

Calculating the Cost of a Treatment

What information is needed when pricing the treatments on the spa menu? What costs need to be included in the price of our services?

- Labor
- Worker's Comp Taxes & Benefits
- Linens and Supplies
- Rent and Utilities
- Overhead

For our example, let's use a dummy treatment.

AGE-DEFYING FIRMING FACIAL

Reclaim your skin's youth. This advanced treatment feels luxurious but acts powerfully to firm and improve skin's texture and tone. Combining traditional massage therapies with a signature skin-tightening mask, the facial restores a time-dulled complexion.
\$TBD

Products	Product volume	Price/Unit	Quantity /treatment			Number of treatments/ units	Cost
				fl oz	ml		
	fl oz	AUD		fl oz	ml		AUD
Gel Cleanser	16	43.00	⅛ tsp	0.02	0.63	768	0.06
Repairing Cleanser	8	27.00	¼ tsp	0.04	1.25	192	0.14
Nourishing Serum	1	125.00	6 drops	0.02	0.50	60	2.08
AHA Serum	8	90.00	1 tsp	0.17	5.00	48	1.88
Body Oil	128	200.00	1 tsp	0.17	5.00	768	0.26
Firming Mask	30	300.00	1 tsp	0.17	5.00	180	1.67
Toner	16	30.00	1/16 tsp	0.01	0.31	1536	0.02
Aroma Oil	1	32.00	7 drops	0.02	0.58	51	0.62
Hair Treatment	128	200.00	½ tsp	0.08	2.50	1536	opt
Softening Body Baume	27.1	80.00	½ tsp	0.08	2.50	325	opt
Eye Oil	1	32.00	1 drop	0.003	0.08	360	0.09
Eye Serum	2	80.00	1/16 tsp	0.01	0.31	192	0.42
Moisturizer	8	110.00	¼ tsp	0.04	1.25	192	0.57
TOTAL							7.80

Our cost for the products needed to perform this treatment is \$7.80.

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Next, let's look at our labor costs. Who do we have to perform this treatment and how will we pay them?

THE COST OF LABOR

Straight Commission - This number is a straight percentage of the treatment price.

Base Rate plus Commission - This number is an hourly rate for every hour that a staff member is in the spa plus a percentage of the treatment price.

Salary - This number is a weekly salary for a specified number of hours per week. This method can include a "team bonus" or "profit-sharing" option. (See Compensation supplement to explore this option further.)

For our example, we will use the Base Rate plus Commission pay structure. We would optimally wish for every hour that our therapist is in the spa that he or she is booked with a service. However, there will always be a time when the service provided is not generating revenue. We must consider this time when calculating our true costs.

Example: At Beaute Day Spa our Providers are paid \$5.75 for every hour they are "on-premises" and an additional \$14 for every hour treatment they perform. We know for certain that our labor cost for the hour they performed the service is \$19.75. For our example, we will assume that our service provider has one non-revenue producing hour for each "revenue-generating" hour (or booked 50% of the time.) We will add \$5.75 to our costs to account for that hour for a total of \$25.50. See calculation below:

Labor Cost:	
Hourly Rate	\$5.75
Commission per treatment	\$14.00
Non-Revenue Hours (1)	\$5.75
Total Labor per Treatment	\$25.50

WHAT OTHER ASSOCIATED "LABOUR COSTS" DO WE HAVE?

Worker's Compensation Insurance- The rate is stated in the form of "cents on the dollar" for the total amount of the spa payroll or X% per \$100. The rate for a policy is quoted by an insurance company that is licensed in your state of business. For our purposes, our percentage is 4.5. **Taxes and Benefits** are an additional cost of labour. The spa is

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responsible for employee payroll tax. Employees are also responsible for Superannuation contributions (9.5%).

If we have paid days off, we must calculate this cost by taking the total dollar value of these benefits and dividing that number by the total gross pay. This will provide a percentage cost that we add directly to our calculation. See the example below:

WC Insurance, Taxes & Benefits:	
Worker's Comp (4.5% x \$25.50)	\$1.15
Taxes per Hour (7.65% x \$25.50)	\$1.95
Benefits per Hour (10% x \$25.50)	\$2.55
Unemployment Insurance (0.85% x \$25.50)	\$0.22
Total Taxes & Benefits	\$5.87
Total Cost per Hour Treatment	\$31.37

Linen & Supplies

Calculating the cost of supplies used in each treatment is straightforward. Take your (wholesale) cost of each product needed to perform the treatment and divide it by the number of treatments you can get out of each container. Leave a little room to account for self-use, overuse, and attrition (loss.)

Calculating the cost of linen can be a bit more complex but similar in concept. Using the protocol (description of the treatment) to count the number of sheets and towels needed for our facial. For our example, we will need two flat sheets and six hand towels. If we know the cost of each sheet and towel and the number of times it can be used before it needs to be replaced, we can determine the cost of each use with reasonable accuracy.

Twin Flat Sheet: 1 Cost: \$3.65 each Life Expectancy: 150 washings = \$0.02

Hand Towels: 1 Cost \$2.85 each Life Expectancy: 200 washings = \$0.01

Laundry: \$0.15 per sheet. \$0.28 per hand towel

Linen & Supplies:	
Supplies	\$7.80
Linen	\$2.08
Total Linen & Supplies	\$9.88
Total Cost per Hour Treatment	\$41.25

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Rent/Mortgage & Utilities

Sylvan Spa is exactly 2,500 square feet with four treatment rooms that are 15 x 20 (300 sq ft) each. If we know that our rent is \$5,500 per month then we can calculate our rent per foot per month (\$5,500 divided by 2,500 sq ft equals \$2.20 per foot per month) then we know our rent for that room is \$220 per month. We then divide our monthly rent by the total number of treatments performed in that room each month. Our average is 78 treatments so we can feel comfortable using this as a potential forecast. We now know our cost for rent per treatment is \$2.82.

We can estimate the cost of utilities (electricity & water) for that one room based on our average utility bills for the month. In this case, our electric bill was \$582, and the water bill was \$279 for a total of \$861 for our four treatment rooms. Divide this total by four to assign the cost for one of the rooms (\$215.25 per month) and then by the number of treatments (78) for a total of \$2.76 in utility cost to assign to each treatment.

Rent & Utilities:	
Rent per Treatment	\$2.82
Utilities per Treatment	\$2.76
Total Rent & Utilities	\$5.58
Total Cost per Hour Treatment	\$46.83

Total Cost

We have calculated the total costs that can be associated with a particular treatment.

From this number, we can set the prices, and if it were not for the consideration of "overhead" we could set the price at any number above \$46.83 and make a profit. Unfortunately, it takes a bit more than the cost that we have outlined to run the complete operation

Reality Check:

*"When doing "cost accounting" calculations some spa owners would consider many of the expenses such as taxes & benefits, or utilities & rent as overhead. The reason I prefer to work them into the cost of each treatment is that as my volume (number of services) goes up or down I find that when I include them, I have a more accurate picture of my real cost. Also, as we have more business the cost of non-revenue generating time and rent goes down. Instead of dividing the cost of something by 78 treatments we might be able to divide that cost by 130 thereby reducing our cost per treatment. (At the end of each month we will be able to go back and calculate our **actual costs** based on the total number of services performed.)"*

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Overhead

We have determined what our rent is for our treatment rooms, but what about the rent for our reception area, men's and lady's locker rooms, relaxations lounge, staff areas, and the square footage in the closets, laundry, and office. We have administrative staff, Advertising, Insurance, Telephones, Internet, Credit Card fees, Office supplies, Amenities, Legal fees, Interest payments and Education and Training. These are all expenses that can NOT be associated with any service and are therefore they are considered "Overhead".

On our "Income Statement" (Profit & Loss Statement) we calculate these expenses as a percentage of Total Revenue. Once we know the final percentage for overhead, we can then use this number to subtract from our menu price and compare it with our treatment cost.

For our example, we are thinking of charging \$120 for our facial and our overhead for 2010 was 48% of our Total Revenue.

Overhead:	
Price for Treatment	\$110.00
Minus Overhead (48%)	(\$43.20)
Minus Total Cost (\$46.83)	(\$46.83)
Profit (Loss)	\$19.97

Our profit is \$19.97 each time we do this treatment at this price. If we can manage our expenses our calculations are on the right track.

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