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FINANCIAL POST MAGAZINE NEW VENTURES CASE SERIES

On the Case.

## SMALL BUSINESS.

# For services rendered

Can a spa owner reinvent the traditional model for paying his staff?



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WHEN ALAN STRANSMAN CONCEIVED OF MEN'S POWERSPA, HE WAS WORKING WITH MORE THAN A FEW NEW IDEAS. FOR STARTERS, HE WAS PIONEERING A CONCEPT BY TAKING A BUSINESS TYPICALLY AIMED AT WOMEN AND RECREATING IT FOR MEN. HE ALSO WANTED TO REVISE

THE MODEL FOR PAYING SPA STAFF, OFFERING THEM SALARIES RATHER THAN FEES FOR SERVICE. STRANSMAN KNEW HE WAS BUCKING A LONG-ESTABLISHED CONVENTION. BUT HE WAS SURE IT WOULD HELP HIM BUILD A BETTER TEAM. WOULD IT ALSO BUILD A BETTER BUSINESS?



ALAN STRANSMAN, founder and manager of The Men's PowerSpa, looked at the empty space that was being transformed into Toronto's first spa for men. The electrical wiring was being installed, and Stransman could envision the place as it would be when it was completed: a cross between a sports bar and a high-end locker room. There would be big-screen televisions for clients to watch sports or movies. In place of typical spa music — wind chimes and flutes — the PowerSpa would play songs by Frank Sinatra, Tony Bennett and Bobby Darin. Services would be results-oriented and described in masculine terms: hand care, foot care, scalp care, face care and body care.

Getting the atmosphere just right was something that Stransman had spent a lot of time thinking about as his new business moved ever closer to its target date for opening in the early summer of 2005. The key ingredient to success, he believed, would be his staff. They would be the face of the company. But how he planned to compensate his workers was also one of the biggest decisions he had yet to make about his new business.

Conventional wisdom in the spa industry said that service providers — barbers, aestheticians, masseurs and so on — should be paid by the service. In this scenario, the spa would basically provide the infrastructure and brand name under which providers could practise their craft as semi-independent agents. Being paid by the service was thought to motivate staff to deliver their very best work and to increase

sales by having workers suggest additional products or services to clients. This approach rewarded self-starters and reduced the spa's expenses by keeping personnel costs — typically 35% of overall sales — variable.

Stransman, however, saw things differently. He wanted to foster a team philosophy rather than create competition for clients among staff members. He didn't want his staff worrying about how much money they'd make in a given week. He simply wanted them focused on providing the best service possible. For that reason, Stransman believed that having the equivalent of independent contractors in his spa would not be of help in building a team-based culture. Furthermore, service providers could be motivated to leave if they received a better offer elsewhere — worse yet, they could take their clients with them. Being paid per service would also decrease his employees' incentive to help out with the upkeep of the spa. There was laundry to be done, floors to be swept, telephones to be answered.

Hiring salaried staff had drawbacks, however. Stransman, for instance, wondered if he could ensure that service levels would be high enough, given that staff would not be exposed to the same incentives to provide superior services that motivated independent contractors. But the biggest issue, in Stransman's mind at least,

Stransman planned to hand out brochures offering free trials at Men's PowerSpa. He believed that would be the best way to build a clientele and that it would be easiest to provide free trials during the start-up phase, when service providers weren't booked up with paying customers. But offering free services would still be costly, especially at a time when Stransman would have a lot on his plate and not a lot of money coming in. For instance, he was already discovering that it was expensive to attract and hire staff. Advertising for one position could cost upwards of \$800 per month. It was also time-consuming as Stransman had to wade through resumes, and arrange and conduct interviews. And he was having to do all of this while trying to launch a new spa, which is more than a full-time endeavour in itself.

Still, for all the complexity of his decision, Stransman favoured paying staff by the hour as regular full-time workers. He had several reasons. It would take away any anxiety staff would have about consistency of their income. They would be motivated to work as a team to serve the needs of clients. There wouldn't be a constant pressure to "up-sell" services that clients would not need. From a practical standpoint, Stransman believed he could reduce the number of personnel at the same time. If service providers were hired as full-time staff members, they could help answer telephones

while waiting for clients. This meant that the Men's PowerSpa would not need a receptionist. Employees could also help with cleaning and other chores, reducing the need to have a laundry service in place.

The largest benefit he saw was that having a consistent, full-time staff would enhance the customer experience at Men's PowerSpa.

As the company grew, he wanted

clients to come three, six or nine months down the road and see the same people working there. Going the salary route meant that he would have commitment from his staff, consistency of service and continuity. It would cost more to go against the business model for spas, at least during the start-up phase. But Stransman believed it would pay off in the long run. Only in the months following the actual launch would he learn if he was right.

**“The pay-by-service method has many advantages: It will attract higher quality staff when hiring, since better performers have the ability to earn more money. It will also motivate staff to build a repeat-customer and customer-referral base”**

was that paying staff by the hour meant that salary expenses would balloon to above 50% of revenue for the first few months. After all, Men's PowerSpa was going to be a new business in a sector that generally focused on providing services to women. And without a large marketing budget to get the company off the ground, Stransman figured his best client-building strategy would be to let prospective customers come into the spa for free trials.

In the initial ramp-up period, which would last a few months,

INNOVATIVE IDEAS.  
RELEVANT EXPERTISE.

## The Expert View

**By Dino DiCenzo**

President,  
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I AGREE WITH Stransman that his most important ingredient is his staff. The quality of the staff will determine the strength of his repeat-customer and referral-customer base. In my opinion, though, it is better to pay by the service in this case, as it will help to create a team of strong performers.

The fee-for-service method has numerous advantages: It will attract a higher quality of staff when hiring, since better performers have the ability to earn more. It will also motivate staff to build a repeat-customer and referral-customer base to increase their earnings. It will further help the operation in handling the peaks and valleys of business demand, resulting in a more efficient use of labour.

That said, Stransman's concern that there will be less teamwork has merit, since strong performers who are paid by service tend to consider their client bases their own individual businesses. There is also the risk that customers will leave when a staff member leaves.

However, paying by the hour will balloon costs, especially at low volumes. This money would be better spent hiring minimal support staff for phones and other duties, so the service providers can do what they do best.

I believe the benefits of the pay-by-service method outweigh those of pay-by-the-hour. Its ability to attract stronger performers will ultimately lead to better results. Management can then focus on creating a sound strategy for driving trial customers into the spa so staff can then capitalize on this opportunity to convert them into regular customers.

**By Ken Hardy**

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STRANSMAN IS RIGHT to be concerned about the shortcomings of fee-for-service. His best service providers could easily walk off with his best clients. But he has a larger issue — how to get men to try this new concept of spa services for men.

My approach to building this business would be to lead at the outset with familiar services, such as hair care and massages. Have customers pay for them and then lead them to the “newer” concepts in men's personal care. The problem with free service is that many people believe you get what you pay for, so they would want some assurances of professionalism.

In building a staff, Stransman need not start big. Hiring just a few people who can perform different services, and sell the full range of services, will get him through the start-up phase. He can finesse the early cash-flow problem by charging for most services. In addition to the salary, he should think about a team-based bonus for meeting sales targets each quarter. After all, staff should be building relationships with PowerSpa as well as their clients.

Lastly, Stransman needs to develop systems for getting customer feedback and should spend the first few months after opening “hovering” around the spa to make sure it is meeting his expectations. The business will be built by word of mouth from satisfied users. With positive reviews, it could become a business with good volume, good margins and a high level of repeat business. To succeed, though, he needs to find the right employees and support them by creating a happy service atmosphere.

## The Outcome

IN THE END, Stransman stuck to his initial preference and followed through with hiring staff as hourly workers rather than semi-independent service providers. “I wanted to foster a team philosophy rather than create competition among staff members for clients,” he says. “I didn't want them worried about whether they'll make any money this week. I wanted them focused on providing the best service possible.”

His decision proved to be beneficial during the earlier phases of the business. Staff were appreciative of the arrangement, and that generated loyalty. “We have staff that stayed between 18 months to three years, an eternity in the spa business,” Stransman says.

However, increased staff costs were one of several shortfalls that strained the finances at Men's PowerSpa. After two tumultuous years at its helm, Stransman left the business for other opportunities. Men's PowerSpa continues to operate, and Stransman says he remains proud of what the business has become. **FP**

This case study was prepared by *Financial Post Magazine* and the Pierre L. Morrissette Institute for Entrepreneurship at the Richard Ivey School of Business (University of Western Ontario). The case method is a key learning tool in the cross-enterprise leadership approach used at Ivey. The views represented here are solely those of the case authors. Some details may have been changed to protect privacy.

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