail) and dividing this by the sales for the month. For example, if the beginning-of-month inventory was \$30,000 and the sales for the month were \$10,000, the stock-to-

sales ratio would be 3:1. The ideal ratio is between 3:1 and 4:1 for the spa industry. A lower ratio (less than 3:1) means that the possibility of stock-out situations (lost revenue opportunities) is much higher. A higher ratio (more than 4:1) means you are carrying too much inventory and can have a negative effect on cash flow and profit with a higher possibility of spoilage, obsolescence and pilferage.

## BEST-SELLERS/SLOW MOVERS

Charles Compton, president of Mars Solutions, a spa retail consultancy, believes "the longer a product goes unsold, the greater the possibility it will never sell." He also thinks that "if every spa were to just manage their top 50 best-sellers and bottom 50 slow movers extremely well, they could see an almost immediate 20 percent boost in retail revenue." His assertion is a great one, because it will ensure that the spa will always have stock of the items their customers want and phase out the slow movers with a better mix.

Once you have understood your turnover, stock-to-sales and best-sellers, you can establish your minimum and maximum levels to ensure your ordering matches your retail plan. Software can truly automate this process, but that is a topic for another day. ■

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