



COMPENSATION WORKBOOK FOR THE SPA INDUSTRY



PREPARED FOR THE
ISPA FOUNDATION
BY COMPENSATION CONSULTING CONSORTIUM (3C)

NOVEMBER 2004





The International SPA Association Foundation is the non-profit foundation of the International SPA Association, the professional organization and voice of the spa industry. The ISPA Foundation's mission is to improve and enhance the value of the spa experience; its vision is to advance spa culture to sustain health and well-being. The ISPA Foundation's objectives include being the educational source for the spa industry, establishing definitive research that validates spa industry-related topics and creating an endowment that sustains the Foundation in perpetuity.



Compensation Consulting Consortium (3C) has teamed up with the ISPA Foundation to complete this compensation workbook. 3C is a full service compensation consulting firm dedicated to establishing effective total compensation programs to enhance the value of your business. 3C helps its clients develop compensation solutions that are tailored to fit an organization and its unique culture, values and strategy.

Disclaimer

This compensation workbook is intended to be a guide to assist in the effective design and administration of compensation programs. It is not a comprehensive overview of all compensation issues, and application of all or some of the concepts and recommendations in this workbook does not guarantee specific results. Although the information in this workbook has been obtained from sources that Compensation Consulting Consortium considers to be reliable, its accuracy and completeness cannot be guaranteed.

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**“IF WE CAN MEASURE IT, WE CAN REWARD IT”
– EDWIN NEILL II**

This compensation workbook is dedicated to the memory of Edwin Neill II (August 2, 1939 – February 28, 2004), founder of the Neill Corporation, past member of both the ISPA and the ISPA Foundation boards of directors and a trusted friend. Edwin’s contribution to the spa industry is immeasurable; his legacy as a visionary, innovator, environmentalist, preservationist and generous mentor is both remarkable and inspiring. It was at Edwin’s recommendation that this compensation workbook took flight. We are profoundly grateful to have had the opportunity to work with Edwin and learn from his life example. He is sorely missed, but his kind spirit, leadership and integrity will never be forgotten.



International SPA Association Foundation's
Compensation Workbook



Prepared by Compensation Consulting Consortium (3C)

November 2004

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The International SPA Association Foundation is the 501(c)3 foundation of the International SPA Association and was created in 1999 to serve the educational and research needs of the spa industry. The ISPA Foundation's mission is to improve and enhance the value of the spa experience; its vision is to advance spa culture to sustain health and well-being. The ISPA Foundation's objectives include being the educational source for the spa industry, establishing definitive research that validates spa industry related topics and creating an endowment that sustains the ISPA Foundation in perpetuity.

This workbook represents an important step in the financial wellness and development of the spa industry. When this workbook was still a concept, we discussed the great need for wage and benefit data for the spa industry. In these discussions, it was our friend and former board member, Edwin Neill II, who agreed that the information was needed, but made the point that we would be doing the industry a huge disservice if we were to provide the data with no education or instruction. We know the industry struggles with compensation and that often times companies compensate their employees in a manner that may put their organizations at risk. In order to ensure the sustainability of the industry, the ISPA Foundation felt it was important to provide education on how spa professionals can develop a profitable compensation plan that provides the right balance of paying for performance and maintaining profitability. Specifically, the workbook was designed to provide guidelines, information and tools in an easy to understand manner that will shed light on the complicated issue of compensation.

While education and instruction on creating a total compensation system is important, it is strengthened with spa-specific wage and benefit data. To meet this need, ISPA has partnered with WageWatch.com to provide accurate compensation data for more than 30 spa positions. So, as the industry gathers this important wage information through ISPA and WageWatch.com, spas can utilize this workbook as a tool to guide them on how to synchronize their compensation systems with their business objectives.

The ISPA Foundation is grateful to the Compensation Task Force for their efforts in directing and guiding this project over the last year. The ISPA Foundation thanks and commends the task force for sharing their knowledge and expertise and their untiring devotion to the completion of this task. The task force members responsible for this landmark workbook are:

Francis X. Acunzo, CEO, Acara Partners
Lori Hutchinson, Owner, Hutchinson Consulting
John Korpi, President, ISPA Foundation
Edwin Neill II, CEO, Neill Corporation
Edwin Neill III, CFO, Neill Corporation

The ISPA Foundation is privileged to have worked with Lisa Audi and Brian Enright from Compensation Consulting Consortium (3C) who authored this workbook. Their experience and knowledge of compensation and business dynamics have helped shape this publication into the powerful resource it is today.

The International SPA Association was a key partner in the development of the Compensation Workbook for the Spa Industry. Their support, involvement and wisdom were vital to its development, and we sincerely thank them for their commitment to the future of the Foundation and the industry.

We also wish to thank and acknowledge the support and enthusiasm of the more than 140 ISPA member spas who participated in the development survey, interviews and group discussions on compensation. Their involvement was instrumental in directing and guiding this workbook.

The ISPA Foundation welcomes your feedback and comments on this workbook, as well as future projects and endeavors.

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As a time-pressed business owner or spa director, your first reaction to this workbook might be that you just don't have the time to study the whole thing. This quick start guide is designed to give you an overview of each section of this workbook so you will know where you can find the information you really need to address your compensation issues and answer related questions.

Section I: Why Compensation?

Compensation is intended to attract, motivate and retain your workforce and is the single largest expense for the spa industry. Accordingly, designing and administering effective compensation programs that are economically sound are of top priority. This section beginning on page 6 introduces the topics covered in this compensation workbook and provides a spreadsheet for you to use to estimate your total compensation as a percentage of your annual revenue.

Section II: Compensation Definitions

A typical compensation package can consist of base pay, commission, incentive compensation, benefits and non-cash elements—work environment, training and development and non-cash rewards. Each of these programs requires special attention and together they reflect the overall value of working at your spa. Key compensation definitions are provided beginning on page 9.

Section III: Compensation Economics

All compensation elements have a cost. Base pay, commission, fee-for-service, tips, paid-time off and benefits all require cash from the business, and few spas can be economically viable over the long run if total compensation costs for all employees exceed 60% of annual revenue. There are some hidden costs to compensation as well, including taxes on tips, healthcare costs and paid-time off, which require careful planning and estimating. The economics of spa compensation are discussed in detail beginning on page 11.

Section IV: General Workforce Trends and Issues

Changes to workforce demographics and employee expectations need to be factored into the design of your compensation programs so you can attract the desired workforce today and into the future. A work-life balance, a 24/7 service economy and shorter employer/employee affiliations are some of the factors that continue to influence the way we work and how we pay employees. Read more beginning on page 15.

Section V: Spa Industry Compensation Trends

Significant input into the development and contents of this workbook came from an ISPA member survey conducted in August 2004 that covered spa compensation design. Key survey findings are summarized beginning on page 17.

Section VI: Key Spa Compensation Issues and Responses

In addition to the ISPA survey, one-on-one interviews, group meetings and written communication with spa directors and owners were conducted to understand key compensation issues for spas. These issues and ideas to address them begin on page 24.

Section VII: Business Culture and Total Compensation Strategy

Planned or unplanned, all spas have a total compensation strategy to complement their business and culture. The key questions that a spa director or owner must answer in determining the spa's total compensation strategy are the following:

- 📌 What are we willing to pay for?
- 📌 How will we deliver compensation to our employees?

These simple questions have involved answers, which require understanding the needs of the business and the needs of the workforce. Guidelines for developing a total compensation strategy that fits your culture begin on page 30.

Section VIII: Compensation Program Design

Compensation programs must be designed to ensure they are affordable to the spa and can be sustained over the long term, with increased compensation aligned with increased revenue and profitability to cover the additional expense. The four key design elements to which all of your compensation programs must adhere are outlined beginning on page 32.

Section IX: Base Pay and Market Data

There is an entire discipline established to determine external competitive rates of pay and then manage internal pay to align with the external market over time. (It is necessary to determine the market or "going rate" for all jobs, even those paid on a commission basis.) This process of collecting and interpreting market pay data is outlined beginning on page 35.

Section X: Incentive Compensation

From the classic commission schedule to bonus and incentive plans (which are different) to fee-for-service arrangements to spot bonuses—incentive compensation (also referred to as variable compensation) covers all of these. Each of these plans has a role in a spa for certain positions and for certain situations. Additionally there are tradeoffs for the business if the incentive is tied directly to individual performance, tied to overall spa performance or represents some combination of the two. Incentive compensation is discussed beginning on page 51.

Section XI: Benefits

Access to healthcare is a primary concern for most employees, and employers tend to have better and more affordable access than individuals can find on their own. It is important to remember that all benefits are costs that need to be factored into the total compensation package. Certain benefit programs are required by law in the United States: Social Security, Medicare, Unemployment and Workers' Compensation. Other benefits are not mandatory; an employer is not required to provide healthcare, paid-time off, holiday pay or other benefit programs. Together, these additional benefits represent a significant cost to employers that is often not considered or undervalued by employees, but employers often still provide them for competitive reasons. Typical benefit programs and related costs are outlined beginning on page 60.

Section XII: Compensation Models

When developing a compensation model, it is useful to review the pay approaches used by other spas. These approaches are varied and will help in comparing your compensation models to existing models or creating a new model. If you only want to read one section of this report that will allow you to understand the types of compensation models that are feasible in a spa environment, this section provides detailed compensation models for a commission only arrangement, fee-for-service, base pay only, base pay plus incentive, base pay plus commission, indirect base plus incentive and special approaches and considerations for spa managers, directors and owners. Six compensation models are outlined beginning on page 64.

Section XIII: Transition from One Pay Model to Another

Pay plans change periodically to meet the needs of the business, and implementing such change requires a transition strategy. An approach to transition from one compensation model to another is discussed beginning on page 78.

Section XIV: Performance Management

As an employer it is important to establish performance expectations and to discuss actual performance compared to such expectations. This process can improve employer/employee communication and should also be used to tie pay adjustments and promotions to performance. An outline of the key features of effective performance management systems can be found starting on page 80.

Section XV: Work Environment and Non-Cash Rewards

Low cost but high impact on both morale and performance, non-cash rewards are often called the indirect paycheck. Employees who feel respected, appreciated and successful often outperform other employees who are just well paid. A discussion of work environment and ideas for non-cash rewards and recognition begins on page 86.

Section XVI: Compensation Program Communication

A frequent issue cited by managers is that many employees do not fully understand how their compensation programs work; some do not even know how much they make or what is spent by the employer on their behalf. Communication in both written format and one-on-one discussions is necessary to ensure the effectiveness of any compensation program. Key aspects of effective communication and an example of a simple compensation statement that outlines an employee's annual total compensation is discussed beginning on page 89.

Section XVII: Compensation Program Assessment

Ongoing assessment of your compensation programs will allow you to understand their effectiveness in aligning with your business strategy, maintaining an appropriate revenue-sharing structure and serving as a tool to attract and retain employees. A typical compensation program assessment process is outlined on page 92.

Section XVIII: Employment Laws and Regulations

Pay and benefits are governed by a number of rules and regulations, which cover items such as reporting tip income, determining whether a person is an employee or an independent contractor and ensuring the pay system and pay practices are fair and non-

discriminatory. While the motto “do the right thing” will steer you in the right direction, it is important to understand compensation-related laws and regulations to help ensure that your programs and practices are in full compliance. More information concerning the major compensation-related laws and regulations in the United States begins on page 93.

Appendix

This includes a number of tools and forms that are referred to in the body of this workbook. The Appendix is intended to provide additional information and examples to help in compensation program design and administration. These materials and worksheets are also included in an electronic format in a CD-Rom located in the back of this workbook.