Data, Dollars and Decisions

General Session: Research
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Transcription:
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JAN FREITAG: Thank you for being here, in this beautiful facility. I would like to talk about the state of the luxury hotel in the U.S. just very briefly and then give you our insights into the spa STAR program, which we have been running for a couple of years now.

Before I start, Mr. Berger – Happy Birthday.

It was requested last night that I don't talk as fast – I get excited about this so I get really into it. All the slides will be available on our website. I believe it is all on the memory stick as well – of course as any good speaker, I changed it all last night. What you have here, the memory stick is still good, its just last night I had some inspiration - what you will see on the website will be the latest and greatest.

When I arrived last night, I arrived to this, which are blue building blocks and red balls and I was like, okay, this is all about innovation, apparently; I wonder what this actually all means and probably the best way to figure out if the Global Spa & Wellness Summit works is to see what these people do with the building blocks, which I was kind of curious about. So I checked, walked back out and saw indeed, innovation when using these building blocks as a bed – so it does indeed work.

Very briefly I want to tell you about the state of the luxury hotel industry. In a sense, I kind of felt like that little blue block. We are the foundation of what you do out there, you can arrange our data anyway you want, you may want to sleep on it at times, but hopefully you'll want to use it with a little more action sort of speak.

This is the state of the luxury U.S. hotel industry through the first quarter, twelve months ending as if the year had ended in March. We have 305 hotels which we call luxury in the sample, and what you're seeing is life's pretty good. Occupancies are well up, 70 percent or so, average room rates not bad - $260. The more interesting numbers are on the right hand side here – you're seeing that the supply/demand imbalance in favor of demand – we are not building anything; it's just the money out there. Bankers are scared and if they can invest something that has a 10-year lease against something that has a one-night lease, it turns out that they think hotels are rather risky. The demand number is still sort of a rebound number, which gives you occupancy increase, and we're finally seeing some very healthy pricing power. To say this slightly differently, what drives this industry is supply and demand. We have, this first quarter of this year, sold more luxury hotel rooms than ever before. The upper 1 percent or 10 percent is doing very well and we're profiting from that.

This is 12 months moving average supply and demand percent change, so this is not the actual total number of rooms sold, total number of rooms built. This is just how many more rooms are we selling. That is, if the above line is above zero, how many less rooms are we selling in some instances so the yellow line is below zero – or how many more rooms are we building when the red line is above zero? We're never actually taking rooms out of inventory.

What's interesting to note on this chart is that the red line is coming way down, no new supply, and this line doesn't change very quickly because it takes probably 60 months [from] "I have a dream" to opening the doors, and that's going to be five years or so before we see some new luxury supply. What's interesting is in the 2009 downturn, luxury demand only dropped 4.5 percent to 5 percent - interesting. So the 95 percent demand for luxury rooms was still there. On the next chart that I am overlaying, the yellow line stays at exactly the same; I'm changing the axis on the left a little bit, but the yellow line is exactly the same. What I am overlaying here is how the change of demand impacts our pricing, as we say in German, "Yikes." This is not a good chart because what you are seeing is huge decreases in ADR—20 percent or so—and we are seeing that room rates increased again with the increases in demand. But it's really not a rebound number because we're down twenty, we're now up five, but that really doesn't buy you anything. We don't see a whole lot of pricing power and why is that? Well another way to say this is this: what I'm doing here is looking at the peak ADR for luxury hotels, which was September of 2008, fast-forward to the trough (the bottom) – how long did it take? 18 months. How much did we discount? 20 percent. By the way we are only increasing at 10 percent.

The point of this chart is we are discounting at twice the pace of ADR increases. What's interesting is when you are in this down circle, roughly at this point, my colleagues and myself are saying, "Whoa, you're discounting a lot guys. You're not going to get it back." The industry says, "Blah, blah. You're just from Tennessee, you don't know anything. It's going to be a V-shape recovery – we're taking it down and it's going to go right back up." No, that's not the way it works. This is the chart that shows you that this is not the way works; there will be another downturn. I hate to say it, this is a cyclical industry, always has been, always will. We will see discounts again, next time keep this in mind. We are not going to get it back quite as quickly as we discounted.

This is a forecast for the year. We are suggesting very healthy ref par numbers around 6 percent or so driven to be room rate increases. So it's not bad – 5 percent room increases, certainly well above inflation but given that we were down 20, we still need a little bit more "oomph" in that engine.

That was just how the hotel industry is doing, which is pretty well – life is pretty good. Now let's talk about the spa STAR, prodding the spa STAR data that we have been collecting for a while.

At STR we collect three numbers: rooms available, rooms sold and rooms revenue. We get this from all chain hotels in the U.S. and most of the chains globally. We take the data, make averages out of it, and the averages are ADR, occupancy and ref par. If you don't know what ref par is, don't worry about it, if you know what it is, it really matters. We're making these three numbers. So when Susie, Marian and ISPA came to me and said, "Hey, can you collect the same data points for the spa industry?" And I said, "Sure, what are your three metric points?" And they said, "No we don't want three, we want thirty." So we negotiated and ended up with nine. We broke out the spa into three big buckets, in better terms, the treatment side, the salon side and the retail side.

We are asking on the treatment side, what's your total revenue? How many treatments do you do? And then the utilization – understanding how many hours were your treatment rooms open and how many hours were they used? The same thing on the salon services side, and then we have one retail catch-on number. I just want to show you that we're not making up the definitions; the definitions are based on the uniform system of the council of the spa industry. We now know what we mean when we mean treatment – you can read that online, I just wanted to show you on a slide, also.

We are trying to compare apple sauce, then we just do the math – treatment room utilization rate, the hours used, divided by the hours available – what's the average treatment rate? The total revenue of treatments divided by the number of treatments and so forth. The math is actually so I can figure it out, it's not that hard. We're doing it on the treatment side, we're doing it on the salon side as well, and I want to share with you a few of those metrics.

All this data comes to us through either data feeds or through our handy dandy website, and if you have more interest in the program, I urge you to check it out. All the information you need is on it, and as you can see, we are generously supported by ISPA. Then your question is, "How much is it?" It's free, guys – how cool is that? All I want is your data. That's what I do – I'm a data guy. I don't even want your money. I mean, eventually I want your money, but in the beginning, I really just want your data. The idea is you give me data, I give your data back, and everybody is happy. The data that I give you in the beginning, we really have an okay coverage in the U.S. – 30 luxury hotel participants, which is 10 percent. Not great but not bad, given where we are at. If you just want to know the average of those 30, you give me your data; I give you that average – done. No money changes. And of course then you're saying, "Well that's interesting, but not quite actionable. Can you build me what's called a compset, a competitive set?" And the answer is yes, but then I want your money. So the idea is we make money, you make money – the competitive set data is going to be a lot more actionable because you will be able to see how competing hotel spas are doing on pricing and then you can say "Am I too high? Am I too low?" Really actionable stuff but that is when we like to be compensated, and because ISPA has been so great, we like to be great back to ISPA.

Real quick – thank you, Anne McCall and Mia, thank you for your support at the beginning. Andrew and Mary, as professors, thank you very much. ISPA has been great, and of course, I really appreciate the opportunity to speak in this forum because you can make this happen. You asked me four or five years ago to do it and I said I will, and I'm fighting the battles internally in Henderson, Tennessee, because there is no money yet and people are like "Why are you doing this?" Well, that's part of the job, but I need to show my boss results so it would be really nice if you could support me for supporting you. [laughter]

Let me tell you a couple data points and then we can get the dialogue going in getting my hands on your data. This is the average treatment rate for year 'n' (2006 - 2011). Turns out, there was a recession. It has impacted everybody; it has impacted the hotel industry, impacted the spa industry as well. Obviously, this is a questionable number of treatments. It's total treatment revenue versus the number of treatments that's the math on this, so both of those numbers have fluctuated. But I think it's interesting to note, number one, we say discounts, number two, for the last two years as the hotel industry is recovering, on the spa side, we are not seeing increases in revenues.

These bars are exactly the same that I just showed you. I'm just showing you now average treatment rate versus average salon service rate – kind of a dollar-a-minute to get a manicure or so. Again, the same pattern we have been seeing in our sample size is that we saw discounts, and now we are just treading water when it comes to the average revenue side – and looks like we need some innovation and imagination, maybe some dreaming, but how do we move these numbers up? The percent change in the numbers I showed you, but I'm overlaying here how the luxury ADRs are faring, there is some sign of life here as I said earlier on the luxury hotel ADR side. Really, nothing is going on the treatment side but is this maybe a leading indicator of things to come? I hope it would be as we would be able to extract more money from our guests on the hotel side; wouldn't they be "primed" to pay higher fees in the spas? That's for you to figure out, but it's going to be interesting to see if that is indeed a leading indicator.

For those of you not from the States, because my next slide references this, check it on YouTube – a video of someone calling, "I'm falling and can't get up."

[Audience Member]

Is there an impact of the flash sale side on the treatment salon services number?

[Jan Freitag]

I'm not the operator. From this stage, I would argue absolutely, but I don't know if you agree with that strong statement. But I think there has been a little bit of an idea of a value erosion that we talked about earlier – now you're not getting it back as quickly, it's going to be interesting how quickly you can indeed move that needle. I throw that question back to you – are you seeing that?

[Audience Member]

Do you think what we're finding is - because the room rates are? Discounted – we're getting a different type of guest, which is why the treatment side isn't as high?

[Jan Freitag]

The argument is that because the room rate was discounted, there's a different client that is coming; the client isn't really ready to use the spa – am I paraphrasing this correctly? We're seeing that on the luxury side, we're actually receiving the return of the "old traveler" – a lot more corporate, a lot more high-end leisure – so hopefully, that would bode well going forward. I totally agree with you because I think that the customer makes that the change in 8, 9, 10ish but now that were coming out of that, hopefully we will see the reversal of that with the auxiliary spend on the F& B side on the spa side.

Anyways you don't have to see this video, but I looked at this chart and it's the only comment that I had – "I've fallen and I can't get up." It looks like we're seeing that the average treatment rate peaked nicely and then there's kind of "anemic," I guess is the term, there's not a whole lot of a sense of life there. And it's going to be up to the operators to figure out how we are going to move things back up. Have we indeed permanently eroded the value equation through the flash test item? And I appreciate your (audience member) comment saying "We don't play." Unfortunately you are the lone caller in the desert and I applaud you, but there are a lot of people out there saying, "No this is what we have to do." Therefore, I think we are seeing some impact of that.

The next three charts are line charts - they look exactly like this. I'm starting with the average treatment rate, a dollar-per-average treatment rate. This is the utilization rate of the treatment, so it was interesting to hear the last student group talk about it – they start with the ramp starting at 20 percent utilization rate and go to 55 percent. I was like, good for you, that is awesome I want to see that because I buy your 20 number and maybe I'll buy your 30 number in a couple of years, but 55 – love that student enthusiasm. Obviously you can move that number, you can just not be open that long and maybe that was part of how they did it.

We've seen erosion on the utilization side – of course you want to sell more treatments but maybe this is also an indicator that we don't need quite as many staff or maybe we change our opening hour metrics.

The next two charts with exactly the same idea just on the salon side; this is the average salon services rate and it looks exactly the same, so we came down during the recession and now we're suggesting, well, the numbers move up and down in a very small range, and I'll call that a dollar or two, but that's really not a whole lot that gives us an "oomph." It's going to be very interesting to see what you can imagine for the changes – I think that's going to be with us if we don't take action for a long time. Now, what the action is, it's not easy for me to tell you – we've got a ton of consultants out there who'd love to tell you what to do, how to move this needle or how to move this line.

Lastly, to wrap this up, the salon utilization percentage – the numbers are between 16 percent or 20 percent or so. The drop-off hasn't been quite as sharp – maybe pointing at an interesting way to say, "Hey, maybe these people haven't gone away or are they just coming? Is this line just steady because the discounts on the other line were so steep?" That's a very big question. Is it a threat? Is it an opportunity? Does it mean we have to come up with new services or shorter services? Those are just some questions.

Lastly, what I did here, and this is first quarter data so first quarter of 2009 through first quarter of 2012. I said, "What's your total retail revenue?" And I divided it by the number of treatments. That number has moved a little bit – obviously, this is where your profits are so that number has to go back up. I know that Jeremy is going to talk about some interesting things later this afternoon about what you could do to change the retail mentality. I don't want to steal your thunder but I think your comments are spot on and it's going to be interesting to see how we move that retail part going forward.

Let me finish with this: You said "Jan, go. Build us a spa star program." Done – now I need your data. I can't do this without data, so please, people in the audience, if you have access, if you control spas, if you're an owner, if you're a management company, I think this is really cool stuff. I'm not making this up, I'm reporting back data and I don't have any data. I'm not a spa guy, I'm a data guy, so take this as a call to arms, take this as a kind request to please participate. Again, I really don't want your money at the beginning. I think once we get traction and once we get this data out to the investment community, to the hotel owner community and then we can talk about money – but let's just start with data. I urge you to consider participating in the spa star program.

Thank you.